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Sugar Annual

Sugar Annual 2016

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Report Highlights:

FAS/Moscow forecasts Russia's sugar beet production in 2016/17 at 42 million metric tons (MMT), nearly an 8 percent increase from production in 2015/16. The area planted to sugar beets is forecast to increase approximately 3.6 percent from 1,020 million hectares in 2015, to 1,040 million hectares in 2016. FAS/Moscow forecasts that in MY 2016/17, 41.2 MMT of the projected 42 MMT crop will be processed. Sugar production in MY 2016/17 is forecasted at 5,320 MMT, compared with 5,200 MMT in MY 2015/16. Domestic sugar consumption in 2015/16 is estimated at 5.8 MMT. FAS/Moscow forecasts imports of sugar, in raw equivalent, at 750,000 MT in MY 2016/17. This will include 250,000 MT of raw cane sugar and 500,000 MT of refined sugar (in raw equivalent).

Executive Summary:

FAS/Moscow forecasts Russian sugar beet production in 2016 at 42 million metric tons (MMT), nearly an 8 percent increase from the 2015 crop. The area planted to sugar beets is forecast to increase to 1,050 million hectares in 2016, from 1,020 million hectares in 2015. Sugar beet prices have continued to increase through the period November 2014 to February 2016. This increase in beet prices, as well as the world price for white sugar, is expected to stimulate Russian farmers to expand the area sown to beets. Also, because the soft ruble increased the cost of imported cane sugar, FAS/Moscow expects the demand for domestic sugar beets to remain high and stable during the forecast MY 2016/17. Thus, the incentive for farmers to plant sugar beets will be high.

However, there are several constraints that may curb growth of yields and production in 2016/17:

- Strong competition for land for production of grains and oilseeds, especially in the high yielding provinces of the Southern and Central federal districts of Russia;
- Imported inputs are more expensive due to the soft ruble, and may lead to the use of less expensive, but less productive inputs. This will ultimately reduce yields;
- The increased price of fertilizer and chemicals may result in decreased use of these inputs, also potentially lowering yields

FAS/Moscow forecasts sugar beet yields at 38.9 metric tons per harvested hectare (MT/HA), which is close to the last 4-years (2011-2015) average of 40.0 MT/HA, and 5 percent higher than in 2015.

FAS/Moscow forecasts that 41.2 MMT of projected 42.0 MMT will be processed and that production of sugar (from sugar beets) in MY 2016/17 (October 2016 – September 2017) will be 5,320 MMT. This production would meet approximately 90 percent of the forecast raw sugar consumption in 2016/17. If this production materializes it would exceed the 80 percent self-sufficiency goal set in Russia's Food Security Doctrine.

Industry analysts estimate that Russian processors are currently able to process approximately 40 MMT of sugar beets. In early 2000, the government of Russia (GOR) set goals to build new sugar processing facilities. To date, none of these facilities have been constructed, however many processing facilities were modernized between 2011/12 and 2013/14. Many plants decreased losses of sugar while storing and processing beets. Industry analysts estimate that, given the good quality crop and the expected high sugar content in the beets, some modern plants will be able to realize sugar output reaching 15 percent. Several years ago, plants averaged 12 to 13 percent. Despite the current economic problems in Russia and the soft ruble, large vertically integrated companies seek to continue further modernization of sugar processing facilities in 2016/2017. This is more likely given the lucrative crop and the increasing profitability with the current worldwide prices for sugar. However, analysts suggest that in 5 years the sector will be totally consolidated into just a few, large organizations, and individual farmers will not be able to compete.

FAS/Moscow estimates that in MY 2015/16, 37,950 MMT of beets from the 39.0 MMT beet crop have been processed into 5.2 MMT of raw sugar.

The domestic consumption of raw sugar increased in MYs 2014/15 and 2015/16 from 5.7 to 5.8 MMT.

Domestic production of raw sugar from sugar beets comprised approximately 80 to 85 percent of this consumption. Per capita consumption has grown since 2011, and has been gradually increasing.

According to the Russian Union of Sugar Producers (SoyuzRosSakhar), Russian per capita consumption of sugar from 2011 to 2014 was approximately 38 kg per capita per year, compared with the world average of 22 kg. However, industry contacts forecast average annual per capita consumption in Russia to increase to almost 40 kg. FAS/Moscow expects that in MY 2015/16 the economic crisis in Russia will stimulate people to return to home-made jams, sweeteners and alcohol [1], and consumption of sugar will increase. In addition, increasing domestic tourism in the next years will also contribute to growing consumption of sugar. FAS/Moscow estimates human domestic consumption of sugar in 2015/16 at 5.8 MMT (almost 2 percent increase from MY 2014/15), and forecasts a further increase in this consumption in MY 2016/17 to 5.880 MMT.

The gap between domestic production of raw sugar and consumption is filled by imports of raw and white sugar (in raw equivalent). FAS/Moscow forecasts imports of sugar to decrease significantly to 750,000 MT compared to the estimated 1,150 MMT in MY 2015/16. These imports will include 250,000 MT of raw cane sugar and 450,000 MT of refined sugar in raw equivalent. Russia's exports of sugar will remain very low, despite the soft ruble. Russia previously was a major exporter of sugar to the CIS countries. However, these countries have developed their own production of sugar, and as a result, Russia's exports to these countries has been decreasing. On the other hand, Russia's sugar imports from Belarus increased, and in 2015/16 Belarus will continue to be the second largest supplier of sugar (in raw equivalent) to Russia, after Brazil.

^[1]The increased use of sugar for domestic production of alcohol has been stimulated and will further be stimulated by the increased excises on alcohol products in Russia: [Vodka Excise Tax and Minimum Set Price Rates for 2015 Moscow ATO Russian Federation 2-3-2015.pdf](#)

Commodities:

Sugar Beets

Sugar, Centrifugal

Production, Supply and Demand Data Statistics:

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

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

(1000 HA) ,(1000 MT)

Note: In the PSD table for Sugar Beet 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 Centrifugal Sugar, 1,000 MT Raw Value

Sugar, Centrifugal Market Begin Year Russia	2014/2015		2015/2016		2016/2017	
	Oct 2014		Oct 2015		Oct 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	370	370	100	100	0	180
Beet Sugar Production	4350	4350	4700	5200	0	5320
Cane Sugar Production	0	0	0	0	0	0
Total Sugar Production	4350	4350	4700	5200	0	5320
Raw Imports	650	650	700	250	0	250
Refined Imp.(Raw Val)	450	450	450	450	0	500
Total Imports	1100	1100	1150	700	0	750
Total Supply	5820	5820	5950	6000	0	6250
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	10	10	10	10	0	10
Total Exports	10	10	10	10	0	10
Human Dom. Consumption	5700	5700	5800	5800	0	5880
Other Disappearance	10	10	0	10	0	10
Total Use	5710	5710	5800	5810	0	5890
Ending Stocks	100	100	140	180	0	350
Total Distribution	5820	5820	5950	6000	0	6250
(1000 MT)						

Commodities:

- Sugar Beets

Production:

Given average weather, FAS/Moscow forecasts Russia’s sugar beet production in 2016 to increase to 42.0 million metric tons (MMT) compared to 39.0 MMT in 2015. This is due to an increase in sown area and improved yields. FAS/Moscow forecasts area sown to sugar beet in 2016 to increase to 1,050 million hectares from 1,020 million hectares in 2014. Processors’ demand for sugar beets is expected to remain strong, and could create incentives for increased sown area. Also, the soft ruble will make imported cane sugar more expensive. As a result, imports are estimated to decrease, and will further stimulate demand for domestic sugar beets. Domestic sugar beet prices have been rising in recent months (see Chart 1), and this will likely stimulate farmers to increase area sown to sugar beets. Any area increase, however, will be limited by strong competition for land for production of grain and oilseeds.

