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Russian Federation

Sugar

Annual Report

2006

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Report Highlights:

Sugar beet production and refining is set to grow this season. Sugar beet acreage is expected to grow based on higher profitability and because many winter wheat fields will be resown with sugar beets due to the rainless autumn and cold winter. Domestic prices are following world prices and are up significantly. Raw sugar import volumes will depend on import duties. Russia is considering adjustments to its sugar tariff regime to counteract high world prices. Foreign companies are investing in the sugar processing and substitute industry. The niche for substitutes is not yet well developed in Russia.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Moscow [RS1]
[RS]

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Executive Summary

Sugar acreage growth was almost flat in spring 2005 in comparison with spring 2004 and is expected to increase in spring 2006 due to winter wheat that did not survive the cold; most winter wheat damaged areas will be resown to sugar beets. Acreages will also go up in line with the increased profitability of sugar beets due to better management and higher retail sugar prices. Imports of raw cane sugar are increasing because of growth in the food processing industry's use of sugar. But this year high world sugar prices will limit raw cane sugar import volumes. White sugar imports will decrease because of the limit the Government of Russia put on imports from Belarus. Higher prices in Ukraine will also attract white sugar from Belarus; Ukraine lifted all restrictions from Belarus and Moldova's white sugar to prevent further growth of sugar prices. Sugar consumption is, and will continue to grow in Russia, due to the growth in production of sugar-containing food products. Stocks will decrease due to dramatically increasing prices on raw sugar in world markets.

Production

Russia harvested 21.4 MMT of sugar beets in CY2005 (in CY2004 – 21.9MMT) with sugar beet yield 28.2 MT/ha and 27.7 MT/ha, respectively. Sugar beet acreage decreased slightly in 2005 but will increase in 2006. Autumn drought and a very cold winter 2005/2006 damaged vast acreages of winter wheat that will be re-sown with sugar beets. High sugar retail prices increased the profitability of sugar beet production and has encouraged farmers to sow more sugar beets. Sugar refineries in many growing areas are offering credits to sugar beet producers for seed purchase and other expenses. In return, the grown sugar beets will be sold to the refinery. Credits are better than in banks. As a guarantee, the refinery requests security for the loan using collateral such as new agricultural machinery, cattle and other property.

Production Subcategory

Russia processed 18.0 MMT of sugar beet in CY2005. Sugar beet production cost was about 500 (\$17) ruble per ton, while refineries pay 1,200 ruble (\$42) per ton, earning the farmer \$25 per ton for beets. Sugar from domestic beets costs about \$430-435 per ton to produce, including the beets. That is why sugar refineries trend towards producing their own beets and rent more land for beet growing next year. Profit margins from domestic sugar beets approaches 100 percent, while from imported cane sugar are just 1%-2%.

The sugar content of beets in 2005 was 13.66% (in 2004 ? – 12.21%), losses during sugar production – 0.69 percent (in 2004 – 0.77 percent).

Consumption

Consumption of sugar will increase in 2006 by 6 percent and by at least two more percent in 2007 due to growth in the food processing industry. Home alcohol production alters depending on sugar prices and vodka prices at the market and consumes around 15 percent of the sugar supplies. The remaining sugar is used by the domestic vodka distilling industry, in food processing, and is directly consumed in Russians' tea.

Trade

According to Russia's official statistics raw sugar imports were almost flat in MY 2005 in comparison with MY 2004. The share of Brazilian raw sugar in total raw sugar imports was 49 percent in 2003, 62 percent in 2004 and, 80 percent in 2005. In January-April, 2006 Russia imported 680,000 tons of raw sugar that is three percent less than in 2005.

Table 1: Russian Sugar Imports, MT, 2003-2005

Description	Oct 02-Sep 03	Oct 03-Sep 04	Oct 04-Sep 05
--The World--			
17 SUGARS	4,332,976	3,490,991	3,450,263
1701 CANE/BEET,SOLID FORM	3,924,408	3,002,654	3,333,458
1704 CONFECTION, NO COCOA	48,050	59,121	62,595
1702 OTHER SUGARS	359,980	88,216	54,210

Source of data: Customs Committee of Russia

Table 2: Russian Raw Sugar Imports, by countries MT, 2003-2005

Rank	Country	-	Oct 02-Sep 03	Oct 03-Sep 04	Oct 04-Sep 05
0	--The World--	-	3,924,408	3,002,654	3,333,458
1	Brazil	-	1,934,230	1,845,335	2,651,304
2	Cuba	-	727,438	848,609	185,811
3	Kazakhstan	-	57,585	67,686	41,036
4	Kyrgyzstan	-	11,988	54,045	39,317
5	El Salvador	-	120,517	49,932	65,002
6	Poland	-	53,630	39,219	58,189
7	Thailand	-	566,843	39,190	74,337
8	Colombia	-	2,045	30,718	57,804

Source of data: Customs Committee of Russia

Trade Subcategory

For the last 12 months sugar prices have demonstrated the biggest growth in comparison with all other commodities' price growth. Sugar prices increased by 60 percent in 2005 and by 12 percent in January-March 2006. Prices in Russia are growing due to the growth of world market prices.

Stocks

Stocks are expected to decrease with high world sugar prices which will keep consumption from growing quickly in the first half of the year. Prices in Russia will remain flat or even decrease, following world prices in the second half of the year.

Policy

Belarussian sugar

Sugar from Belarus will now be exported to Russia through a single customs checkpoint based on a decree signed by Economic Development and Trade Minister German Gref on customs procedures for white sugar and sugar-containing products -- Customs Control Department Number Two of the Troyekurovo customs checkpoint in Western Moscow. This action is taken to defend the Russian market from illegal, undeclared sugar imports from Belarus.

