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Sugar Update 2016

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Report Highlights:
FAS/Moscow increased its forecast of Russian sugar beet production in 2016 from the April 2016 forecast by 5.9 million metric tons (MMT) to 47.9 MMT. This increase is due to increased sown area and an improved forecast for harvest. According to official data, the total area sown to sugar beets in 2016 crop is 1.110 million hectares, an eight percent increase over last year. FAS/Moscow increased its forecast of beet sugar production in MY 2016/17 by five percent to a record high level of 5.6 MMT. Consumption of white sugar is forecasted to increase to 6.1 MMT driven by growing demand in use of sugar and homemade jams and preserves as well as expanding domestic tourism.

Commodities:

Sugar Beets, Sugar Centrifugal

Executive Summary:

FAS/Moscow increased its forecast of Russian sugar beet production in 2016 from the April 2016 forecast by 5.9 million metric tons (MMT) to 47.9 MMT. This increase is due to increased sown area and an improved forecast for harvest. According to official data, the total area sown to sugar beets in 2016 is 1.110 million hectares, an 8 percent increase from last year, and 5.4 percent higher than the April 2016 forecast.

Due to relatively good weather conditions in the Central Federal District (FD), Russia's major sugar beet producing area, the harvest started in late July beginning of August. Harvesting continued at a moderate pace through September, and as of September 28, 2016, farmers harvested 16.8 MMT of sugar beets from 389,200 hectares (almost 36 percent of the planned harvest area). Data for 2015 shows that farmers harvested 16.10 MMT of beets from 424,800 hectares during the same period in 2015. As of September 28, 2016, the average sugar beet yields were 43.14 MT/HA, compared with 37.92 MT/HA for the same period in 2015.

Sugar beet production is vertically integrated with sugar refineries in most beet producing provinces. Sugar beet on-field losses and losses during transport to processing plants are relatively low. The 2016 beet crop is expected to be higher than last year, but still not enough to meet Russian demand for white sugar. Given the soft ruble that curbs imports of raw cane sugar, processor demand for sugar beets will be high. Moreover, losses during transport to refineries are expected to be minimal, much lower than in 2011 and 2012 when the bumper crop resulted in huge losses of beets in the field. Assuming minimal losses, improved yields, and a beet crop that is larger than last year, FAS/Moscow forecasts the total utilization of sugar beets for sugar at 47.9 MMT.

Table 1. Production, Supply and Distribution for Sugar Beets, 1,000 HA, 1,000 MT

Sugar Beets	2014/2015		2015/2016		2016/2017	
Market Begin Year	Sep 2014		Sep 2015		Sep 2016	
Russia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	919	919	1020	1020	1050	1100
Area Harvested	906	906	1005	1005	1040	1090
Production	33513	33513	39000	39000	42000	47900
Total Supply	33513	33513	39000	39000	42000	47900
Utilization for Sugar	33513	33513	39000	39000	42000	47900
Utilizatn for Alcohol	0	0	0	0	0	0
Total Distribution	33513	33513	39000	39000	42000	47900
(1000 HA) ,(1000 MT)						

A larger supply of sugar beets, compared with the supply last year, will result in an increase in domestic production of white sugar from beets (beet sugar), and FAS/Moscow increased its forecast of Russia's beet sugar production to 5.6 MMT, a 7 percent increase over production last year, which FAS/Moscow estimated at 5.2 MMT.

The recent economic changes in Russia, including the soft Ruble, economic sanctions against Russia, and Russian counter-sanctions, have resulted in a shift in Russian consumer demand to less expensive, staple food products, such as sugar and sugar based candies and confectionary products. Thus, consumption of sugar is expected to increase. FAS/Moscow increased the domestic sugar consumption forecast for 2016/17 to 6.1 MMT, 3.6 percent higher than projected.