FAS/Moscow forecasts sugar beet yields at 38.9 MT/HA, which is close to the last 4-year average of 40.0 MT/HA (production per harvested area), and 5 percent higher than in 2015. Based on the 2015 harvest, 14 out of 23 Russian provinces reported increasing yields. The highest yield increase of 7.5 percent was reported in the Central federal district. In addition, the sugar content in the harvested sugar

beets was higher by 0.6 percent and reportedly reached 17.8 percent, setting a new record. However, despite an upward trend in yield forecast, which was largely attributable to relatively favorable weather conditions during sowing and harvesting, yields higher than 40 MT/HA are unlikely due to the following factors:

- Competition with grain and oilseeds for the best land will be very strong. In many places, farmers' financial returns from grains and oilseeds production in 2015/16 were still higher than returns from sugar beet production;
- The sugar beet industry in Russia is at the edge of reaching its market capacity, and overproduction may depress (lower) domestic prices versus world prices;
- The majority of successful sugar beet growers are vertically integrated (through contracts) with large processing companies, or even belong to those companies. These processing companies typically supply farmers with imported planting seeds, chemicals, and even provide foreign equipment and beet harvesters. According to industry sources, these expenses for imported inputs comprise about 60 percent of the cost of production of sugar beets. With the strong depreciation of the ruble since the beginning of 2014, inputs will continue to be expensive through 2017, and may cause farmers to replace the more expensive and more efficient seeds, fertilizers and chemicals with less expensive, but also less effective, inputs. However, industry analysts believe that this will be a challenge only for individual farmers. Moreover, large players in the sugar market such as "RusAgro", "Prodimpex" and "Sucden" intend to further invest in storage facilities, processing infrastructure and technologies, gradually ousting smaller producers and leading to consolidation of the sector. One of the sugar beet processors from Krasnodar krai reported that due to high prices for sugar and sugar beets, and higher yields (0.6 MT/ha), they were able to reach profitability of 20 percent, despite the increasing input supplies by 30-40 percent in 2015. Industry sources estimate that average yield of sugar beet of 0.4 MT/Ha is just enough to cover the costs but not for gaining profit. On the other hand, farmers from Voronezh province claim that with the current quality of sugar beets, the high prices of 3,200-3,300 Rub/MT, and yields of 0.35 MT/Ha, their profit margin is as much as 50 percent. As a result, the Governor of the Krasnodar region announced that the sowing area for sugar beets in 2016 will increase by 23,000 and reach 180,000 hectares.
- The overall tight economic situation in Russia, with high interest rates and shortage of financing, coupled with the high indebtedness of many large-scale agricultural enterprises and agro-holding companies in the sugar industry, will curb new investments and limit operating capital of these companies.

The Russian Ministry of Agriculture forecasts that planting of sugar beets will increase to 1,073,500 hectares in 2016. This represents a projected increase of almost 52,000 hectares over 2015. However, these are only projections, and farmers will sow based on their own estimates of costs of production, expected returns from sugar beet production, and weather during sowing. As of March 25th, the sugar beet sowing season in the Krasnodar, Rostov, and Stavropol provinces and Chechen Republic had only just started. Farmers in these provinces had sowed about 92,100 hectares (in 2015 - 160,700 hectares), or 8.7 percent of forecasted. Due to cold weather in late March in the Central Federal District sowing is likely be delayed a week or more.

Industry analysts are more optimistic than the Ministry of Agriculture in estimating the sown area and forecasting sugar beet area in 2016 at 1,085 thousand hectares. This industry estimate represents more than a 6 percent increase from the area sown to sugar beets in 2015.

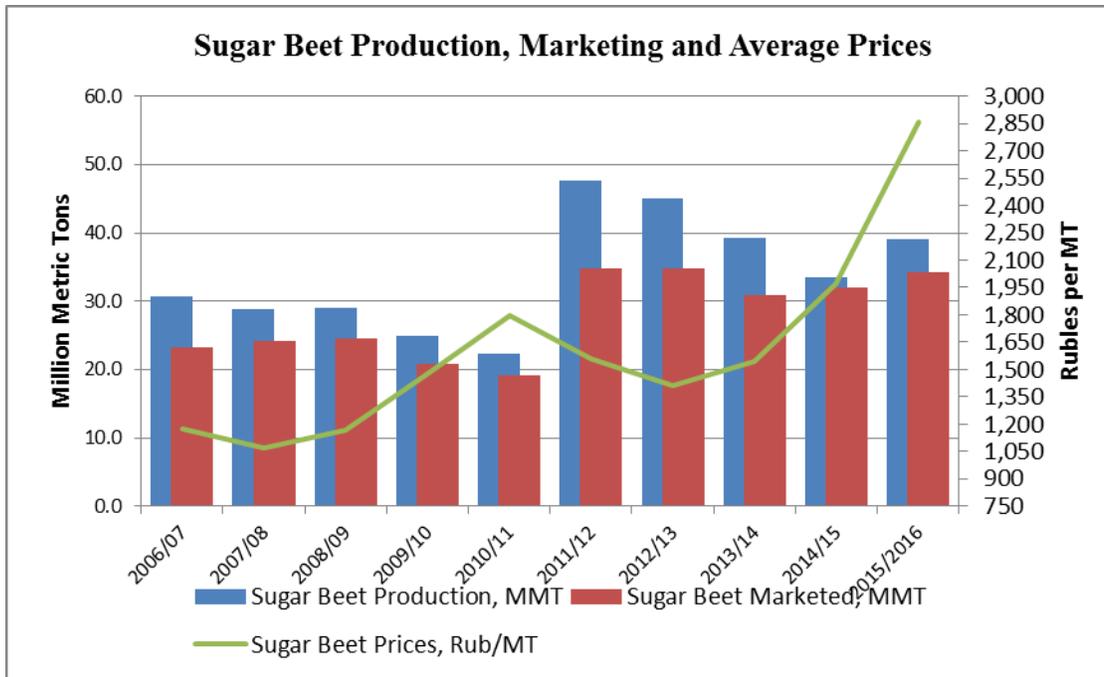
Table 3. Russia: Sugar Beet Area, Production, and Marketing, MYs 2008/09 – 2015/16. (updated)

