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Sugar Semi-annual

Record High Planted Area Mitigated by Losses, Lower Yields

Approved By:
Morgan Haas

Prepared By:
Mikhail Maksimenko, Laura Ewald

Report Highlights:
Russia increased the planted area of sugar beets to a record 1.16 million hectares in 2010. However, the 2010 drought led to massive losses and decreased yields, resulting in a lower USDA Moscow beet sugar production forecast of 14 percent, compared to the previous year. Russia's import policy should allow imports to compensate lower production in MY 2010/11, stabilizing prices and allow consumption to expand modestly.

Executive Summary

Russia increased the planted area of sugar beets to a record 1.16 million hectares in 2010. However, the 2010 drought led to massive losses and decreased yields, resulting in a lower USDA Moscow beet sugar production forecast of 14 percent, compared to the previous year.

Russia's import policy should allow imports to compensate lower production in MY 2010/11, stabilizing prices and allow consumption to expand modestly. According to importers, lower import duties applied at the beginning October 2010, stimulated the increase of raw sugar imports. As a result, raw sugar imports will grow from 2.100 to 2.85 MMT in MY 10/11. Refined sugar imports will grow from 280,000 MT to 300,000 MT through closer cooperation with regional neighbors.

Table 1. Russia: Sugar Beets, Area, Production, and Utilization (1000 HA, 1000 MT)

Sugar Beets Russia	2008/2009		2009/2010		2010/2011	
	MY Begin: Sep 2008		MY Begin: Sep 2009		MY Begin: Sep 2010	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	1,070	1,030		1,050		1,160
Area Harvested	1,070	1,000		900		990
Production	23,500	29,000		24,800		23,200
Total Supply	23,500	29,000		24,800		23,200
Utilization for Sugar	23,500	29,000		24,800		23,200
Utilization for Alcohol	0	0		0		0
Total Distribution	23,500	29,000		24,800		23,200

Table 2. Russia: Sugar, Centrifugal, Production, Supply, and Demand (1000 MT)

Sugar, Centrifugal Russia	2008/2009		2009/2010		2010/2011	
	MY Begin: Oct 2008		MY Begin: Oct 2009		MY Begin: Oct 2010	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	550	550	660	481	510	380
Beet Sugar Production	3,200	3,481	3,500	3,313	3,315	2,850
Cane Sugar Production	0	0	0	0	0	0
Total Sugar Production	3,200	3,481	3,500	3,313	3,315	2,850
Raw Imports	2,800	1,850	1,860	2,100	2,500	2,750
Refined Imp.(Raw Val)	300	300	250	280	300	300
Total Imports	3,100	2,150	2,110	2,380	2,800	3,150
Total Supply	6,850	6,181	6,270	6,174	6,625	6,380
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	200	200	200	100	200	100
Total Exports	200	200	200	100	200	100
Human Dom. Consumption	5,990	5,500	5,560	5,694	5,865	5,736
Other Disappearance	0	0	0	0	0	0
Total Use	5,990	5,500	5,560	5,694	5,865	5,736
Ending Stocks	660	481	510	380	560	544
Total Distribution	6,850	6,181	6,270	6,174	6,625	6,380

Production

USDA-Moscow expects 23.2 MMT of sugar beet production in MY 2011, a six percent drop from MY 2010 (24.8 MMT), as a result of area losses. Beet sugar production number in MY 2011 reflect lower sugar beet yield and lower sugar content in beets grown in the summer of 2010. USDA-Moscow forecasts a 14 percent beet sugar production decrease in MY 2011 compared to MY 2010.