The forecast consumption of 6.1 MMT in MY 2016/17 is nearly 5 percent higher than the sugar consumption in MY 2015/16, and 3.6 percent higher than the consumption estimate for MY 2015/16. Russian sugar consumption peaked in MY 2004/05 with consumption at 6.3 MMT. Until MY 2014/15, human domestic consumption of sugar (Russian beet sugar and imported cane sugar) was decreasing, largely due to increased consumption of non-sugar sweeteners in the confectionary industry. Consumption began to increase again in MY 2013/14, with MY 2016/17 forecasted consumption nearly reaching Russia's peak consumption in MY 2004/05.

FAS/Moscow forecasts imports of raw cane sugar in MY 2016/17 at 0.25 MMT, the same level as in MY 2015/16, and 60 percent less than in MY2014/15. Imports of refined sugar (in raw equivalent) are forecast in MY 2016/17 at 450,000 MT, 50,000 MT lower than Post forecasted in April, 2016.

Russia does not export raw sugar; however, exports of refined sugar are likely to double, reaching approximately 20,000 MT. Russia's refined sugar exports are primarily exported to former CIS countries.

Note: In the PSD table for Sugar Beets, the category "Utilization for Sugar" equals "Production" and includes losses of harvested sugar beets, both at farms and on the way from farm to processing enterprises.

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

Sugar, Centrifugal	2014/2015		2015/2016		2016/2017	
Market Begin Year	Oct 2014		Oct 2015		Oct 2016	
Russia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	370	370	100	100	180	150
Beet Sugar Production	4350	4350	5200	5200	5320	5600
Cane Sugar Production	0	0	0	0	0	0
Total Sugar Production	4350	4350	5200	5200	5320	5600
Raw Imports	650	650	250	250	250	250
Refined Imp.(Raw Val)	450	450	450	500	500	450
Total Imports	1100	1100	700	750	750	700
Total Supply	5820	5820	6000	6050	6250	6450
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	10	10	10	10	10	20
Total Exports	10	10	10	10	10	20
Human Dom. Consumption	5700	5700	5800	5880	5880	6100
Other Disappearance	10	10	10	10	10	10
Total Use	5710	5710	5810	5890	5890	6110

Ending Stocks	100	100	180	150	350	320
Total Distribution	5820	5820	6000	6050	6250	6450
(1000 MT)						

Commodities:

- Sugar Beets

Production:

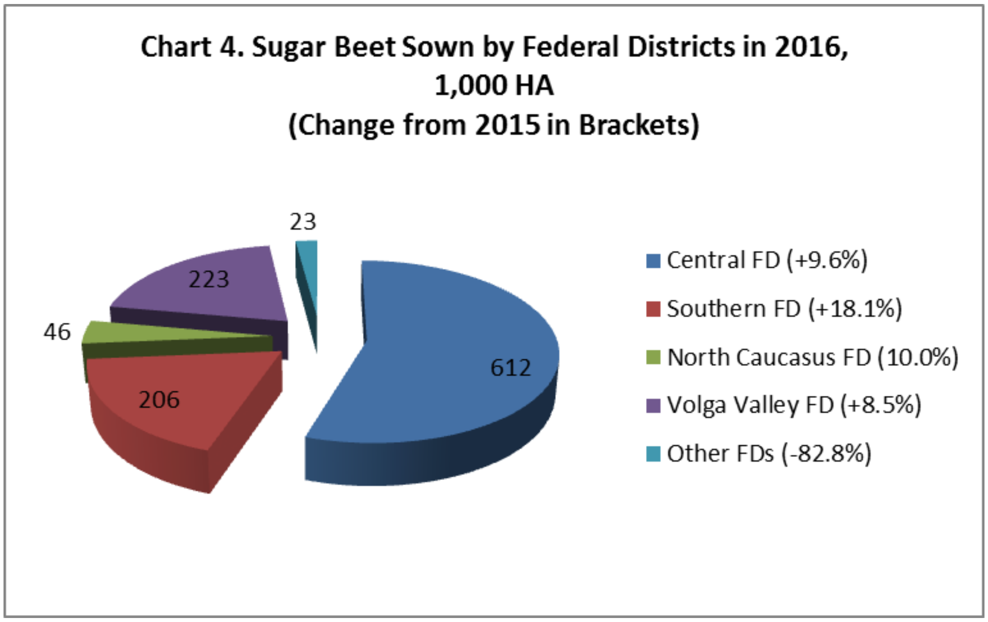
FAS/Moscow increased the sugar beet production forecast in MY 2016/17 from 42 MMT (as reported in the 2016 Sugar Annual to 47.9 MMT. According to official data, Russian area sown to sugar beets in 2016 is 8 percent greater than last year, or 1,110.400 hectares. This is more than 5 percent higher than FAS/Moscow forecasted in April 2016. Russia's average yield has increased due in a large part to favorable weather conditions this year. The Central Federal District - Russia's largest sugar beet producing area - had abundant rains in July and August increasing yields for that region and affecting overall average yields. FAS/Moscow forecast Russia's average sugar beet yield in 2016 at approximately 44 MT/HA, which is higher than the average over the last four years (40 MT/HA) and 11.5 percent higher than previously forecasted (38.9 MT/HA), but still slightly lower than in MY 2013/14 (44.2 MT/HA). The area sown to sugar beets increased in all major beet producing provinces, although the share of these provinces in the total beet area did not change significantly (Table 3) in 2016.