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/2016
Area Planted, 1,000 HA	819	819	1,160	1,292	1,143	904	919	1,020
Area Harvested, 1,000 HA*	801	771	923	1,215	1,102	889	906	1,005
Production, 1,000 MT	28,995	24,892	22,256	47,643	45,057	39,321	33,513	39,030
Yields (MT per harvested Area)	36.2	32.3	24.1	39.2	40.89	44.21	37.01	38.9
Sugar Beet Marketed, 1,000 MT	24,600	20,900	19,100	34,800	34,700	30,852	32,000	34,300
Sugar Beet Marketed, %	84.8	84.0	85.8	73.0	77.0	78.5	95.5	87.8
Sugar Beet Prices, Rub/MT	1,169	1,476	1,795	1,559	1,414	1,547	1,971	2,861

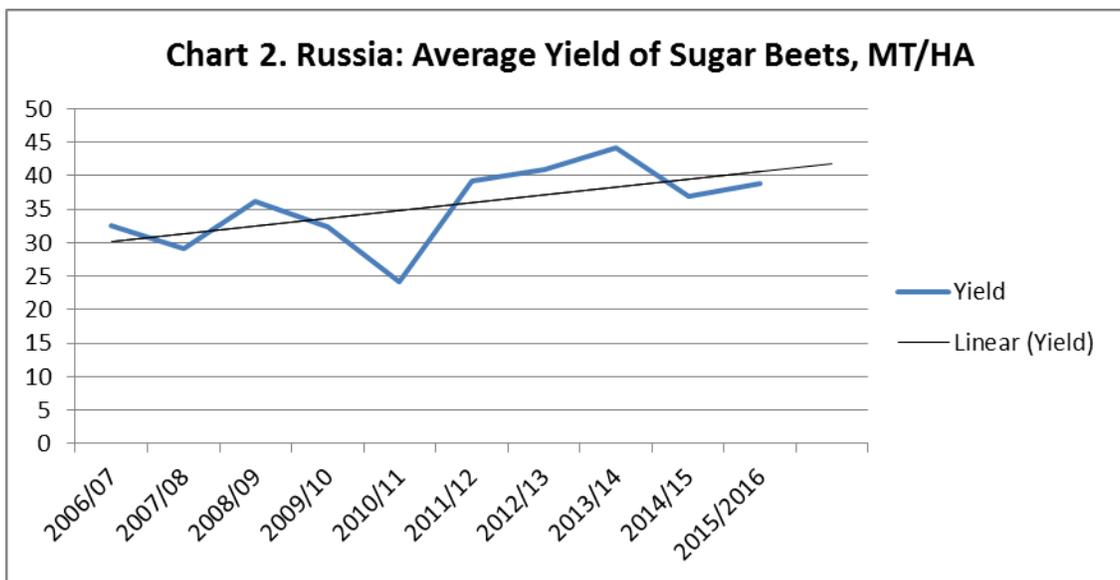
Source: Rosstat, marketing of sugar beet in marketing years are FAS/Moscow estimates.

FAS/Moscow calculated marketed beets, based on Rosstat's monthly and calendar year data for sugar beets sold by agricultural enterprises, adjusted by industry's data on processed sugar beets by end of January each year. Thus, Rosstat data for the 2015 sugar beet crop marketed by agricultural enterprises is only 26.4 MMT. However, a significant portion of sugar beets are produced by enterprises and private farms that are vertically integrated with processing companies and the transfer of beets from these farms and enterprises to processors is not always registered by official statistics. Thus, the Russian Union of Sugar Producers reported that by the beginning of March 2016, processors already processed over 34,332 MMT of sugar beets from the 2015 crop, 16.6 percent more than in the same period in 2015, and that facilities have halted processing beets and are about to start processing raw sugar.

Chart 1. Russia: Sugar Beet Production, Marketing and Average Prices



Source: Russian State Statistical Service (Rosstat) and FAS/Moscow calculations of marketed beets.



Source: Rosstat

Input supply

Industry analysts estimate that due to the soft ruble, the cost of imported inputs, especially seeds have increased significantly. Imported seed accounts for almost 90 percent of total sugar beet seed used for sowing, and therefore represents a significant share of the cost of sugar beet production in Russia. The cost of production of sugar beets per hectare will increase in MY 2015/16 by 33 percent compared with 2014/15. The major expenses for sugar beet production are planting seeds, fertilizer and agrochemicals.

These inputs account for over 50 percent of the cost of production of sugar beets, and the prices for all input supplies were higher at the beginning of 2015 compared to the beginning of 2014.

The average prices for the most popular types of mineral fertilizers increased an average 15 percent, as of February 8, 2016, compared to mid-February 2015, with the increase for some fertilizers up as much as 40 percent. Although most fertilizers are domestically sourced, prices for mineral fertilizers are linked to the dollar rate and world prices because fertilizers produced in Russia are largely exported. According to the Ministry of Agriculture, prices of the most popular fertilizers (including VAT, packaging, transportation and delivery to farms) mostly increased, except for ammonia nitrate. As of February 8, 2016, prices compared with the same date last year are as follows:

- Ammonia nitrate decreased by 5 percent to 15,165 rubles per 1 MT;
- Carbamide increased by 12 percent to 20,224 rubles per 1 MT;
- Potassium chloride increased by 17 percent to 15,101 rubles per 1 MT;
- Azophoska (nitrogen, phosphorus, potassium compound fertilizer) increased by 16 percent to 22,766 rubles per 1 MT; and
- Ammophos (compound fertilizer) increased by 28 percent to 30,940 rubles per 1 MT.

Uses of agrochemicals are likely to decrease in 2016, possibly leading to the deterioration of the overall Russian phytosanitary situation. In 2014, farmers had already begun to feel a budgetary pinch and as a result had cut back on purchases of adequate, quality agrochemicals. Most agrochemicals are imported, and given the softening of the ruble compared to the U.S. dollar and the Euro, prices of imported chemicals rose significantly. According to the Ministry of Agriculture, on February 1, 2015 the price of “Roundup” increased by 44 percent from February 1, 2014 to 340 rubles per liter and the price of “Betaren Express AM” increased by 36 percent to 1,039 rubles per 1 liter. At these prices, farmers will not be able to purchase the necessary chemicals, which may result in a real threat to all crops, including the sugar beet crop, in 2016.

However, industry analysts report that farmers who are vertically integrated with sugar processors will have adequate access to seeds, chemicals and fertilizer because most of planting seeds and chemicals were purchased in the fall 2015 when prices were not as high. The Minister of Agriculture, Alexander Tkachyov, reported in late March that use of fertilizers is 7 percent higher this year than during the same period in 2015, and the use of fuel and lubricants is up by 12 percent.

