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Sugar Semi-annual

Sugar Semi-Annual 2015

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Report Highlights:
FAS/Moscow increased its forecast of Russian sugar beet production in 2015 from the April 2015 forecast by 1 million metric tons (MMT) to 39 MMT. Increased domestic supply of sugar beets will result in higher domestic production of white sugar from beets (beet sugar). FAS/Moscow increased its forecast of Russia's beet sugar production to 4.7 MMT, an 8.0 percent increase over last year's level, estimated at 4.35 MMT. FAS/Moscow forecasts sugar consumption in MY 2015/16 at 5.8 MMT, and imports of raw and refined sugar at 1.15 MMT. Changes in truck transportation regulations are creating some challenges for beet sugar factories.
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General Information
NOTE: USDA unofficial data excludes Crimean production and exports. However, as of June 2014, Russian official statistics (ROSSTAT) began incorporating Crimean production and trade data into their official estimates. Where possible, data reported by FAS Moscow is exclusive of information attributable to Crimea.

Executive Summary:
FAS/Moscow increased its forecast of Russian sugar beet production in 2015 from the April 2015 forecast by 1 million metric tons (MMT) to 39 MMT. This increase is due to an increased sown area. According to official data, total area sown to sugar beets for the 2015 crop is 1.02 million hectares, an 11 percent increase from last year, and 6 percent higher than the April 2015 forecast.

The sugar beet harvest in the Central Federal District (FD), Russian's major sugar beet producing area, started in mid-August, a week later than usual, due to heavy rains in European Russia. However, in September the speed of harvesting picked up, and as of September 29, 2015, farmers harvested 16.9 MMT of sugar beets from 446,600 hectares (almost 44 percent of the planned harvest area). Data for 2014 shows that farmers harvested 14.88 MMT of beets from 407,100 hectares during the same period in 2014. As of September 29, 2015, the average sugar beet yields were 37.87 MT/HA, compared with 36.56 MT/HA for the same period in 2014.

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 2015 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 sugar beet crop resulted in huge losses of beets on the field. Assuming minimal losses and a larger beet crop than last year, FAS/Moscow forecasts the total utilization of sugar beets for sugar at 39 MMT.

Table 1. Russian Sugar Beets: Area, Production, and Utilization (1,000 HA, 1,000 MT)

Sugar Beets	2013/2014		2014/2015		2015/2016	
Market Begin Year	Sep 2013		Sep 2014		Sep 2016	
Russia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	904	904	919	919	960	1020
Area Harvested	889	889	906	906	950	1020
Production	39321	39321	33513	33513	38000	39000
Total Supply	39321	39321	33513	33513	38000	39000
Utilization for Sugar	39321	39321	33513	33513	38000	39000
Utilizatn for Alcohol	0	0	0	0	0	0
Total Distribution	39321	39321	33513	33513	38000	39000
(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 4.7 MMT, an 8.0 percent increase over last year's production, which FAS/Moscow estimated at 4.35 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 will increase. In the 2015 Sugar Annual report, FAS/Moscow increased sugar domestic consumption forecast for 2015/16 to 5.8 MMT, and this forecast remains unchanged. The gap between domestic production of beet sugar and consumption was expected to be filled with increased imports. However, due to the soft ruble and financial difficulties faced by many Russian industries, including the refining industry, imports will increase by only 50,000 MT or 4.5 percent from the estimated imports in MY 2014/15.

The forecast consumption of 5.8 MMT in MY 2015/16 is 7.4 percent higher than sugar consumption in MY 2013/14, and 1.8 percent higher than the estimated consumption in MY 2014/15. Until MY 2014/15, human domestic consumption of sugar (Russian beet sugar and imported cane sugar) was decreasing, due to increased consumption of non-sugar sweeteners in the confectionary industry. Thus, in MY 2004/05, this consumption was 6.3 MMT, and decreased to 5.4 MMT in MY 2013/14.

FAS/Moscow forecasts imports of raw cane sugar in MY 2015/16 at 0.7 MMT, 50,000 MT higher than in MY 2014/15, but still 20,000 MT less than in 2013/14. Imports of refined sugar (in raw equivalent) are forecast in MY 2015/16 at 450,000 MT, at the same level as in MY 2014/15, but 50 percent, or 150,000 MT higher than in MY 2013/14 due to increased imports from Belarus, a member of the EAEU[1]. Russia does not export raw sugar, and exports of refined sugar will remain low, approximately 10,000 MT, primarily to some regions of the former CIS countries.