Table 3. Sugar Beet Sown Area by Federal Districts and by the Major Sugar Beet Producing Provinces in 2013, 2014, 2015, and 2016.

	Sown Area, 1,000 hectares				Share in the total sown area (percent)			
	2013	2014	2015	2016	2013	2014	2015	2016
Russia, Total	905.8	918.2	1,002.1	1,110.4	100.0	100.0	100.0	100.0
CENTRAL FD	499.6	511.5	558.4	611.9	55.2	55.7	55.1	55.1
Including:								
Belgorod oblast	75.0	68.2	73.0	77.5	8.3	7.4	7.1	6.9
Voronezh oblast	102.4	100.5	114.3	122.5	11.3	10.9	11.2	11.0
Kursk oblast	94.6	100.6	97.4	115.7	10.4	11.0	9.5	10.4
Lipetsk oblast	81.6	88.5	107.6	116.0	9.0	9.6	10.5	10.5
Orel oblast	45.4	49.5	52.8	56.2	5.0	5.4	5.2	5.0
Tambov oblast	87.2	85.9	98.7	102.6	9.6	9.4	9.7	9.2
SOUTHERN FD	142.8	154.5	174.4	206.1	15.8	16.8	17.1	18.6
Including:								
Krasnodar kray		137.7	155.2	187.1		15.0	15.2	16.9
NORTH CAUCASUS FD	38.7	41.8	41.8	46.3	5.7	4.6	4.4	4.2
VOLGA VALLEY FD	206.8	193.3	205.6	222.8	22.8	21.1	21.2	20.0

including								
Bashkortostan Republic	55.2	50.5	48.8	51.4	6.1	5.5	5.0	4.6
Mordovia Republic	20.3	24.0	24.7	24.7	2.2	2.6	2.4	2.2
Tatarstan Republic	55.3	48.3	53.9	63.2	6.1	5.3	5.6	5.7
Penza oblast	46.8	44.3	47.8	51.1	5.2	4.8	4.7	4.6
Ulyanovsk oblast	14.0	12.9	13.6	14.7	1.5	1.4	1.3	1.3
SIBERIA FD	17.8	17.1	22.0	23.2	2.0	1.9	2.2	2.1

Source: State Statistical Service (Rosstat)



