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Russian Federation

Sugar 1999

“Russia’s High Demand for Imported Sugar Cane”

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Report Highlights:

During 1999, Russia is expected to import 3.2 million MT of raw sugar to help supplement domestic processing. In both 1999 and 2000, substantial amounts of imported raw sugar are expected to help Russia cover its domestic demand for sugar, and decrease imports of refined white sugar.

Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

Moscow [RS1], RS

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Executive Summary

The Russian sugar beet industry expects to improve its performance next year in comparison with the 1999 crop year. Only 600 thousand hectares were harvested from an estimated 820 thousand hectares planted in 1999. A poor sugar beet harvest resulted from poor weather at harvest and a lack of operating capital. During the 2000 crop year, Russian sugar beet farmers expect to harvest 850 thousand hectares of sugar beets from an estimated 900 thousand hectares planted. Domestic white sugar production is expected to be 1.4 million MT, or about 8 percent more than in 1999. The increase will be a direct result of government policies aimed at protecting the domestic sugar market while increasing investment in the domestic sugar industry. It is more profitable for Russia to import and process raw sugar domestically than to import refined sugar. Russia imported over 2.8 million MT of raw cane sugar during the 1998 crop year, and processed more than 4.1 million MT of sugar from both domestic sugar beets and imported sugar cane. This pattern is expected to continue as Russia imports another 3.2 million MT of raw cane sugar during the 1999 crop year, and processes 4.5 million MT of refined white sugar from both domestic beets and imported sugar cane. The combination of domestically processed sugar beets and substantial stocks will cover domestic demand for sugar in 2000, and Russia will only import about 600,000 MT of refined white sugar.

Sugar Beet Production

The Russian sugar beet industry has been contracting for years. According to official Russian Statistics, there are currently about 5,000 sugar beet farms in 23 regions, and 93 refineries with a total capacity to process 273,000 MT a day. The total sugar beet area in Russia has shrunk by more than 500,000 hectares in five years, and total utilization of beets for processing has fallen from an estimated 28.7 million MT to 10.8 million MT in the same period.

During the period from 1994 to 1996, the area planted was stable at about 1.1 million hectares. However, since 1996, sugar beet planting area gradually decreased, falling to 820 thousand hectares in 1999. The decline was precipitated by bad weather and worn machinery. During 1998 and 1999, sugar beet area harvested decreased in practically all areas of Russia because farmers lacking operating capital did not plant their crop in time to produce a good yields. However, in 2000, the impact of protectionist tariff measures imposed during the time of harvest for Russian sugar beet farmers is likely to precipitate an increase in harvest area to an estimated 850 thousand hectares.

Increased tariffs on raw and white sugar are making it more profitable to invest in domestic production of sugar. In 2000, domestic sugar production is forecast to increase to 1.4 million MT. In light of the current financial crisis, terms of trade have improved, and are stimulating production. For example, following the August 1998 financial crisis, the cost of inputs rose 50 percent, while the retail price of sugar increased over 200 percent.

According to the Russian State Statistics Committee sugar beet production was 10.8 million MT in 1999, down

28 percent in comparison with 1998. However, in 2000, sugar beet production is expected to increase to 14.5 million MT in response to increased planting area and better harvest weather than last year.

During 1999, Russia is expected to process 4.5 million MT of refined white sugar (from sugar beets and sugar cane), about 8 percent more than in 1998 because of an expected increase in raw sugar imports during 1999. Russia is expected to import 3.2 million MT of raw sugar in 1999, in comparison to approximately 2.8 million MT in 1998.

In 2000, total production of refined sugar from local sugar beets and raw cane imports is forecast at 3.9 million MT. Combined with estimated stocks, Russia's demand for imported white sugar will remain low. Government intervention to protect sugar producers, i.e. high seasonal tariffs on imported raw and white-sugar, will limit imports and encourage investment into the domestic sugar industry.

Prices

During the period from August - December 1998, sugar prices were influenced by several offsetting factors:

1. The ruble devaluation in August caused the domestic prices of sugar to increase.
2. High levels of raw sugar imports in 1998 marketing year put downward pressure on sugar prices.
3. Temporarily high tariffs on raw and white sugar prevented the price from falling.
4. Regional governments limited price increases.

Following the ruble crisis in August 1998, prices varied widely between regions. Based on official government statistics, the value of sugar as a percent of the food basket was 5.8 percent in October 1998, in contrast to only 3.6 percent in September of 1997. Sugar prices stabilized at about \$0.60 per kilogram as domestic sugar supplies became available at the end of 1998.

It has become more profitable to process raw imported sugar because of low world prices for sugar. However, during the October - December 1998, Russian imports fell dramatically totaling only about 26 thousand MT. In contrast, 788 thousand MT of raw sugar were imported in October - December 1997. Following the expiration of temporary duties on imported raw sugar in January 1999, processors began to import large volumes of raw sugar as they did the previous year. This pattern should continue until August when temporary duties will again be applied. Combined with substantial stocks from last year, sugar prices in Russia may fall.

