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Report Highlights:

Russian sugar production in 2003 is forecast to decrease by eight percent, to 1.5 million metric tons (MMT), due to lower sugar beet yields, after a five percent increase in 2002. Lot prices for the September auction of the 3.95 MMT sugar tariff rate quota (TRQ) reached record highs, which will likely signal a price rise during 2003. Total Russian imports are also expected to rise in 2003 as a result of an expansion of the TRQ and growing demand.

Includes PSD changes: Yes
Includes Trade Matrix: No
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Executive Summary

Russian sugar production is forecast to decrease by eight percent in 2003, to 1.5 MMT, due to poor weather in several parts of Russia. Good conditions in 2002 helped to boost sugar yield over 2001, leading to a production increase of five percent, to 1.63 MMT. Total Russian imports are expected to rise in 2003, to 5.3 MMT, because of a reduction in the large stock overhang and strong demand.

Production

According to the Russian State Statistics Committee, Russia's growers planted two percent more hectareage in sugar beets in 2003 than 2002 and four percent more in 2002 than in 2001. In 2003, however, production will be less due to weather problems. Sugar yields were affected by wet weather in some regions and dry weather in others. In 2002, good growing and harvesting conditions promoted a slightly above average yield.

Consumption

Sugar consumption in Russia continues to increase slowly, about one percent in 2002 and 2003. Consumption growth is linked to the general increase in food demand, especially processed foods, as incomes improve.

Trade

Currently, a TRQ and import tariffs regulate the volume of Russian sugar imports. Further increases in the TRQ are expected in the coming years as consumption growth well outpaces domestic production. Significant imports of sugar over the quota are not expected due to rising exchange rates, higher supplier premiums, and problems related to raw sugar imports from Brazil. However, if producing countries' exchange rates fall significantly in relation to the Russian ruble, Russian imports outside of the quota could rise above estimates.

In preparation for a Russia-Cuba bilateral protocol, there has been discussion of an oil-for-sugar swap. However, no concrete agreement has been reached. Though pricing terms and quota implications are unclear, any such agreement would likely displace rather than supplement current imports.

Price

Many traders expect a price rise in the near term as firms adjust prices in the wake of the recent TRQ quota sale. Reports indicate that a general market price rise will take place as firms incorporate the significantly higher price paid for the new quota imports. While the prices paid for parts of the sugar quota were still below the over-quota tariff, the difference narrowed. Naturally, prices are highest in the non-sugar producing regions and lowest in the regions that are now harvesting local sugar beets, with the difference often greater than ten percent.

Regional sugar prices continue to be relatively unstable. For example, at the end of August, 2002, sugar prices jumped from \$370 to \$460 per ton in Krasnodar region. However, the rapid price growth was quickly replaced by a downturn to \$440 in early September and then a \$1-3 per ton daily price slide. While prices in Russia have generally stabilized, regional prices still experience considerable fluctuation due to poor price transmission from the importing ports to the inland regions.

Stocks

Stocks of sugar are falling due to the TRQ regulated market structure. While the TRQ volume remains considerable, traders know the prices paid for quota shares and have ceased creating large stock overhangs as a result of uncertainty about import policies. While stocks have decreased significantly in the past two years, further stock decreases after 2003 are expected to be moderate.

Policy

On September 25th, the Government of the Russian Federation held an auction for the 3.95 MMT sugar TRQ. The quota was split into 158 lots of 25,000 MT, with a minimum lot price of 700,000 euros, and a prohibition on the free resale of lots. Lots can go back on the block at a repeat auction later in the year. If, at the repeat auction, lots go for higher prices than in the first, bidders returning lots will be repaid the original price. The difference between repeat auction price and the amount returned to the first lot-holder will go to the federal budget.

Fifty one companies took part, but only 10 bought more than 8 lots. According to the trade, the largest buyers were Sugden - 26 lots, GK Rusagro - 19 lots, Razguly Ukrross - 15 lots and Cargill - 12 lots. The average price per lot was \$100.60/ton, while in 2000 and 2001, the price was \$69 and \$56 per metric ton, respectively. The difference between the TRQ lot price and the out-of-quota tariff rate is less than \$10 per ton.

The 3.95 MMT TRQ for 2003 was increased from 3.65 MMT in 2002 (See report RS2016 for additional information).

Sugar syrup imports

The Russian sugar producers union, Soyuzrossakhar, has claimed that a sharp rise in imports of sugar syrups into Russia is an attempt by importers to avoid the sugar TRQ. Syrup imports rose 3.5 percent year-on-year in the first quarter of 2002 and 160 percent in the second quarter. Sugar syrup is normally used in baking and the production of confections and soft drinks and the syrup in question is imported either duty-free or at significantly lower duties. Almost all the syrup (98.8 percent) comes from Ukraine, which benefits from tariff preferences.

The sugar producers union suggests that such a sharp increase indicates that ,after the introduction in July of seasonal duties on raw cane sugar, sugar syrups made from cane sugar and classified improperly entered the market at reduced tariffs. Third quarter import data may show a clearer picture of the true nature of this trade as imports of raw sugar cane are not allowed during the domestic harvest period, but sugar syrup tariffs remain unchanged. If imports of sugar syrups continue or increase, Soyuzrossakhar may consider action.

Marketing

The Moscow Inter-Bank Currency Exchange (MICEX) is planning to launch trading in white sugar futures at the end of 2002. The organizational and technical phase of the project is being completed and negotiations have already begun with enterprises and organizations that constitute the sugar market infrastructure. The size of an individual white sugar futures contract will be 65 metric tons and the minimum price will be 10 rubles per ton. Goods will be delivered by authorized warehouses in the Krasnodar region.

Table 1. Sugar Beet Production, 1,000 HA and 1,000 MT

PSD Table						
Country:						
Commodity:	Sugar Beets					
		2001		2002		2003
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Area Planted	870	870	970	930	0	950
Area Harvested	860	860	940	910	0	930
Production	15800	15800	16300	16300	0	15500
TOTAL SUPPLY	15800	15800	16300	16300	0	15500
Utilization for Sugar	15800	15800	16300	16300	0	15500
Utilization for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	15800	15800	16300	16300	0	15500

Table 2. Production, Supply, and Distribution of Centrifugal Sugar, 1,000 MT

PSD Table						
Country:	Russian Federation					
Commodity:	Sugar					
		2001		2002		2003
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Beginning Stocks	3000	3000	3100	3100	0	2130
Beet Sugar Production	1550	1550	1630	1630	0	1500
Cane Sugar Production	0	0	0	0	0	0
TOTAL Sugar Production	1550	1550	1630	1630	0	1500
Raw Imports	5350	5350	4500	4500	0	5000
Refined Imp.(Raw Val)	300	300	300	300	0	300
TOTAL Imports	5650	5650	4800	4800	0	5300
TOTAL SUPPLY	10200	10200	9530	9530	0	8930
Raw Exports	10	10	10	10	0	10
Refined Exp.(Raw Val)	250	250	450	450	0	300
TOTAL EXPORTS	260	260	460	460	0	310
Human Dom. Consumption	6840	6840	6940	6940	0	7005
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	6840	6840	6940	6940	0	7005
Ending Stocks	3100	3100	2130	2130	0	1615
TOTAL DISTRIBUTION	10200	10200	9530	9530	0	8930