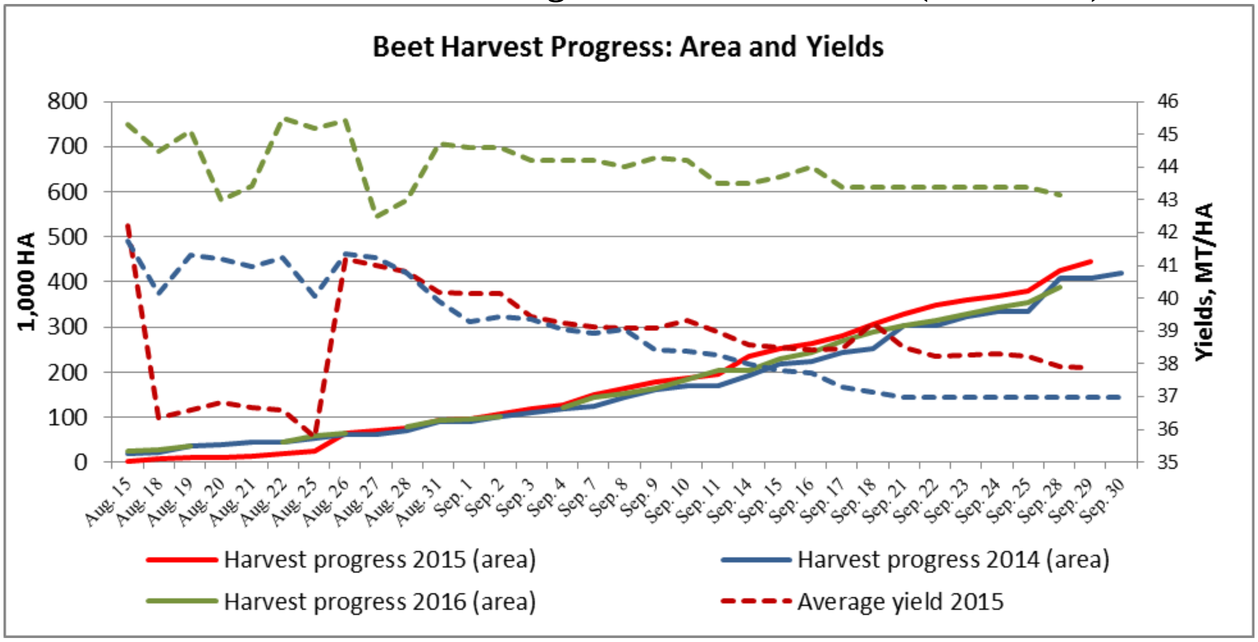
Source: Rosstat

Forecasts of Russia's 2016 sugar beet production from various industry analysts range between 46 MMT to over 48 MMT.

Sugar beet harvest progress

Due to relatively favorable September weather conditions in the major producing districts, the 2016 harvest began on time and is progressing as normal. The sugar beet harvest begins in Krasnodar Kray (Southern FD) then moves to the Central FD. Harvest in the Volga Valley usually begins in September, and in Siberia – in the middle of September. Usually harvest lasts through October. So far, farmers report minimal field losses. The Ministry of Agriculture publishes daily reports on harvest progress for major crops, including sugar beets. Based on these reports, the calculated daily average yield for sugar beets has been very volatile, specifically in the second half of August. However, in the first half of September the yield stabilized (Chart 5).

Chart 5. Russia: Beet Harvest Progress: Area and Yields (2014-2016)



Source: Russian Ministry of Agriculture

According to the Russian Ministry of Agriculture, as of September 23, 2016, farmers harvested 14.36 MMT of sugar beets from 330,400 hectares (30 percent of planned harvested area). Compared to the same data in 2015, farmers harvested 13.80 MMT of beets from 360,400 hectares. On September 23, 2016, the average sugar beet yields were higher than on the same date in 2015 (43.4 MT/HA compared to 38.2 MT/HA), but were lower than in MY 2013/14.