Russia planted a record high amount of sugar beets, totaling 1.16 million hectares in 2010, 10.5 percent higher than in 2011. USDA-Moscow holds higher sugar beet area estimates for MY 08/09 and MY 09/10 compared to the Russian Statistic Service (Rosstat), as sugar market analysts believe sugar beet producers have historically underreported planted area. However, USDA-Moscow accepts Rosstat's MY 10/11 beet area in line with stricter control by the Ministry of Taxes. As the "Development of Sugar Beet Production Industry of Russia for 2010-2012" has come into place, producers now have an increased incentive to report accurate area figures in order to get the state subsidies provided in the framework the target program. Significant acreages of sugar beets did not survive the very hot summer and drought in the 2010 season. Early in the season, the Russian Sugar Union reported only 1.02 million hectares would be available for harvest in MY 2011, pointing to a 12 percent loss. However, this estimate grew another 30,000 hectares following the onset of the harvest season. USDA-Moscow forecasts area harvested to be 990,000 hectares in MY 2011. Market analysts believe that Russian sugar beet producers should focus more on increasing yields than on increasing sugar beets area.

The Ministry of Agriculture reported, as of November 1, 2010, harvest was 85 percent complete, and had thus far produced 18.7 MMT of beets. Average sugar extraction was lower at about 14 percent, compared to 15.16 percent for the same period in 2009.

<u>Major Producers</u>
Currently, the majority of sugar beets are grown by large agricultural enterprises, while its share in total production dropped slightly - from 94.5 percent in 2000 to 89.2 percent in 2008. In contrast, the share of small farms and private households is slowly growing. According to the Federal Anti-trust Committee, 61.4 percent of sugar in Rusisa is produced by five companies, Sucdem (five refineries), Rasguliay (10 refineries), Dominantt (7 refineries) Rusagro (six refineries) and Prodimpex (16 refineries). Prodimpex alone produces 18.4 percent of the total Russian sugar production.

<u>Production Costs</u>
In 2008, the total average beet production cost amounted to RUR 33,071/ha, while it was 30 percent less in 2007. In part, this was due to increased fertilizer application, which represented 25 percent of total costs in 2008. Imported beet seed costs totaled RUR 4,500/ha in the same year.

Trade

Russia increased imports of raw cane sugar to 1.95 MMT in October 2009-August 2010 from 1.75 MMT in October 2008-August 2009, while non-Belarusian imports of refined sugar decreased from 86,000 MT to 64,000 MT. Belarusian refined sugar imports totaled about 160,000 MT of refined sugar during 2008/09 and 2009/10. Raw sugar imports will grow in MY 2011 to 2.85 MMT because of lower beet sugar production this year. Refined sugar imports will grow seven percent in MY 2011 as a result of closer Russia's cooperation with Belarus and Ukraine.

Sugar Trade with Belarus

Belarus informed the Russia-Belarus-Kazakhstan Customs Union that according to Resolution #1387 of September 27, 2010, only four facilities will be allowed to export sugar in the period from October 1, 2010 to April 1, 2011. The Russian and Belarusian Ministries of Agriculture agreed in September 2009 that Belarus will export 150,000 MT of white sugar to Russia in CY 2010, the same level as in CY 2009.

Sugar Trade with Ukraine

In accordance with a Commonwealth of Independent States agreement, beet sugar originating from Ukraine will be not subject to import duties beginning January 2013. Nevertheless, by December 1, 2010, Ukraine plans to decide how much refined sugar it can ship to Russia in 2011. The Ministry of Agriculture of Ukraine hopes that Russia will allow duty-free imports of its refined sugar in the amount of 300,000 MT in 2011. In response to the issue, the United Association of Sugar Producers of the Customs Union (Russia, Belarus, and Kazakhstan) confirmed the current procedure of sugar imports to its territory. An agreement of the conditions and mechanism of a tariff-rate quota (TRQ) application was reached by the Custom Union members on December 12, 2008, and was enforced January 1, 2010. According to this agreement, the Commission of the Customs Union shall take decisions on TRQ application, while volumes of the TRQ should be split proportionally among the three countries. However, regimes of raw sugar to the territory of the Customs Union are significantly different (as of now the difference is $125/MT). At the latest meeting, in late October, Ukraine failed to convince the Russian side to provide Ukraine with a sugar TRQ. However, the two sides agreed that Ukraine will provide economic reasons for such a quota, and the Russian side will inform the Customs Union Members about a request to allow exports of 100,000 MT of sugar to the Customs Union.