Table 2. Russian Sugar: Production, Supply, and Distribution (1,000 MT Raw Value)

Sugar, Centrifugal	2013/2014		2014/2015		2015/2016	
Market Begin Year	Oct 2013		Oct 2014		Oct 2015	
Russia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	395	395	370	370	200	100
Beet Sugar Production	4400	4400	4350	4350	4500	4700
Cane Sugar Production	0	0	0	0	0	0
Total Sugar Production	4400	4400	4350	4350	4500	4700
Raw Imports	720	720	800	650	900	700
Refined Imp.(Raw Val)	300	300	400	450	450	450
Total Imports	1020	1020	1200	1100	1350	1150
Total Supply	5815	5815	5920	5820	6050	5950
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	30	30	5	10	5	10
Total Exports	30	30	5	10	5	10
Human Dom. Consumption	5400	5400	5700	5700	5800	5800
Other Disappearance	15	15	15	10	0	0
Total Use	5415	5415	5715	5710	5800	5800
Ending Stocks	370	370	200	100	245	140
Total Distribution	5815	5815	5920	5820	6050	5950
(1000 MT)						

[1] EAEU is the Eurasian Economic Union. In addition to Russia, Kazakhstan, and Belarus, Armenia became a member of the Eurasian Economic Union as of January 2, 2015, and Kyrgyzstan joined EAEU on August 12, 2015.

Commodities:
Sugar Beets

Production:
FAS/Moscow increased the sugar beet production forecast in MY 2015/16 from 38 MMT (as reported in the 2015 Sugar Annual) to 39 MMT. According to official data, the area in Russia sown to sugar beets in 2015 is 11.3 percent greater than last year, or 1,021,800 hectares. This is 6 percent higher than FAS/Moscow forecasted in April 2015. However, rainy and cold weather in July and August in the Central Federal District, the largest sugar beet producing area, may decrease sugar beet yields for that region, and will affect Russia's average yield. FAS/Moscow forecast Russia's average sugar beet yield in 2015 at approximately 38 MT/HA, higher than in MY 2014/15 (37.0 MT/HA), but still much lower than in MY 2013/14 (44.2 MT/HA). On the other hand, high demand for sugar beets will likely stimulate both farmers and processors to limit losses and to process all crops.

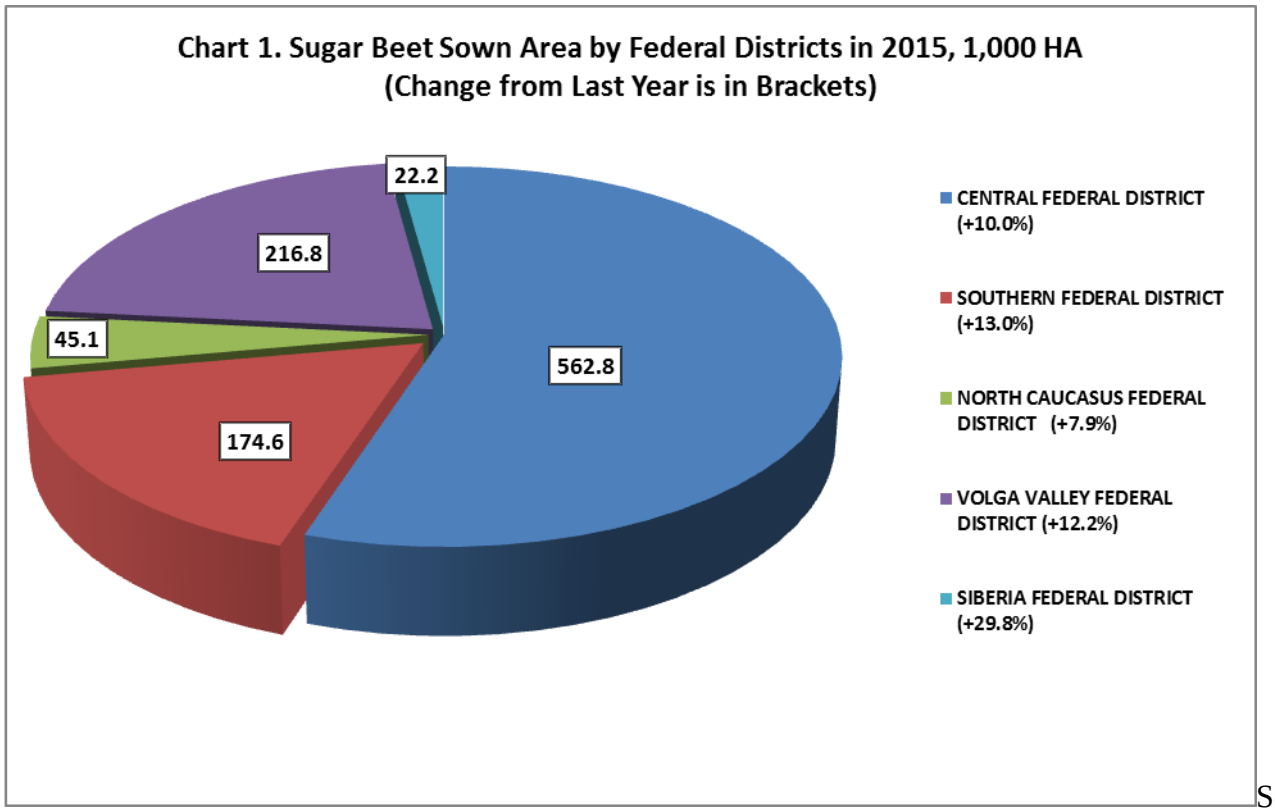
The area sown to sugar beets increased in all major beet producing provinces, although the share of these provinces in the total beet area did not change significantly (Table 3) in 2015.