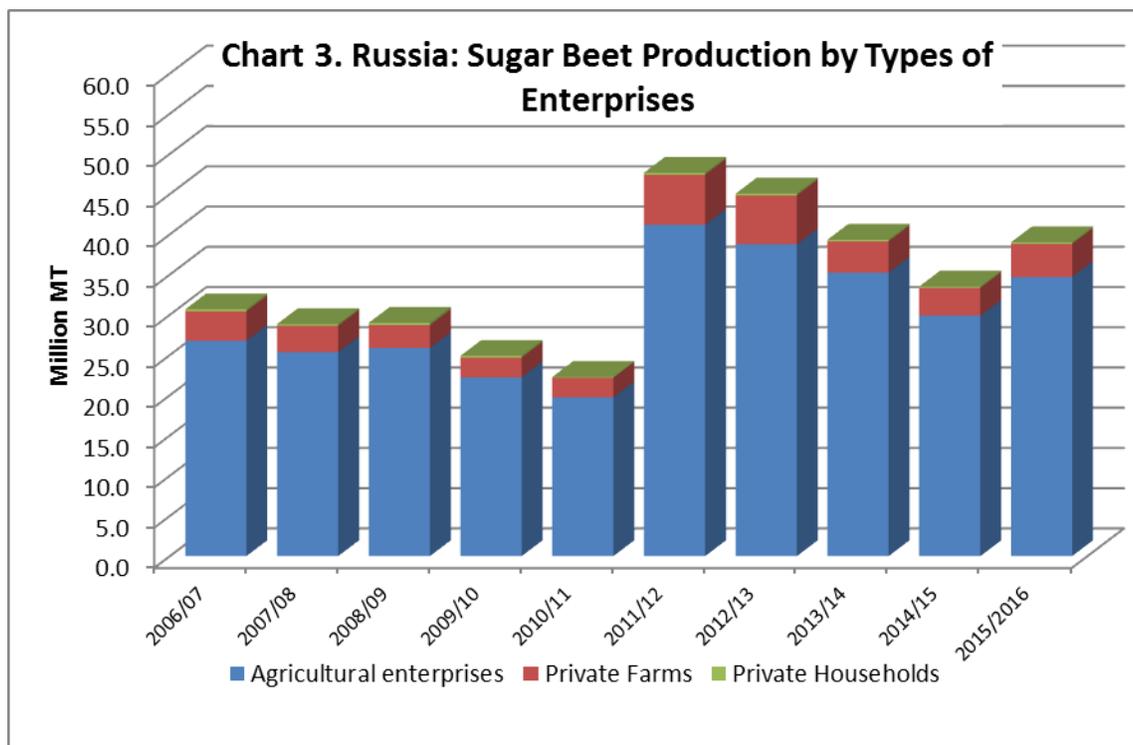
Also the Russian Federal Antimonopoly Service (RFAS) reported that in mid-March the average 2016 price for complex fertilizers increased by no more than 5 percent compared to November 2015. In addition, reportedly some local provinces are planning to support their producers through interest rate subsidies. They are also reportedly considering a long-range investment in the domestic production of sugar beet seeds. However, industry analysts are skeptical that government support will be sufficient to cover all these increasing costs.

According to industry analysts, sugar beet processing in 2015/2016 decreased when compared to the previous season. Losses during storage and transportation decreased by 6.7 percent and losses during processing decreased 4.1 percent. These improvements are attributable to earlier processing, particularly in the southern and central federal districts, as well as the resumption of operations at two more plants in Krasnodar and Kursk provinces.

2015 Crop

According to official data, the area sown to sugar beets in 2015 in Russia is 11.3 percent higher than the previous year, or 1,021,800 hectares. Relatively favorable weather during harvest, larger sown area, and better yields, resulted in a 16 percent increase in production volume compared to the 2014 crop.

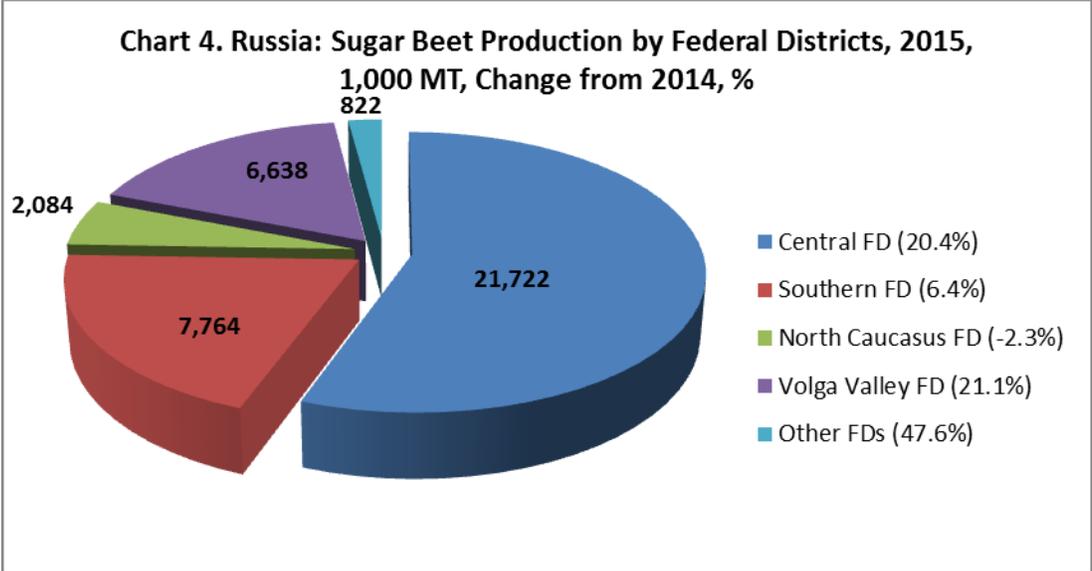
Sugar beet production is concentrated among agricultural enterprises, which account for more than 89 percent of the 2015 sugar beet crop, which is about the same as in 2014. Further consolidation is likely to continue over the next 5 years. The share of sugar beet production on private farms has stabilized since 2014, and is estimated at 10 percent of the total sugar beet crop. The share of production among private back-yard households in the last 5 years never exceeded 0.5 percent of total production. Industry reports that some farmers specifically those located near processing factories may increase sowing areas to sugar beets due to increasing prices and improved yields.



Source: Rosstat

The Central federal district of the Russian Federation remains the major producer of sugar beets, followed by the Southern federal district and the Volga Valley federal district. Weather was relatively stable in the Central and Volga Valley federal districts, and yields for beet crops there increased from 35.5 MT/HA and 28.74 MT/HA in 2014 to 39.13 MT/HA and 31.05 MT/HA, respectively. However, bad weather affected yield in the Southern and North Caucasus federal districts in 2015. As a result, the yields were lower than in 2014 (44.91 MT/HA vs 47.63 MT/HA) in the Southern FD and North Caucasus regions, where farmers get the highest yields, 49.09 MT/HA in 2015, compared to 57.58 MT/HA in 2014. Nevertheless, an increase in sugar beet area allowed farmers in the Southern federal district to increase production of sugar beets to 7.76 MMT in 2015, compared to 7.30 MMT in 2014. Farmers in the North Caucasus federal district decreased from 2,13 MMT in 2014 to 2,084 MMT in 2015.