Import Duties

The import duty for November 2010 will be at the level of $140/MT, unchanged from October. September and August duties were $171/MT and $203/MT, respectively. In the beginning of January 2010, the sugar industry managed to correct the scale of flexible import duties in the framework of the Customs Union. The range of inversely related duties and world prices for sugar was increased. When quoting raw sugar above 18¢/lb (observed from July 2009), the import duty will be at $140. If world prices become lower than 18 ¢/lb, then the import duty increases. As a compromise with consumers, the Russian government proposed a "raw sugar window" from May to July, when import duties are decreased. The duty is set at its minimum of $50/MT when raw sugar is traded higher than 22¢/lb. The Customs Union agreed to apply an import tariff in the range of $140 to $270/MT from January 1 to April 30 and again from August 1 to December 31, 2010.

In late April 2010, the Customs Union Commission shortened the time period to determine the average sugar price from three months to one month. The decision took effect immediately and raw sugar importers had until the end of May to take advantage of the exceptionally low tariff of $50/MT, down from $140 in April. As a result, monthly raw sugar import volumes increased to 1,514,000 MT in May 2010 compared to 23,000 MT in April 2010 (358,000 MT in May 2009). This measure helped supply the market until beet sugar production began in August.

The raw sugar processing season usually begins after beet processing. Reducing the tariff would prompt increased raw sugar shipments to Russia and move the start of the raw sugar processing season to October after duties gradually decrease.

Major Importers

According to the Institute for Agricultural Market Studies (IKAR), the major importers of raw sugar to Russia are the following companies: Prodimpex (10-20%) , Rusagro (10-20%), Dominant (5-15%) , Razguliay (5-15%), Syukden (3-10 %) Cargill (3-15%), Man (2-4%). Combined, they control about 70 percent of the market for last several years. Individually they invested about $1.0 million per plant last year and plan to invest $0.5 million more in the future.

Russian Sugar Exports

Russian refined sugar exports sharply fell from 110,649 MT in the first three quarters of MY 08/09 to 33,288 MT during the same period of MY 09/10.

Consumption

USDA Moscow forecasts total domestic consumption to increase about one percent in MY 2011. As we have seen, increased raw sugar imports in MY 2010 compensated for lower production and consumption increased 3.5 percent over MY 2009.

According to IKAR, sugar consumption is split between 55-57 percent for direct human consumption and the remainder for industrial processing. According to the Russian Ministry of Agriculture, the sugar industrial consumption decreased eight percent in 2009.

Prices

As of October 25, 2010, wholesale prices for sugar beets were RUR 2,945-3,000/MT, sugar beet syrup prices were RUR2,000-4,000/MT, and dry sugar beet pellets were RUR 4,000-5,000MT. Prices vary among regions.

Refined sugar prices grew more than 11 percent in the period July 1-October 1, 2010. Wholesale and retail refined sugar prices started growing in July 2010, after it became clear the drought would have a negative impact on the sugar beet harvest. USDA-Moscow forecasts that prices will stabilize in November as raw sugar imports increase.

At the beginning of October 2010, the wholesale prices for refined sugar were RUR 28,500-30,000/MT, sugar beet syrup were RUR 2,000-3,000/MT, and dried pulp were RUR 2,000-3,000/MT. Prices vary among regions.

Other Sugar Industry Issues

United Sugar Association of the Customs Union

The Customs Union members established the nonprofit organization "United Sugar Association of the Customs Union". It is the first such association formed across Customs Union members. The main objectives of the association are:

- promoting production growth of sugar from sugar beets in order to reduce dependence on imported raw sugar in the territory of the Customs Union;
- creation of a common sugar balance in the coming years;
- improving the unified sugar import regime.

