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Sugar

Sugar Semi-Annual

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Report Highlights:

Russian imports of raw sugar, totaled 2.7 million MT during the first six months of 1998. On August 1st, in response to oversupply Russia implemented new import tariffs for raw and white sugar, at 74 and 45 percent, respectively. In 1998, the high price of white sugar in Ukraine, relative to the world price, precipitated a significant decline of Ukrainian sugar shipments to Russia.

Includes PSD changes: No
Includes Trade Matrix: No
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General Summary

In 1997 and the first half of 1998, high production costs and low prices for imported raw sugar resulted in low profits for Russian sugar processing plants. However, oversupply of sugar on the world market this year, led to world sugar prices that are lower than prices in Russia. This brought about massive amounts of sugar imports into Russia. Imports of raw sugar were approximately 2.3 million MT in 1997. However, an estimated 2.7 million MT were imported during the first six months of 1998, as domestic production was unable to meet processing demand. Because world sugar prices are lower than Russian prices for sugar, Russia has become an attractive market for sugar traders. In response to oversupply, the Russian government imposed overall tariffs of 74 percent and 45 percent for imports of raw sugar and white sugar respectively. These excessive tariffs are intended to slow sugar imports until January 1, 1999 when the duties are scheduled to be lifted. Meanwhile, the sudden devaluation of the ruble that occurred in mid-August 1998, caused panic buying, which led to an immediate increase in the retail price of white sugar from about 4 rubles* per kilo before the devaluation, to approximately 20 rubles** per kilo after the devaluation. Currently, various regional governments (including Moscow) in Russia have instituted price controls on retail sugar, demanding that retailers limit profit margins to no more than 20 percent of wholesale prices.**

* 1.0 dollar = 6.0 rubles

** 1.0 dollar = 15 rubles

Production

During the 1998 planting season sugar beet farmers and processors experienced serious financial problems, as they could not afford to pay for input such as fuel, seeds, and lubricants. Farmers were often forced to receive their payments from sugar processors in processed white sugar rather than cash. They then sold processed white sugar at low prices. Therefore, the revenues received by farmers seldom covered their costs of production. However, the devaluation of the ruble has painted a brighter picture for sugar processors, who are currently selling their product at 10 to 25 percent more than before the exchange rate crisis.

To date, yield in 1998 is lower than it was in 1997 (per day weight gain is lower, though sugar content is slightly higher). The expected harvest is about 13 million tons of sugar beets. However, the final harvest will depend upon weather conditions.

Imports

Officially, imports of raw sugar beets in the first six months of 1998 are 2.7 million MT, approximately 167 percent above the total amount imported in 1997. In response, the Russian government imposed temporary tariffs on imports of both raw and processed sugar, 75 percent and 45 percent respectively (see Gains voluntary report RS8038). Russia does not produce enough raw sugar to satisfy its demand. At present, it produces only about 30 percent of its needs. The wholesale price of white sugar from sugar beets in Russia, traded by processing plants, was about 440 dollars per ton in May 1998, while the world prices of sugar were much less. Therefore, Russia represented an attractive market for white sugar traders. About 37 trading companies import raw sugar into Russia.

The Russian sugar industry is not competitive with imports. Concern about the negative impact that imports could have on the local market prompted the Russian government to implement the high import tariffs, which are in place until December 30, 1998. An oversupply of sugar on the market during the harvest period, which

takes place in the second half of the year, could drive down prices and further hurt the struggling sugar processing industry. Experts report that even though Russian processing plants are inefficient, Russian farmers cannot produce enough raw sugar to utilize their full capacity. Russia may import as much as 3.7 million tons of sugar this year.

Ukraine exported 1.0 million tons of white sugar to Russia in 1996. This caused prices to fall, and Russian sugar processors suffered significant losses. In 1997, Russia canceled duty free status for imports of white sugar from Ukraine because of an oversupply of inexpensive sugar on the market. As a result of the cancellation of the duty free status for Ukrainian sugar, the supply of inexpensive white sugar fell dramatically causing prices to rise rapidly. Consequently, the price of white sugar in Russia is significantly greater than the world price. So, imports of raw sugar in the first six months of 1998 are dramatically up, 2.7 million MT. As it is cheaper for Russian processors to buy sugar on the world market, Russia only bought about 16,000 tons of sugar from Ukraine this year, despite the fact that it has an agreement to buy up to 600,000 tons under a special VAT-free quota.

Table 1. Imports of White Sugar from January to June in 1997 and 1998:

	1997		1998	
	MT	Dollars	MT	Dollars
1 st quarter	235,952	87,173	156,371	52,348
2 nd quarter	367,795	129,428	115,922	37,788
Total	603,747	216,601	272,293	90,136

Source: Russian Customs Committee

Table 2. Imports of Raw Sugar from January to June in 1997 and 1998:

	1997		1998	
	MT	Dollars	MT	Dollars
1 st quarter	151,838	47,755	1,004,342	322,488
2 nd quarter	865,652	261,395	1,711,432	493,771
Total	1,017,490	319,150	2,715,774	815,759

Source: Russian Statistical Committee

Consumption

The total demand is about 5.0 million tons of sugar per year, about 33 kilos per capita. Processors imported about 2.3 million tons of raw cane sugar last year, which was refined into 2.2 million tons of sweetener in order to meet local demands. As there is not enough beet sugar being produced to meet local processing capacities, it appears that soon cane sugar will displace beet sugar on the local market. The recent devaluation of the ruble has increased retail prices for white sugar from about 66 cents per kilo to \$1.20 per kilo. However, the Russian government implemented price controls which decreased the price of white sugar back to a price that equals the original dollar rate of 66 cents per kilo.

Policy

The Russian sugar producers Union has proposed a series of measures to protect domestic sugar production, including new rates for import duties. Reportedly, the Union proposed a 5 percent duty on imported raw sugar, and a 45 percent duty on imported white sugar throughout 1999. In addition, the Union proposed a supplementary 40 percent duty for raw sugar from July 1 to December 31.

U.S. Trade Impact

Voluntary report # RS8038 adequately describes the impact of recent tariff increases on U.S. trade. The devaluation of the ruble will not impact U.S. trade, the U.S. does not export significant volumes of sugar to Russia because of price competitiveness.