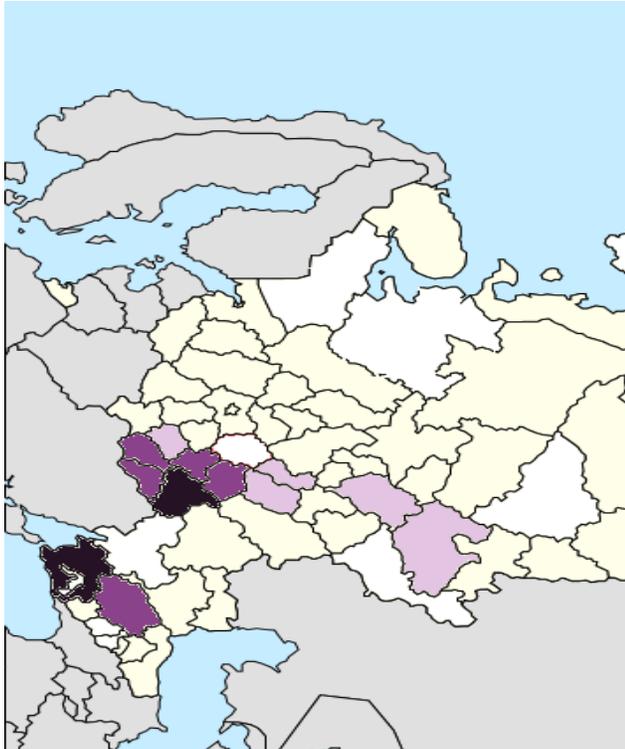
According to the Institute for Agricultural Market Studies (IKAR), sowing area for sugar beets in 2016 will expand to 1.05 million hectares or 6 percent more than the area sown in 2015. They also forecast that the greatest expansion in area sown will be seen in Krasnodar, Lipetsk, Tambov, Belgorod, Orlov and Saratov provinces.



Source: Rosstat (done)

Twelve Russian provinces produce 91 percent of the sugar beet crop. All these provinces are located in European Russia. The major sugar beet processing facilities are also located in these provinces: 70 out of 82 Russian sugar plants are located in these provinces. According to SoyuzRosSakhar, the Russian Association of Sugar Processors and Traders, 72 out of 76 processing plants have been operating in MY2015/2016, 4 processing plants were on hold due to lack of raw material.

Chart 5. Sugar Beet Production by Provinces, 2015



Light purple 2.0% – 5.0% of total production
 Purple 5.0% - 10.0%
 Dark purple >10%

Highest Sugar Beet Production in 2015

1. Krasnodar kray – 18.41 percent (16 plants)
2. Voronezh oblast – 12.6 percent (9 plants)
3. Kursk oblast – 8.6 percent (9 plants)
4. Tambov oblast – 10.7 percent(5 plants)
5. Belgorod oblast - 10.4 percent (9 plants)
6. Lipetsk oblast – 6.7 percent (6 plants)
7. Stavropol kray – 4.0 percent (1 plant)
8. Orel oblast – 4.4 percent (4 plants)
9. Tatarstan Republic – 5.2 percent (3 plants)
10. Penza oblast – 3.9 percent (3 plants)
11. Bashkortostan Republic – 3.3 percent (4 plants)
12. Mordovia Republic – 2.3 percent (1 plant)

Source: FAS/Moscow based on Rosstat data

Consumption:

FAS/Moscow estimates that in MY 2015/16, nearly 38,000 MMT of beets from the 39.0 MMT beet crop were processed into 5.2 MMT of raw sugar.

FAS/Moscow forecasts that given the 42 MMT sugar beet crop projected for MY 2016/17, 41.2 MMT of this crop will be processed. Given the unpredictable weather that affects not only the weight of the harvested beets, but also the sugar content, FAS/Moscow forecasts an average extraction rate of sugar from beets at the lower end, approximately 12-14 percent. Thus, sugar production from beets in MY 2016/17 is forecast at 5,320 MMT. This production would meet approximately 90 percent of the forecasted raw sugar consumption in 2016/17. If realized, this production would exceed the 80 percent goal of self-sufficiency stated in Russia’s Food Security Doctrine.

Industry analysts estimate that at present, Russian processors are able to process approximately 40 MMT of sugar beets. Sugar beet processing during the period from 2011 through 2014 was within this capacity. There are 79 sugar plants registered in Russia, and they are located in 22 provinces of the

Russian Federation¹. However, industry analysts estimate that in 2015/16, only 72 plants were productive, and these sugar plants were also located in the major sugar beet producing areas. Most of these plants were modernized during the period 2011/12-2013/14. This modernization not only increased the efficiency of processing, but also decreased sugar beet losses and deterioration of beet quality during storage and processing. Industry analysts estimate that, given the good quality crop and high sugar content, the sugar output from beets may reach 15 percent at some of the “modernized” facilities. This compares with a sugar output of 12-13 percent several years ago. However, the current economic problems in Russia and the soft ruble will make large scale further modernization of sugar processing facilities in 2016/2017 unlikely.

Policy:

Development of the sugar industry is part of the State Program on the Development of Agriculture 2013-2020 (The Program). The Program sets a target of 41 MMT for sugar beet production by 2020, in order to meet the Russia’s Food Security Doctrine goal of 80 percent self-sufficiency in sugar. In 2011 and 2012, production surpassed this target, with domestic sugar beet production at 47.6 MMT and 45.1 MMT respectively. Industry analysts link the achievements of the sugar industry in exceeding these targets primarily to the favorable market situation (prices) and to weather, rather than to government support. The role of market prices may be demonstrated in 2015/16, and the effect of increased prices of beets (see Chart 1) may again result in an increase in sown area and production in 2016.

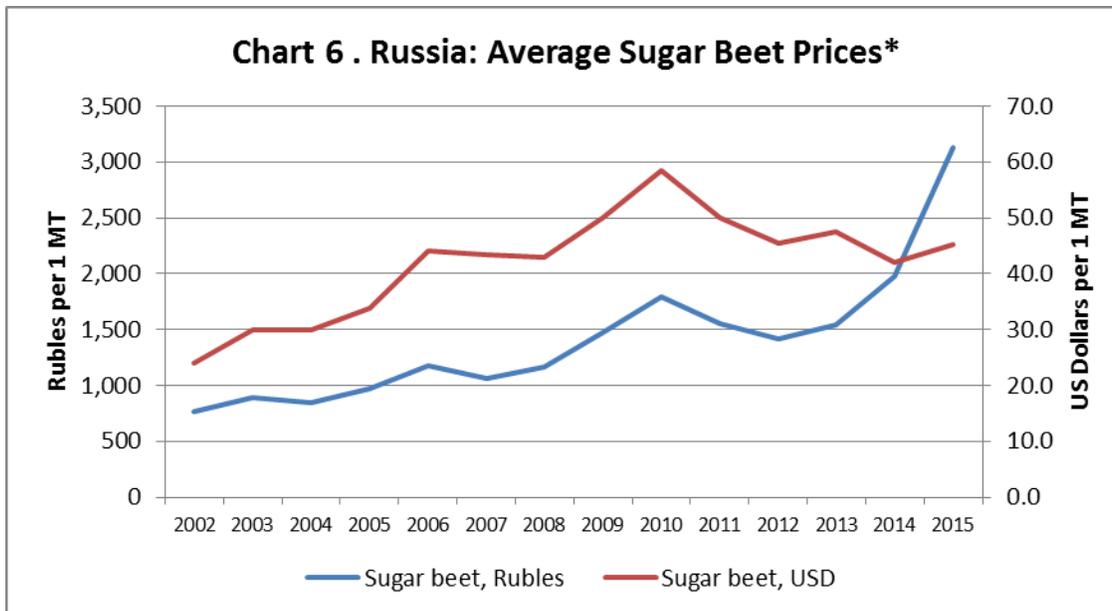
In June 2013, the Russian Ministry of Agriculture adopted the Target Program “Development of Sugar Complex of the Russian Federation in 2013-2015” in implementation of The Program 2013-2020. The Sugar Complex Development Program repeats the target of the food security doctrine, envisages support of processors for procurement and processing of sugar beets, and support of investment loans through interest rate subsidies². The cost of the program is estimated at 56.7 billion rubles. However, the state support of this program is small, and only 7 billion rubles were specifically allocated for this program from both the federal and provincial budgets combined in 2013-2015.