Program for the Development of Sugar Beet Production in 2010-2012,
(Available in Russian at http://www.mcx.ru/navigation/docfeeder/show/77.5.htm?query=)

The Russian Ministry of Agriculture issued Order #501 on October 23, 2009, which approves the branch target program "Development of Sugar Beet Production Industry of Russia for 2010-2012". The program's goal is to increase sugar beet production from 24.8 MMT in 2009/10 to 36.2 MMT in 2012/2103 and beet sugar production from 3.31 MMT in 2009/2010 to 4.32 MMT 2012/2013. Another goal is to increase production capacity of processing facilities to 385,960 MT of beets/day and production of beet pulp pellets to 493,000 MT or by 87 percent compared to 2009.

In October 2010, Andrei Bodin, Chairman of the Union of Sugar Producers of Russia, reported the need for modernization in the sugar sector as 34 of the 76 current sugar factories predated World War II. Mr. Bodin also said that as a result of the program's implementation, investment in the Russian sugar industry increased from RUR 2.2 billion in 2009 to RUR 14 billion in 2010. The program subsidized interest rates on credits taken to modernize and renovate refineries such as equipment purchases, which increased from $3.9 million in 2009 to $49 million in 2010. Mr. Bodin also stated that investments will reach RUR 14.7 billion in 2011 and RUR 15.8 billion in 2012. Refineries' processing capacity will increase as a result to 350,000 MT/day in 2011 from 329,000 MT/day in 2010.

The program envisions the share of white sugar produced from domestic sugar beets rising to 67 percent of total sugar production in 2012, up from almost 60 percent in 2008. The program also envisages improvement of the regulatory provisions of production and quality control of sugar beet production.

Technical Regulations on Sugar

The "Technical Regulations on Sugar" was drafted in 2007 and updated in November 2009. The program indicates that the document should be harmonized with international standards of Codex Alimentarius, European legislation, and the national standards for the products of the sugar industry. Also, considerable work should be done for renovation of the normative documents in line with the requirements of international organizations, including ISO (International Organization for sugar) and ICUMSA (International Organization for Standardization research methods in the sugar industry). The draft "Technical Regulations on Sugar" in Russian can be found on the Russian Union of Sugar Producers web-site: http://www.rossahar.ru/.

Seed Development

A sugar beet seeds production facility is being built in Lipetsk oblast. Currently in the Russian Federation, 90 percent of the sugar beet area is planted with imported seeds. The planted volume of production is 400,000 seed units (one unit is 100,000 sugar beet seeds). Beet acreages planted during the past two years (about one million hectares) needed approximately 1.3 million seed units for planting. Thus, the new plant will produce about 40 percent of the seeds needed for the Russian farmers. The Union of Sugar Producers of Russia noted, for the next couple years the plant will process imported seed, and in a year or two, production of domestically grown sugar beet seeds will begin. Voronezh oblast also plans to build a sugar beet seed production plant. After the project is accomplished, Russia will be 90 percent self-sufficient with respect to this commodity.

Molasses

Russia produced about 884,000 MT of molasses in 2009/10, IKAR reported. As an average, Russia utilizes 30 percent of syrup for yeast production; 25 percent for feed consumption; 25 percent for spirit production; five percent for food acids production; two percent for microbiological industry use; and 13 percent of it is exported. Grain and feed shortages this year have directly increased prices for syrup in spirit production and the livestock industry.

According to reports, the largest Russian sugar producer plans to build Russia's first molasses sugar extraction plant by the end of 2010. Sugar extraction production capacity of the plant will be 300 MT/day of molasses for the duration of the 240-day season. However, its effectiveness is hard to predict because the technology is complicated. "Its economic efficiency is not proven," said Mr. Ivanov, a leading expert of IKAR. Mr. Ivanov also mentioned, "Domestic demand for molasses is very limited and the export sales are not profitable because of high transport costs." Currently, Russian companies use molasses to produce citric acid.