Belarussian imports are not subject to customs duties. This often leads to raw cane sugar, subject to a duty of \$340 per ton, being imported to Russia but declared as sugar beets. If a

laboratory determines that sugar imported to Russia via Belarus was made from cane, it can be re-categorized as goods from a third country and Russia can charge customs duties.

World sugar prices may solve the problem because as of March 30, 2006, Belarus issued a resolution raising retail sugar prices by 10 percent to compensate for higher sugar refining costs and raw sugar world prices. This action will reduce sugar exports to keep prices stable within Belarus.

Policy Subcategory

The import duty on raw sugar

Alexey Gordeyev, Agriculture Minister said recently, that to lower the domestic market's vulnerability to world price fluctuations Russia could change the scale used to determine the import duty on raw sugar. A decision will likely be made to extend the scale upwards to include the sharp rise in prices over the past few months. The government has instructed agencies to come up with proposals on a possible clarification on the rates for customs import duties. Currently import duties on raw sugar are determined by a scale that takes into account the price of sugar on the New York Commodities Exchange. The Minister admitted these measures are aimed at supporting those who produce sugar beets and lowering Russia's dependence on the world sugar market.

Gordeyev says changing the scale is appropriate for the period of raw sugar imports in May-July, after that the sugar beet production season begins. The duty scale should be developed so that the average price for imported sugar corresponds to the production cost of raw sugar. He added that the best production price level is \$700 per ton. By October, market players should already know exactly what conditions they face next year, he said.

The Russian Ministry for Economic Development and Trade (MEDT) stated in March 2006, that raw sugar tariffs could be changed but it will be clear in 3-4 month if this should be done next year or urgent measures should be taken this year if prices continue to grow.

Industry representatives argue, that the regime for importing raw sugar into Russia should not be changed this year, especially just ahead of the planting season. Otherwise it will not reduce inflation, but could create a number of serious problems for the country's sugar industry. The industry also stands for a maximum profit control for sugar, especially in Moscow. The difference between wholesale and retail prices in the capital is often as high as 93 percent.

Ag Attaché believes such an inflexible system is likely unworkable as it cannot be structured to allow for all world and domestic price fluctuations, and results only in higher consumer prices. Actors in a market who want command controls will often be misled by reining in profit margins, rather than understand changes in input prices.

Marketing

Sugar substitute production in Russia

A German company plans to start production of sugar substitute in Russia. It initiated construction of production facilities for diet caramel candy from isomalt. A Russian company has already started to develop the caramel production technology with a St. Petersburg research center. Plans are to produce 120,000 MT of caramel annually. The market is at its initial stage. Sales are predicted to increase 100 percent annually due to growth in the number of customers wanting a healthy lifestyle. The product will be not be positioned as

"diet" product as the Russian customers still link "diet" products with the special dietary needs for those with illness rather than for healthy people. Products made from fructose or sugar substitutes still are traded in drug stores in a section of diet and diabetic products. There has been some success for creating "healthy food" sections in supermarkets, but a market of healthy food in Russia has only started to develop and the customer is not sufficiently informed about balanced and diet food products.

PSD Table Country Commodity	Russian Federation						UOM
	Sugar Beets						
	2005	Revised Post	2006	Estimate Post	(1000 HA)(1000 MT)	Forecast Post	
	USDA Official [Old]	Estimate[New]	USDA Official [Old]	Estimate[New]	USDA Official [Old]	Estimate[New]	
Market Year Begin	09/2004		09/2005		09/2006	MM/YYYY	
Area Planted	1000	1000	980	980	0	1070 (1000 HA)	
Area Harvested	950	950	950	965	0	1040 (1000 HA)	
Production	21700	21700	21000	21800	0	22000 (1000 MT)	
TOTAL SUPPLY	21700	21700	21000	21800	0	22000 (1000 MT)	
Utilization for Sugar	21700	21700	21000	21800	0	22000 (1000 MT)	
Utilizatn for Alcohol	0	0	0	0	0	0 (1000 MT)	
TOTAL UTILIZATION	21700	21700	21000	21800	0	22000 (1000 MT)	

PSD Table Country Commodity	Russian Federation Sugar, Centrifugal		(1000 MT)				UOM
	2005 USDA Official [Old]	Revised Post Estimate[New] 10/2004	2006 USDA Official [Old]	Estimate Post Estimate[New] 10/2005	2007 USDA Official [Old]	Forecast Post Estimate[New] 10/2006	
Market Year Begin	MM/YYYY						
Beginning Stocks	440	440	580	580	470	470	(1000 MT)
Beet Sugar Production	2250	2250	2250	2500	0	2550	(1000 MT)
Cane Sugar Production	0	0	0	0	0	0	(1000 MT)
TOTAL Sugar Production	2250	2250	2250	2500	0	2550	(1000 MT)
Raw Imports	3600	3600	3500	3600	0	3700	(1000 MT)
Refined Imp.(Raw Val)	700	700	700	600	0	600	(1000 MT)
TOTAL Imports	4300	4300	4200	4200	0	4300	(1000 MT)
TOTAL SUPPLY	6990	6990	7030	7280	470	7320	(1000 MT)
Raw Exports	10	10	10	10	0	10	(1000 MT)
Refined Exp.(Raw Val)	100	100	100	100	0	100	(1000 MT)
TOTAL EXPORTS	110	110	110	110	0	110	(1000 MT)
Human Dom. Consumption	6300	6300	6450	6700	0	6810	(1000 MT)
Other Disappearance	0	0	0	0	0	0	(1000 MT)
Total Disappearance	6300	6300	6450	6700	0	6810	(1000 MT)
Ending Stocks	580	580	470	470	0	400	(1000 MT)
TOTAL DISTRIBUTION	6990	6990	7030	7280	0	7320	(1000 MT)