Sugar beet processing

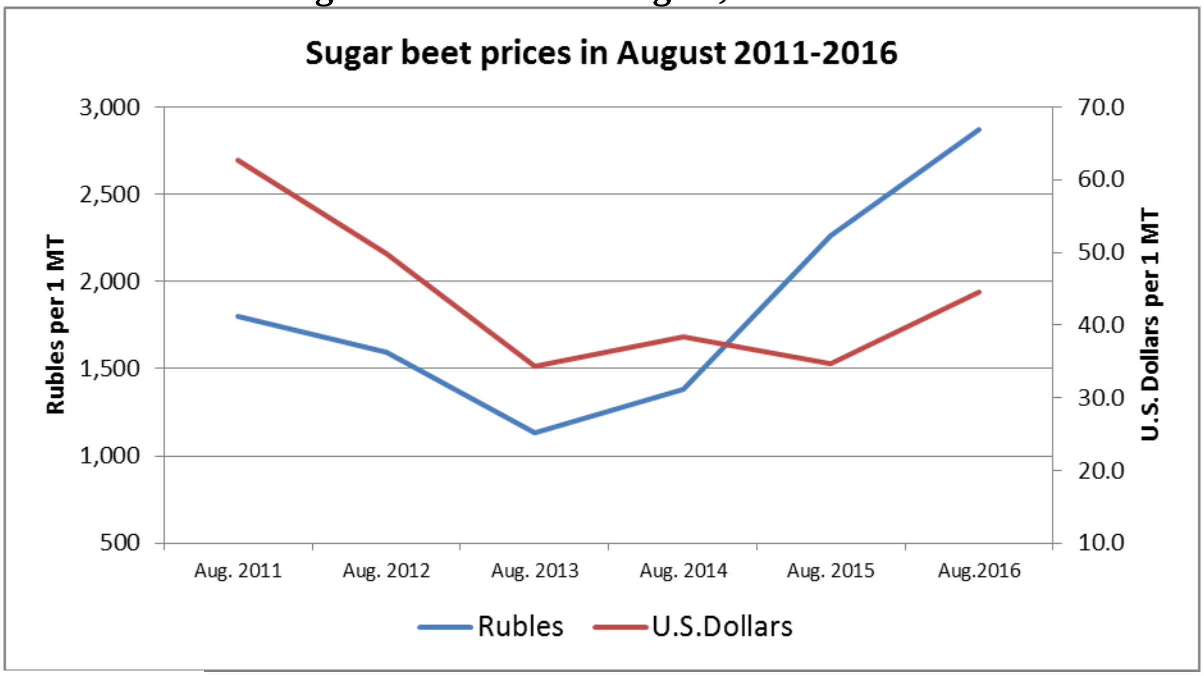
According to SoyuzRosSakhar, the Russian Association of Sugar Processors and Traders, since the beginning of the 2016/2017 season (August –July), sugar processing facilities processed 9.2 MMT of sugar beets, or 11 percent more than in September 2015, and have already produced over 1.12 MMT. The industry estimated that by October 8th, production will reach 2 MMT of sugar. Currently 71 out of 75 plants are in operation, and it is expected that by October all 75 will be processing sugar beets. The average daily production of raw beet sugar is estimated at 46,000 MT, or 12 percent higher than in September 2015. Experts from the Russian Institute for Agricultural Market Studies (IKAR) forecast that with Russia's recent improvements in sugar beet production, total sugar production may reach a record high of 5.6 MMT in 2016/2017.

Prices

Rosstat reports price information in the months when product is actually sold. Data on sugar beet sales to refineries in September has not yet published. Therefore no current, official sugar beet price information is available. During the period January to February 2016, small quantities of remaining sugar beets were marketed, and the ruble price for these sugar beets increased to 3,503 rubles ($45.9) per 1 MT. In March, there were almost no sugar beets in the Russian market, and Rosstat did not report any price for sugar beets.