Sugar Beet Pulp

According to IKAR, Russia produced about 350,000 MT of dry beet pulp including 337,400 MT of sugar beet pellets in 2009, and almost all of it is exported annually. Average prices for dry pulp were at RUR 2,000-2,500/MT at the end of 2009 and RUR 3,500-4,000/MT in September 2010. Demand for the product in Russia is rather unstable, depending heavily on feed prices. Supply is constrained by drying and transportation costs. A sample price structure of Russian beet pellets available at a Turkish seaport for $142/MT is the following: vessel transportation – $27/MT; unloading in the seaport – $16/MT; railroad transportation – $31/MT, other expenses – $5/MT. The returns to the exporter are about $63/MT. The major cost in pulp production remains gas, used in the drying process. Pellets are also exported to Italy, Netherlands, and Syria. Russia's major competitors, Belarus and Poland, save on transportation costs to northern and central Europe. Russia utilizes Latvian and Lithuanian seaports to export pulp to Europe since its own seaports are technologically unable to handle the product.
Sugar Production Tables

Sugar Production Tables

Table 3. Russia: Planted Area and Production of Sugar Beets

	CY 2006	CY 2007	CY 2008	CY 2009	CY 2010
Planted sugar beet area (1,000 HA)	996	1,060	819	823	1,160

Sugar beet production (1,000 MT)	30,861	28,236	29,000	24.800	n.a.
Yield (MT/HA)	30.8	26.5	36.2	32.2	n.a.

Source: Rosstat Social and Economic Situation in Russia, #12 (2006-2009) and #6 (2010)

Table 4. Russia: Sugar Beet Area, by Types of Farms

Year	Total 1,000 ha	Share of Total Area (%)		
		Agricultural enterprises	Private farms	Private households
2008	819	87.9	11.0	1.1
2009	823	87.8	11.2	1.0
2010	1,160	87.2	12.1	0.7

Source: Rosstat, Social and Economical Situation in Russia, June 2008, June 2009, June 2010

Table 5. Russia: Total Sugar Production, MMT

	CY 2007	CY 2008	CY 2009
Total sugar production	6.069	5.870	5,058
--From sugar beet	3.223	3,481	3,313
--From raw sugar	2.859	2.389	1,745

Source: Rosstat Social and Economic Situation in Russia, #12 (2007-2009)

Table 6. Russia: Sugar Beet Production, by Types of Farms

Year	Total 1,000 MT	Share of Total Production (%)		
		Agricultural enterprises	Private households	Private farms
2000	14.1	94.5	0.6	4.9
2002	n.d	92.0	0.9	7.1
2003	19.4	88.9	0.9	10.2
2004	21.8	88.8	0.8	10.4
2005	21.3	88.4	1.1	10.5
2006	30.7	87.3	0.8	11.9
2007	28.8	87.9	0.7	11.4
2008	29.0	89.2	1.9	9.8

Source: Rosstat Agricultural Production, Hunting and Forestry in Russia, 2009

Table 7. Russia: Application of Fertilizers and Manure

Years	Application of fertilizers, kg/ha, active matter, agricultural farms	Application of manure, MT/ha, active matter, agricultural farms
2000	119	1.8
2002	166	2.2
2003	177	2.0
2004	223	2.5
2005	252	2.3
2006	245	2.0
2007	271	2.0
2008	274	2.6

Source: Rosstat Agricultural Production, Hunting and Forestry in Russia, 2009

Table 8. Russia: Major Target Indicators of the Sugar Development Program

	2010	2011	2012
Sugar beet industry			
--Beet sugar production, MMT	3.73	3.91	4.32
--Beet acreage, 1,000 ha	859	895	981