Given that budgets are very tight, it is unlikely that in 2016 the sugar beet complex will receive significant funds, and incentives to increase production of sugar beets will be based not on budget support but on domestic demand for beets and on prices. Chart 6 shows how the price of sugar beets changed from 2002 to 2015 in rubles and calculated in U.S. dollars. In the fourth quarter of 2015, the price of sugar beets was 3,134 rubles per 1 MT, while in the same period in 2014 the average price of sugar beets was only 1,971 rubles per 1 MT.

Meanwhile, in U.S. dollars the price in the last quarter of 2015 decreased from \$47.6 per 1 MT to \$44.5 per 1 MT, due to the continued softening of the ruble. During the period January to February 2016, the very small remaining quantities of sugar beets were marketed, and the ruble price for these remaining 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.

¹ <http://rossahar.ru/Sugar-factories-in-Russia-and-CIS/Russia/>

² More on this Program is in FAS/Moscow [Sugar Annual 4-14-2014.pdf](#)



Note: The bulk of sugar beets in Russia are sold to processors between October and December, and data in the chart above are average sugar beet prices during the October to December period. The prices, in U.S. dollars, are calculated based on the average exchange rate in the IV Quarter of each year.

Source: Rosstat, FAS/Moscow calculations based on Russian Central Bank's exchange rate.

Commodities:

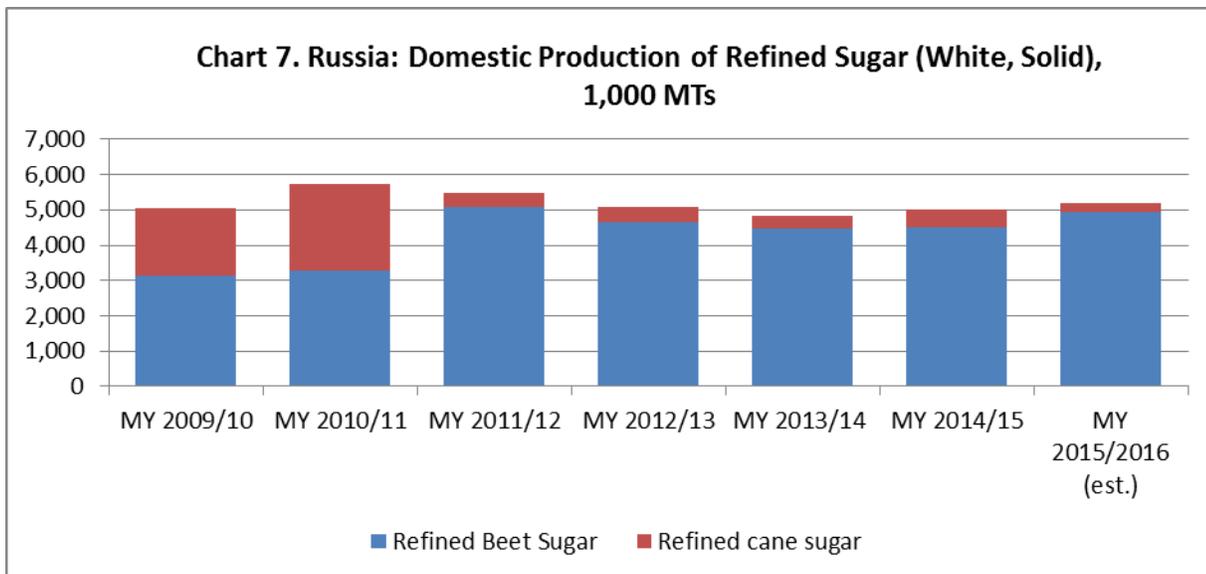
- Sugar, Centrifugal

Production: Sugar

FAS/Moscow forecasts that in MY 2015/16 Russia will produce 5.2 MMT of sugar (raw equivalent) from sugar beets, 16 percent higher than 2014/15. Industry analysts estimate Russia's refined sugar production from sugar beets in MY 2015/16 at the same level and report that by March 9, 2016, Russian plants produced 5.178 MMT of raw sugar from sugar beets. Higher production of raw sugar in 2016 is attributable to a 15 percent increase in the 2015 sugar beet crop compared to the 2014/2015 crop, as well as higher sugar content in beets, decreased loss and improvements made in storing and processing.

The gap between domestic production of raw sugar and consumption is filled by imports of raw and white sugar (in raw equivalent). FAS/Moscow forecasts imports of sugar at 750 MMT, about the same level compared to the estimated 700 TMT in MY 2015/16. These imports will include 250 MMT of raw cane sugar and 500 MMT of refined sugar in raw equivalent.

According to Rosstat's reporting on production of white (refined) sugar, during the period September 2015 through February 2016, Russian plants produced 4,702 MMT of white sugar. Rosstat stopped separating sugar from beets and sugar from cane beginning December 2014. FAS/Moscow estimates sugar production in MY 2015/16 at 4,950 MMT, including 4,700 MMT of sugar from sugar beets and 250 MMT from raw cane sugar. The share of raw cane sugar will continue to contract as imports are estimated to decline drastically (see Chart 7).



Source: FAS/Moscow calculations based on Rosstat data

According to analysts, one of the largest sugar beet processors, “Sucden,” processed 2.4 MMT of sugar beets, or 38 percent more than in 2014/2015, due to the higher sugar content. Favorable weather provided better yields and allowed for improved storage of sugar beets. In addition, according to the same source, the company experienced no deficit in raw material. However, the volatility of exchange rates affected market prices and demand causing instability.