However, the demand for sugar beets is high, and industry analysts report that the current (September 2016) sugar beet prices vary around 3,000 rubles per MT. Russia's average farm price for sugar beets was 2,875 rubles per MT. This is lower than the price of sugar beets in the first quarter 2016, but higher than sugar beet prices in any other August in the last 6 years. The average ruble price for sugar beets increased by 27 percent compared to the average August 2015 prices. The U.S. Dollar equivalent price was at a six year low in August 2015, due to the devaluation of the Russian ruble. However, the price rebounded by 21 percent in August 2016. (Chart 6). The average U.S dollar rate/Ruble exchange rate in August was 1 U.S. dollar = 64.92 Rubles.

Chart 6. Russia: Sugar Beet Prices in August, 2011-2016



Source: Rosstat

Commodities:

Sugar, Centrifugal

Production:

Sugar beet production is vertically integrated with sugar refineries in most beet producing provinces. On-field losses of sugar beets and losses during transport from fields to processing plants are relatively low. The 2016 beet crop is expected to be higher than last year, but still not sufficient to meet Russia's demand for white sugar. Given the soft ruble that curbs imports of raw cane sugar, processor demand for Russian sugar beets will be high. Losses during transport to refineries is projected to be minimal, much lower than in 2011 and 2012 when the bumper sugar beet crop resulted in huge losses of beets in the field. Assuming minimal losses and a beet crop that is higher than the crop last year, FAS/Moscow forecasts that the total utilization of sugar beets for sugar will be at 47.9 MMT.

FAS/Moscow increased its forecast of beet sugar production from 5.3 MMT (2016 Annual Report projection) to a record level of 5.6 MMT. This estimated production is 5 percent higher than the estimated production of 5.320 MMT for MY 2016/17. The new forecast is based on a projected increase in production of sugar beets, due to favorable weather, low losses, and continued high efficiency of most refining plants that either vertically integrate sugar beet production and processing in one complex, or work with farmers on tight contracts that assume timely delivery of the crop to plants.

Industry analysts' estimates of MY 2016/17 Russian raw sugar production from sugar beets vary from 5.5 MMT to over 5.62 MMT.

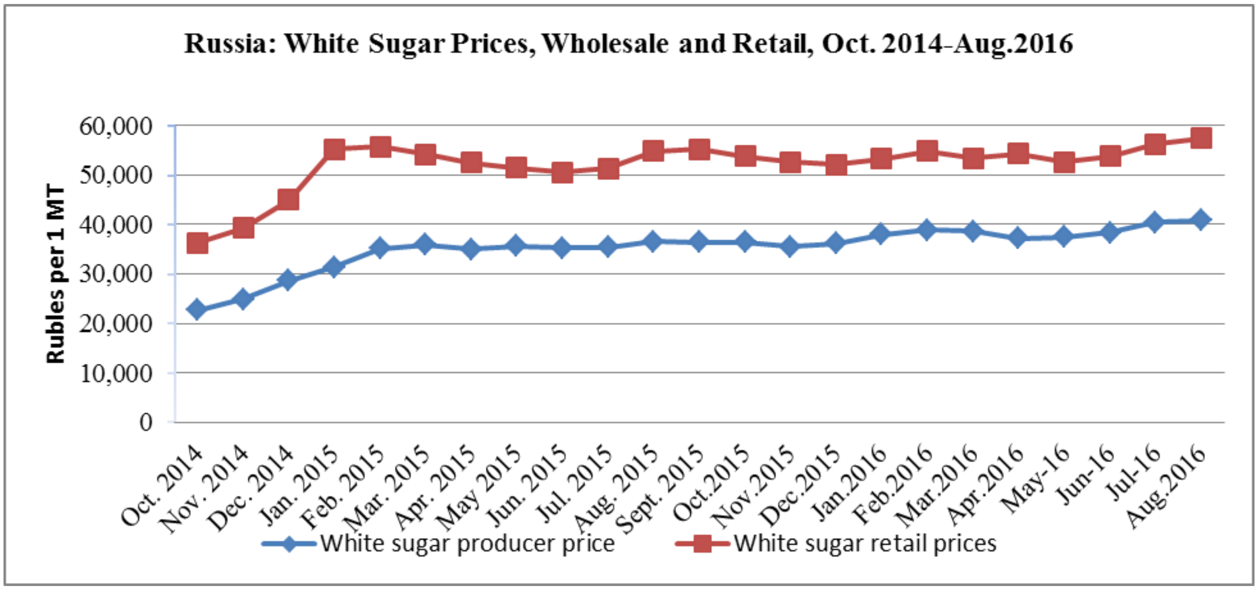
Consumption:

FAS/Moscow increased earlier estimated Russian consumption of sugar in MY2015/2016 from 5.8 to 5.88 MMT in the 2016 Sugar Annual. Post now forecasts a further increase in consumption in MY 2016/17 by 3.6 percent to 6.1 MMT. The increase is attributed to a better than expected sugar beet harvest in 2016 and a growth in the use of sugar instead of sugar substitutes (including artificial sweeteners and high-energy glucose-fructose syrups) in many processing technologies. Analysts also expect an increase in the consumption of confectionary products, homemade jams and preserves, as well as an increase in the production of home-made alcohol. Alcohol prices increased sharply due to the government's excise policy, and sugar consumption for alcohol has already increased in MY 2015/16 and will likely continue to increase in MY 2016/17. Although there is no official data on the use of sugar for home-made preserves and alcohol, based on past experience consumption of sugar is likely to increase. Another factor that will contribute to sugar consumption in 2016 is an increase in domestic tourism.

Prices

Sugar prices increased during the period between July-August 2016. However, starting the first week of September prices dropped primarily due to the higher sugar beet harvest and the increasing supply of raw product on the local market. The Ministry of Agriculture reports that as of September 19th, the average producer prices for sugar decreased by 0.5 percent to 45.7 Ru/kg. This price is 9.9 percent higher than prices on the same date in 2015. Rosstat reports that during the week of September 12th, retail prices for sugar decreased by 1.4 percent to 54.6 Ru/kg, which is 1.3 percent lower than the prices during the same period in 2015. Experts contend that an increase in exports of surplus sugar in the range of 100,000 MT would help stabilize market prices and prevent further price declines. If prices are sufficiently stabilized, making sugar beet production lucrative, farmers would be motivated for future sowing of sugar beets. However, given Russia's current poor logistics and infrastructure, exports are unlikely to increase significantly in 2017. The Government of Russia may provide support to sugar beet producers in the spring of 2017 to avoid a drop in sugar beet sown area in MY2017/2018. Experts believe that with a potential surplus of sugar in the local market, prices will continue to decline beginning of CY2017.

Chart 7. Russia: White Sugar Prices, Wholesale and Retail, Oct.2014-Aug.2016



Source: Rosstat

Trade:

The gap between domestic production of sugar from beets and domestic consumption of sugar is filled with imported raw sugar and imported refined sugar.

Imports

FAS/Moscow increased its estimates for imports of sugar (imports of raw cane sugar and imports of refined sugar in raw equivalent) in MY 2015/16 from 750,000 MT to 700,000 MMT, based on newly available trade data. The increase is attributed to an increase in imports of refined sugar of nearly 20 percent during the period from October 15 to June 2016, compared to the same period in 2015.
Post forecasts imports of sugar to decrease to 700,000 MT in MY 2016/17 as a result of the record high domestic harvest of sugar beets and the corresponding increase in local production of sugar. Imports of raw cane sugar are forecast to be flat at 0.25 MMT in MY 2016/17, and imports of refined sugar (raw equivalent) will decrease by 50,000 MT to 0.45 MMT.

Imports: Raw Cane Sugar

According to the Russian State Customs Service, in the first 9 months (October – June) of MY 2016/17, Russia imported 206,434 MT of raw cane sugar (Table 4). The major suppliers of raw cane sugar to Russia are Brazil, Cuba and Australia. Imports decreased by more than 70 percent compared to the same period a year ago, and are the lowest in the last 4 years.