--Beet yield, MT/ha	363	365	369
--Sugar content in beets, %	16.8	16.9	17.3
Sugar beet processing industry			
--Beet processing capacity, MT/day	302,300	310,600	385,960
--Volume of beet stocks, MMT	27.5	28.8	31.4
--Sugar extraction, %	13.56	13.58	13.76
--Beet losses on storage, %	3.6	3.3	3.0

Source: Ministry of Agriculture, "Development of Sugar Beet Production Industry of Russia for 2010-2012"

Sugar Trade Tables

Table 9. Russia: Raw Sugar Imports (170111, 170112), Year Ending September, 1,000MT

Partner Country	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	Oct-Aug	
							2008/09	2009/10
World	2,811	3,175	2,421	3,071	2,724	1,763	1,749	1,949
Brazil	1,845	2,651	2,107	2,601	2,413	1,490	1,490	1,636
El Salvador	50	65	77	102	0	65	65	0
Cuba	849	186	56	175	162	143	143	81
Thailand	35	74	25	64	92	58	41	40

NOTE: Excludes Belarus
Source: Global Trade Information Services

Table 10. Russia: Refined Sugar Imports (170199), Year Ending September, 1,000MT

Partner Country	2004/05	2005/06	2006/07	2007/08	2008/09	Oct-Aug	
						2008/09	2009/10
World	158	115	127	72	91	86	64
Poland	58	69	38	59	16	16	36
Moldova	4	8	45	0	31	30	4
Czech Republic	0	0	0	0	8	7	14

NOTE: Excludes Belarus
Source: Global Trade Information Services_

Table 11: Russia: Russia Sugar Exports (1701), Quarterly Series, 1,000 MT

	MY 07/08	MY 08/09	MY 09/10
Oct – Dec	22,682	19,876	4,769
Jan – Mar	18,452	46,758	7,137
Apr – Jun	13,015	42,006	19,372
Jul – Sep	2,202	39,391	n.d
Total	58,359	150,040	n.d

NOTE: Excludes Belarus
Source: Global Trade Information Services_

Sugar Price Tables

Table 12: Average Processor and Retail Prices for Sugar, RUR/kg

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Processor Price												

2009	15.82	19.55	21.33	20.40	21.66	22.30	22.33	22.70	23.25	23.87	23.95	24.82
2010	25.71	26.04	26.45	26.55	25.87	25.42	25.57	26.78	28.05	28.93	n.a.	n.a.
Retail Price												
2009	23.28	27.03	27.63	28.30	29.00	28.97	28.99	29.67	31.82	34.10	33.99	33.78
2010	34.12	35.75	36.95	36.04	34.78	33.42	33.70	34.21	36.19	37.21	n.a.	n.a.

Source: Ministry of Agriculture http://www.mcx.ru/navigation/page/show/205.htm

Other Sugar Industry-related Tables

Table 13: Annual Molasses Production, 1,000MT

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Production	652	658	770	777	757	938	1,002	996	844
Imports	5	1	0	0	0	0	3	0	n.d.
Total Supply	657	659	770	777	757	938	1,005	996	844
Exports	7	87	90	11	97	265	296	220	n.d.
Use: Yeast Production	267	235	200	181	164	147	149	150	n.d.
Use: Citric Acid Production	18	18	19	22	26	29	33	34	n.d.
Use: Other	365	319	461	462	470	497	526	572	n.d.
Total Distribution	657	659	770	676	757	938	1,004	976	n.d.

Source: IKAR, http://www.ikar.ru, Agroinvestor Magazine, #10, 2010, www.agro-investor.ru

Table 14: Sugar Beet Pellet Production and Exports, 1,000MT

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Production	27	46	88	84	202	238	316	337
Exports	23.8	43.3	61.1	69.8	94.9	96.5	96.5	76.2

Source: IKAR, (Institute for Conjuncture of Agrarian Market), Agro-investor Magazine, #10, 2010