Table 3. Sugar Beet Sown Area by Federal Districts and by the Major Sugar Beet Producing Provinces in 2012, 2013, 2014, and 2015.

	Sown Area, 1,000 hectares				Share in the total sown area (percent)			
	2012	2013	2014	2015	2012	2013	2014	2015
Russia, Total	1,142.9	905.8	918.2	1,021.5	100.0	100.0	100.0	100.0
CENTRAL FD	627.8	499.6	511.5	562.8	54.9	55.2	55.7	55.1
Including:								
Belgorod oblast	103.4	75.0	68.2	73.0	9.0	8.3	7.4	7.1
Voronezh oblast	148.1	102.4	100.5	114.3	13.0	11.3	10.9	11.2
Kursk oblast	111.9	94.6	100.6	97.4	9.8	10.4	11.0	9.5
Lipetsk oblast	84.1	81.6	88.5	107.6	7.4	9.0	9.6	10.5
Orel oblast	45.2	45.4	49.5	52.8	4.0	5.0	5.4	5.2
Tambov oblast	111.1	87.2	85.9	98.7	9.7	9.6	9.4	9.7
SOUTHERN FD	209.4	142.8	154.5	174.6	18.3	15.8	16.8	17.1
Including:								
Krasnodar kray			137.7	155.2			15.0	15.2
NORTH CAUCASUS FD	51.3	38.7	41.8	45.1	3.4	5.7	4.6	4.4
VOLGA VALLEY FD	235.4	206.8	193.3	216.8	20.6	22.8	21.1	21.2
including								
Bashkortostan Republic	54.4	55.2	50.5	50.7	4.8	6.1	5.5	5.0
Mordovia Republic	21.7	20.3	24.0	24.8	1.9	2.2	2.6	2.4
Tatarstan Republic	61.3	55.3	48.3	57.7	5.4	6.1	5.3	5.6
Penza oblast	58.0	46.8	44.3	47.5	5.1	5.2	4.8	4.7
Ulyanovsk oblast	20.1	14.0	12.9	13.6	1.8	1.5	1.4	1.3

SIBERIA FD	19.0	17.8	17.1	22.2	1.7	2.0	1.9	2.2

Source: State Statistical Service (Rosstat)