According to official customs data, imports of refined sugar in the first 9 months of MY 2015/16 were 321,579MT or 350,00 MT in raw equivalent[1]. In 2016/2017, Belarus was the major supplier of refined sugar, comprising 85 percent of Russia's total sugar imports. There are reports that some of the imports from Belarus may actually come from Ukraine, but are reported as imports from Belarus. Other

[1] FAS/Moscow assumes that refined sugar from Belarus, which has become the major supplier of refined sugar to Russia, is made of sugar beets, thus, the conversion coefficient for refined sugar is 1.087.

suppliers of refined sugar to Russia during the period October 2015 through June 2016, were Poland and Lithuania (Table 5).

FAS/Moscow estimates imports of raw cane sugar in MY 2016/17 at 250,000 MT, and forecasts that imports will be flat in MY 2016/17 at 250,000 MT. Brazil remains the major supplier of raw sugar to Russia.

Table 8 Russia: Imports of Raw Cane Sugar (170111, 170113, 170114), MT

	2010/11	**2011/12**	**2012/13**	**2013/14**	**2014/2015**	**Oct. 2014 – June 2015**	**Oct. 2015 - June2016**
World	2,258,773	446,100	473,784	690,291	606,576	565,544	206,434
Brazil	1,954,788	313,420	345,956	500,944	436,745	436,745	100,991
Cuba	45,800	61,459	23,000	120,438	134,775	98,884	30,200
Thailand	123,566	43,751	32,483	21,017	22,000	22,000	0
Guatemala	64,146		23,000	19,677	0	0	440
Argentina	20,500			18,000		0	
Mauritius	5,786	5,081	5,475	4,751	3,058	2,495	1,693
Colombia	857	2465	3149	3795	2,410	2,731	1,925
Kazakhstan	0	0	0	0	0	0	17,787
Australia	0	0	0	0	0	0	52,377
Other	43,330	19,353	695	685	18,336	2,689	1,021

Note: Due to Changes in Codes Descriptions, since 2012, most imports of raw cane sugar are in code 170114, instead of 170111.
Source: Russian Customs

Imports: Refined Sugar

FAS/Moscow forecasts Russia's imports of refined sugar in MY 2016/17 at 450,000 MT (raw equivalent), and estimates imports of refined sugar in MY 2015/16 at 500,000 MT. This decrease in imports is likely attributable to the soft Ruble, a larger harvest of sugar beets, and improved processing resulting in a forecasted record high domestic production.

During the period from October 2015 through June 2016, Russia imported 321,579 MT of refined sugar (HS Numbers 170191 and 170199), almost 20 percent more than in the same period last year. The bulk of these imports came from Belarus (about 88 percent). Other suppliers of refined sugar to Russia are Poland and Brazil.

Table 9. Russia: Imports of Refined Sugar (HS numbers 170191 and 170199), MT

	2010/11	2011/12	2012/13	2013/14	2014/15	Oct. 14 – June 15	Oct. 15 – June 16
World	86,317	56,053	76,397	283,489	427,224	266,478	321,579
Belarus	255	6,341	11,605	180,581	368,564	224,424	279,546
Moldova	25,332	2,552	1,914	47,053	0	0	0
Poland	13,276	30,325	26,166	19,856	18,446	15,646	18,333
Brazil	24,038	4,251	8,370	16,036	14,588	8,013	10,949
Lithuania	1,383	14,636	18,014	11,803	19,263	14,231	7,906
India	729	152	152	1,563	0	0	0
Finland	492	415	497	515	486	436	314
Mauritius	803	931	816	496	110	108	38
Denmark	353	492	448	420	140	120	204
Germany	2,221	362	316	221	147	134	218
France	9,471	80	56	340	1627	681	146
United States	397	394	511	304	299	208	295
Colombia	1,060	110	27	0	66	441	1,600

Source: Russian Customs