Table 1: Average Retail Price of Sugar in Russia, 1998

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Price/Kilogram		
Month	Rubles	Dollars
March	4.35	0.72
June	4.17	0.67
August	4.50	0.36
October	8.95	0.60
November	8.80	0.55
December	12.85	0.64

Source: Russian State Statistics Committee

Consumption

Russia's consumption of white sugar is currently estimated at 4.5 million MT annually. The combination of domestically processed sugar and stocks, estimated at 1.4 million MT in 1999, will cover local demand. During the time of relatively low import tariffs on raw sugar, processors store it in warehouses and utilize supplies when there are no domestic sugar beets available. Domestic processing increased in Russia because of low prices for raw cane sugar on world markets and high import tariffs on white sugar. In contrast, domestic retail prices for sugar rose at the end of 1998 in response to the ruble devaluation, but are expected to fall this year because of the availability of large stocks. Domestic consumption of sugar is not expected to change significantly between 1999 and 2000.

Sugar consumption in Russia depends on several factors: 1) confectionery production, 2) canned fruit production, and 3) production of the home made alcoholic beverages. Production of home made canned fruit and jams should rise in 1999 as a result of low income following the August 1998 crises, assuming that the price of sugar will not rise significantly.

In contrast, production of the home made alcoholic beverages is expected to decrease. The use of sugar for production of homemade alcoholic beverages is inversely related to the sugar/alcohol price ratio. This year, sugar prices are rising faster than the retail price of alcoholic beverages. According to most estimates, about 20 percent of Russia's sugar production (280 thousand MT) will be used for home made vodka production in 1999.

Marketing

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The August crisis may have helped increase the value of sugar in some areas that rely on barter trade in Russia. For example, in Belgorod sugar is the main currency for farmers to buy inputs. According to the newspaper *Rosetskaya Gazetta*, before the August crises one bag of sugar was worth two bags of mineral fertilizer. After the crises, one bag of sugar was worth ten bags of mineral fertilizer. Currently, it is possible to exchange 1.0 MT of sugar for 10 MT of ammonium nitrate, or 1.0 MT of sugar for 4.7 MT of complex mineral fertilizer. It is also possible to buy a new tractor from Belarus for 15 MT of sugar, and new tractor in St-Peterburg for 80-100 MT of sugar.

Stocks

Preliminary 1999 estimates put ending stocks of sugar at 1.4 million MT. The large stocks are a result of imports precipitated by low sugar prices on world markets.

Trade

In 1997, 83 percent of raw sugar imported into Russia came from either Brazil or Cuba. Cuba accounted for 50 percent of the trade, while Brazil represented about 33 percent. In 1998, however, Brazilian imports represented 42 percent of Russian imported raw sugar, while Cuba's competitive position fell to represent only 33 percent of the trade.

Ukraine once produced over 6 million MT of sugar annually, of which 4 million MT were exported to Russia. However, trade barriers on Ukrainian sugar and a poorly defined Russian policy regarding the volume of imports have reduced demand for Ukrainian sugar.

In Russia, the volume of white sugar imports in 1996 was approximately 1.8 million MT, but fell to 950 thousand in 1998. The total amount of white sugar imported into Russia decreased by half because domestic processors, aided by temporary high duties on white sugar imports in 1998, shifted demand to imported raw sugar for processing. In 1998, Russia refined 1.3 million MT of sugar from domestic sugar beets, and more than 2.8 million MT from imported raw cane sugar.

In response to the expiration of temporary duties on imported sugar, imposed in August 1998, a sharp increase in raw sugar imports is expected during January - July 1999 because of the low price of raw sugar on world markets.

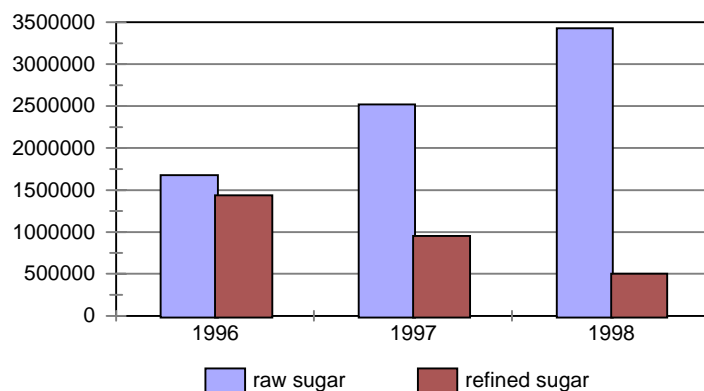


Figure 1: Imported Raw Sugar vs Imported Refined Sugar, MT 1996 - 1998

Tariff Policy

The following list outlines current policies impacting sugar trade in Russia:

- On April 16, 1999, Russia introduced higher year round tariffs on sugar. The basic tariff rate for refined white sugar increased from 25 percent to 30 percent (but not less than 0.12 euro per kilogram), while the rate on sugar cane increased from 1 percent to 5 percent.
- On August 1, 1998, the GOR imposed temporary protective tariffs of 74 percent on white sugar and 20 percent on raw sugar. These measures worked to restrict imports during the time of sugar beet harvesting in Russia (see RS8038). According to a senior Russian official, a seasonal tariff of 45 percent will be imposed from August 1 to November 30 for sugar cane, and from August 1 to January 31 for refined sugar. Government sources indicated that these measures are aimed at supporting Russian sugar producers during the sugar beet harvest, and at creating favorable conditions for the sale of domestic sugar.
- Russia also introduced compulsory licensing for the import of raw sugar and white sugar in order to tighten customs procedures and protect domestic producers from illegally trading imported sugar (see RS8038). The licenses are issued by the Ministry of Industry and Trade at the request of importers, and do not have quantitative restrictions. Licensing does not extend to raw sugar, white sugar or treated imported sugar from the member states of the Customs Union between Russia, Belarus, Kazakhstan and Kyrgyzstan.

- An agreement for the import of 600,000 MT tariff free sugar from Ukraine, signed at the end of 1997 and expired on March 31, 1999, will not be extended. The actual amount of sugar imported last year from Ukraine was less than 40,000 MT. According to industry experts, different factors have hindered sugar deliveries from Ukraine including: 1) delays in Russian tenders among freight companies to handle deliveries; 2) the quota agreement was drawn up in such a way that Ukraine has no control over deliveries and as a result simply did not deliver the sugar; and 3) Ukrainian government control of sugar prices, at times caused the price of sugar in Ukraine to be higher than the price of sugar in Russia.
- According to sources from the Russian Trade Ministry, the Russian government intends to introduce an annual quota of 15,000 MT on Polish sugar. This measure will be taken in retaliation for Polish tariffs on Russian coal and medicines entering Poland.

PSD Table							
Country:	Russian Federation						
Commodity:	Sugar						
		1998		1999		2000	UO
	Old	New	Old	New	Old	New	
Market Year Begin		10/1997		10/1998		10/1999	(MO YEA
Beginning Stocks	1115	1115	1105	1105	0	1400	(HA)
Beet Sugar Production	1300	1300	1250	1300	0	1400	(MT)
Cane Sugar Production	0	0	0	0	0	0	(MT)
TOTAL Sugar Production	1300	1300	1250	1300	0	1400	(MT)
Raw Imports	2850	2850	2660	3200	0	2500	(MT)
Refined Imp.(Raw Val)	950	950	1000	500	0	600	(MT)
TOTAL Imports	3800	3800	3660	3700	0	3100	(MT)
TOTAL SUPPLY	6215	6215	6015	6105	0	5900	(MT)
Raw Exports	10	10	10	10	0	10	(MT)
Refined Exp.(Raw Val)	140	140	150	150	0	170	(MT)
TOTAL EXPORTS	150	150	160	160	0	180	(MT)
Human Dom. Consumption	4960	4960	4900	4545	0	4540	(MT)
Feed Dom. Consumption	0	0	0	0	0	0	(MT)
TOTAL Dom. Consumption	4960	4960	4900	4545	0	4540	(MT)
Ending Stocks	1105	1105	955	1400	0	1180	(MT)
TOTAL DISTRIBUTION	6215	6215	6015	6450	0	5900	(MT)

PSD Table						
Country:						
Commodity:	Sugar Beets					
		1998		1999		2000
	Old	New	Old	New	Old	New
Market Year Begin		10/1997		10/1998		10/1999
Area Planted	820	820	850	820	0	900
Area Harvested	780	780	800	600	0	850
Production	15000	15000	15000	10800	0	14500
TOTAL SUPPLY	15000	15000	15000	10800	0	14500
Utilization for Sugar	15000	15000	15000	10800	0	14500
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	15000	15000	15000	10800	0	14500

Import Trade Matrix			
Country:		Units:	1,000,MT
Commodity:			
Time period:	FY		
Imports for	1998		1999
U.S.	4	US	4
Others		Others	
Cuba	1,400	Cuba	1300
Brasil	1,600	Brasil	1400
Guatemala	274	Guatemala	200
Great Britain	90	Ukraine	150
Poland	83	Great Britain	80
Mexico	70	Poland	70
France	69	France	60
Ukraine	50		
Total for Others	3,636	Total for Others	3260
Others not listed	160	Others not listed	436
Grand Total	3,800	Grand Total	3700