Another large sugar producer, ProdImpex, noted a favorable and successful season for the company with improved average yields, high sugar content of beets, and an increase in the production of sugar. Our source also noted an improved mechanism in subsidy payments, specifically on investment credits. However, the same source mentioned that there were delays in receiving subsidies for short term credits for purchasing raw material. Analysts report that one of the largest agricultural holdings “RusAgro” experienced a 17.4 percent increase in net profits in 2015, primarily due to the profitability of the company’s sugar segment. Analysts report that in 2015, prices for sugar increased by 40 percent and the rate of production also increased. The sugar sector was more lucrative in 2015, compared to other sectors; because the domestic price for sugar is not volatile, but generally is aligned with the world price. In addition, the raw material for sugar production, domestic sugar beets, is not impacted by ruble devaluation.

Market analysts report that due to continued growth in inputs (sugar beets for sugar production), the soft ruble, increasing domestic consumption, as well as consolidation of the sector, traditional failure for wholesale prices for sugar in August-November 2015 was moderate. Analysts also report that sugar prices in wholesale and retail markets during the season were stable, due to decreasing purchasing volumes of more expensive imported raw sugar during the processing season. Thus, the Ministry of Agriculture reported that at the end of December 2015, average producers’ price for white sugar was 42.6 rub/kg, which is about 15.7 percent higher than in the same period of 2014. The average retail price was reported at 52.3 rub/kg, or 10 percent higher than the average price in the same period in 2014.

The selling ruble price for white sugar produced in Russia this season has been high, but low in dollars. Because the current dollar rate is high, purchasing is constrained, even for clients using reciprocal payments. However, most industry sources report that despite the ruble devaluation and increasing cost of the product, the profitability of the sugar processing business has increased slightly in comparison with other seasons due to increases in processing volumes and higher prices for sugar.

Sugar Standards

Customs Union (CU) Resolution No. 880 of December 2011, includes a list of voluntary standards (GOSTs) to ensure compliance of sugar products with the CU Technical Regulation “On Food Safety” (for more information see FAS/Moscow GAIN report on [Customs Union Technical Regulation on Food Safety](#)).

Other Sweeteners

There are no official data on the production or consumption of sugar sweeteners in Russia. Industry analysts estimate that the 2015 market capacity in Russia is about 44,000 MT. The market is forecast to increase, on average, 3.5 percent annually. Consumption of artificial sweeteners is expected to increase based on changing habits and perceptions about a healthy diet. Additionally, expansions of the confectionary sector and the food and beverage industry, as well as an increase in the number of people with diabetes, are all expected to increase the demand for sweeteners. SoyuzRosSakhar called for a promotional campaign for natural sugar based products, since “consumption of artificial sweeteners may have a negative effect on human health.”

Russia’s domestic production of glucose-fructose syrups has also been increasing and reached (SoyuzRosSakhar estimate) 0.5 MMT in 2013. The largest producer of these products is Cargill at the Efremovsky plant in Tula oblast in the Central FD. Industry analysts consider that Russia exports most of these products.

However, the current economic situation, tight financial conditions, the soft ruble and an expected decrease in demand for food containing imported ingredients, may curb domestic consumption of artificial sweeteners and switch consumer demand to natural sugar. This tendency, however, may not affect domestic production of artificial sweeteners, like glucose-fructose syrups, for exports, because the soft ruble makes exports more attractive than sales in the domestic market.

Sugar Industry by Products

Sugar beet pulp is 80-82 percent of the mass of processed beets and is used as feed for cattle. According to the Russian Sugar Union, Russian production of beet pulp pellets in CY 2015 is estimated at 1,014 MMT. In 2015, 80 percent of the total production was exported. The largest importer of beet pulp is the Netherlands, taking 221,186 MT of Russia’s exports, followed by Latvia with 151,906 MT and Turkey with 139,802 MT. According to the same source, production of beet molasses is 1.254 MMT in CY2015. Russia exports between 30 to 40 percent of its molasses production. Turkey is the largest export destination for the Russian beet molasses, accounting for almost 60 percent of total Russia exports in CY 2015.

Consumption:

Domestic consumption of sugar has been influenced by the Russian economic situation in 2014 and 2015. The economic crisis started with a sharp depreciation of the ruble in November and December 2014, followed by high ruble volatility, accelerated inflation, and increased interest rates. Total consumer expenditures fell by 9.9 percent in 2015 as GDP dropped 3.7 percent and real disposable income fell 4 percent.

However, sugar is categorized as a staple product, and human consumption of sugar may increase during periods of economic crisis. FAS/Moscow forecasts domestic human consumption of sugar to increase in MY 2016/17 to 5,880 MMT compared with the estimated 5.8 MMT in MY 2015/2016, and 5.7 MMT in MY 2014/15. The forecast increase in sugar consumption is due to expected increase in homemade jams and preserves, as well as increased 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. The largest sugar consumption is likely to occur during the high-tourism period of May-September. Increasing purchases of sugar from the confectionary and food processing sectors may lead to an increase in the price of sugar. However, industry analysts do not expect significant increases in the domestic price of sugar because of record stocks. Most likely, price increases will be tied to ruble devaluation and a final increase in demand for sugar.

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: Raw Sugar

Russia's imports of raw cane sugar is estimated to decrease drastically in MY 2015/16 and continue to be flat in MY 2016/17 because of the good domestic sugar beet crop in 2015 and the good crop forecasted for 2016. However, imports of raw cane sugar decreased slightly in MY 2014/15 to 600,000 MT. There are no official data yet on raw cane sugar imports in MY 2015/16, but data for the first four months of MY 2015/16 (October 2015 – January 2016) show that Russia imported nine times less raw cane sugar than in the same period the year before. This decrease in imports may be attributable to the soft ruble, record harvest of sugar beets and improved processing. However, some stabilization of the ruble in March and April may stimulate imports.

FAS/Moscow estimates imports of raw cane sugar in MY 2014/15 at 250,000 MT, and forecasts an increase in MY 2015/16 to 300,000 MT. Brazil remains the major supplier of raw sugar to Russia.

Table 4 Russia: Imports of Raw Cane Sugar (170111, 170113, 170114), MT

	2010/11	2011/1 2	2012/1 3	2013/1 4	2014/201 5	Oct. 2014 - Jan.201 5	Oct. 2015 - Jan. 2016
World	2,258,77 3	446,10 0	473,78 4	690,29 1	606,576	255,453	27,136
Brazil	1,954,78	313,42	345,95	500,94	436,745	230,265	

	8	0	6	4			
Cuba	45,800	61,459	23,000	120,438	134,775		
Thailand	123,566	43,751	32,483	21,017	22,000	22,000	
Guatemala	64,146		23,000	19,677			
Argentina	20,500			18,000			
Mauritius	5,786	5,081	5,475	4,751	3,058	1,347	569
Colombia	857	2465	3149	3795	2,410	1,225	892
Other	43,330	19,353	695	685	18,336	271	

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 500,000 MT (raw equivalent), and estimates imports of refined sugar in MY 2015/16 at 450,000 MT. In October 2015 through January 2016, Russia imported 190,484 MT of refined sugar (HS Numbers 170191 and 170199), almost 60 percent more than in the same period last year. The bulk of these imports come from Belarus (about 88 percent). Other suppliers of refined sugar to Russia are Poland and Brazil.

Table 5. Russia: Imports of Refined Sugar (HS numbers 170191 and 170199), MT

	2010/11	2011/12	2012/13	2013/14	2014/15	Oct. 14 – Jan. 15	Oct. 15 – Jan. 16
World	86,317	56,053	76,397	283,489	427,224	114,361	190,484
Belarus	255	6,341	11,605	180,581	368,564	94,538	168,523
Moldova	25,332	2,552	1,914	47,053	0	0	0
Poland	13,276	30,325	26,166	19,856	18,446	5,738	7,759
Brazil	24,038	4,251	8,370	16,036	14,588	5,448	8,735
Lithuania	1,383	14,636	18,014	11,803	19,263	7,128	3,632
India	729	152	152	1,563	0		0
Finland	492	415	497	515	486	219	145
Mauritius	803	931	816	496	110	92	3
Denmark	353	492	448	420	140	60	158
Germany	2,221	362	316	221	147	37	54
France	9,471	80	56	340	1627	69	76
United States	397	394	511	304	299	102	98
Colombia	1,060	110	27	0	66		0

Source: Russian Customs

Trade Policy

The variable scale of import duties was adopted by the GOR in 2004 and is a unique tool which allows for smoothing of sharp fluctuations in the price of sugar in the world market. In April 2016, the average

price of raw sugar on the New York Mercantile Exchange ICE was \$340.14/MT. In accordance with the current procedures, the import duty on raw sugar in the countries of the Customs Union in April 2016, will be \$240/MT. The rate of import duties on raw sugar in May 2016 will be down to \$227 per MT. The rate of import duties on raw sugar varies in the range of \$140-260 per 1 MT³.

In accordance with the Agreement on the Free Trade Zone (which includes nine Former Soviet Union countries except Georgia, Azerbaijan, Turkmenistan, and the Baltic Republics) of October 18, 2011, (article 2), Russia can import sugar, duty-free, from all of these countries except Ukraine. Imports of white sugar from Ukraine (HS Code 1701 99 100) to the Republic of Belarus, Republic of Kazakhstan and Russian Federation is subject to an import duty of \$340 per 1,000 kg. This import duty will be in effect until some date in the future that will be “agreed upon on by mutual consent.” In turn, Ukraine will apply a 50 percent import tariff on white sugar (code 1701 99 1000) imported from Belarus, Kazakhstan and Russia for the period “agreed upon on mutual consent.” So far no agreement on this issue has been reached.

Exports: Refined Sugar

Russia’s exports of sugar will remain very low despite the soft ruble. Russia previously was a major exporter of sugar to the CIS countries, but these countries began developing their own production of sugar, and exports decreased. From October 2015 to January 2016, Russia exported 4.308 MT of refined sugar, about the same as in the same period last year. Belarus is the largest export destination with 435 MT of refined sugar, followed by Abkhazia (397 MT) and Mongolia with 351 MT.

Table 6. Russia: Exports of Refined Sugar (170199)

	2010/11	2011/12	2012/13	2013/14	2014/15	Oct. 2014 - Jan.2015	Oct. 2015- Jan. 2016
World	16,897	78,058	6,140	3,013	8,395	4,410	4,308
Abkhazia	399	1,914	1,133	831	458	155	397
Mongolia	743	600	844	792	702	288	351
Kazakhstan	0		572	471	3,858	3,459	234
South Ossetia	5	0	174	466	519	197	241
United States	119	269	335	155	143	51	25
Uzbekistan	3,198	6,553	54	87	106	43	29
Belarus	0	0	49	62	333	138	435
Turkmenistan	1,031	11,323	14	11	9	3	4
Kyrgyzstan	4,246	12,508	832	6	18	15	3
Other	11,015	7,156	13,730	2,133	131	51	88

Source: Russian Customs

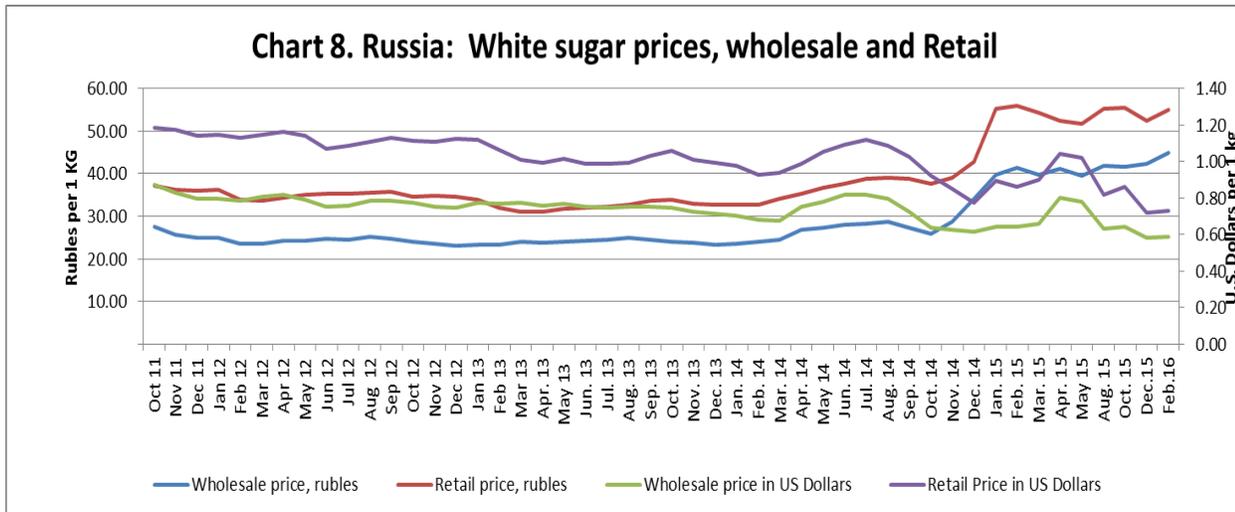
Marketing:

Russia’s domestic prices of white sugar (both wholesale and retail) reached the highest point in January 2015. The worldwide drop in the price of sugar is attributable to the strengthening dollar to most commodities, including sugar. In addition analysts report that for the last five seasons, worldwide

³ On August 22, 2012, Russia acceded to the WTO. In accordance with the commitments made upscale customs duties on raw sugar during the period from September 2013 to September 2014 were adjusted from \$270 to \$250 per 1 MT. Currently within the Common Customs Tariff of the Eurasian Economic Union (ETT EAEC), in respect of raw sugar a variable scale of import duties in the range of \$140-\$250 per MT is valid. Detailed text ETT EAEC can be found here:

<http://www.eurasiancommission.org/ru/act/trade/catr/ett/Pages/default.aspx>

production of sugar has been above total consumption and inventories are at high level in Russia, Belarus, Ukraine and Moldova. Starting in February 2016, Russia began to reflect the downward trend in prices. Analysts estimate that the low peak in the price for sugar will be in July, with traditional failure in prices until September-November 2016. Starting from November the prices for refined sugar are forecasted to rebound.



Source: Russian Ministry of Agriculture, Price in U.S. Dollars is calculated based on the Central Bank’s exchange rate.