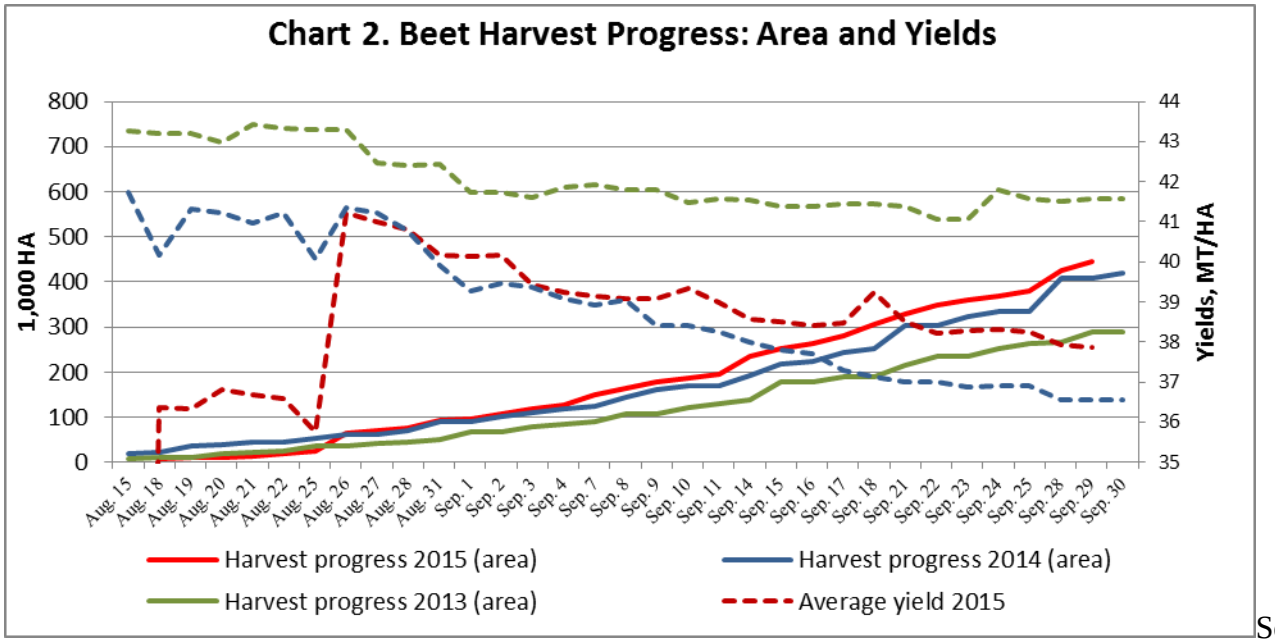


Source: Russian State Statistical Service (Rosstat)

Industry analysts forecast of Russia's sugar beet production in 2015 varies from 38 MMT to over 40 MMT.

Sugar beet harvest progress

Due to heavy rains in Central and Southern European Russia in August, the 2015 harvest began later than in 2014, and the first yields were smaller than last year due to losses. However, by the end of August, the harvest gained speed and in September was moving faster than last year. Russia's average yield for 2015 was also higher than the average yield for the same period in 2014, although yield variability was bigger than in 2014, and depended much more than in 2014 on which fields were harvested on a certain day. The Ministry of Agriculture publishes daily reports of harvest progress for major crops, including sugar beets. Based on these reports, the calculated daily average yield of sugar beets has been very volatile (Chart 2). Usually harvest lasts through October.



Source: Russian Ministry of Agriculture

According to the Ministry of Agriculture of the Russian Federation, as of September 29, 2014, farmers harvested 16.91 MMT of sugar beet from 446,600 hectares (43.7 percent of planned harvest area). Compared to the same data in 2014, farmers harvested 14.88 MMT of beets from 407,100 hectares. On September 29, 2015, the average sugar beet yields were higher than on the same date in 2014 (37.87 MT/HA compared to 36.56 MT/HA), but were lower than in MY 2013/14. 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.

As of September 29, 2015, the status of the sugar beet harvest in the major sugar beet producing federal districts was:

- Farmers in the Central FD, the major sugar beet producing area, harvested 7.93 MMT of the sugar beets from 213,800 hectares (38.0 percent of area planned for harvest in this FD). The average yield of sugar beets in the Central FD as of September 29th was 37.08 MT/HA, compared to 33.41 MT/HA on the same day last year. By September 29st, all sugar processing plants in the Central FD have started working;
- Farmers in the Southern FD, the second largest beet producing area in Russia, harvested 4.44 MMT of beets from 98,400 hectares, or 56.4 percent of planned harvest area. The average yield was 45.12 MT/HA, lower than in 2014, when the average yield on the same day was 47.32 MT/HA. Krasnodar Kray is the major producer of sugar beets in the Southern FD. Its farmers harvested 4.23 MMT of beets as of September 29, 2015. All sugar refining plants in Krasnodar are working at full capacity as of September 29, 2015;
- Farmers in the North Caucasus FD harvested 0.89 MMT of beets from 18,400 hectares, or 40.8 percent of area planned for harvest. The average yield was 48.49 MT/HA, compared to 55.64 MT/HA a year ago. Almost all sugar beets in the North Caucasus FD is grown in Stavropol Kray, and yields in Stavropol Kray are the highest in Russia, but area sown to sugar beets in this province is not significant. As of September 29, 2015 farmers in Stavropol Kray harvested 0.81 MMT of

sugar beets from 16,700 hectares (48.2 percent of planned area with the average yield at 48.66 MT/HA);
- Farmers in the Volga Valley FD harvested 3.26 MMT of beets from 104,600 hectares, or 48.2 percent of area planned for harvest. The average yields were almost the same as last year: 31.21 MT/HA in 2015, compared to 31.49 MT/HA in 2014;
- Farmers in Siberia also started harvesting sugar beets, although the area sown to this crop in Siberia is small. As of September 29, 2015 they harvested 0.39 MMT of beets from 11,400 hectares, or 51.3 percent of area planned for harvest.

Sugar beet processing

The first sugar processing in 2015 started earlier than last year, on July 27th at one plant in Krasnodar Kray, Southern FD. However, most sugar plants in the Central FD, the major producer of sugar beets, started working several days later than last year, because of delays in the harvest. Altogether, industry analysts forecast that 73 sugar refining plants will be working in Russia during the 2015/16 season. This includes two more facilities than in the 2014/15 season. These additional facilities are two plants which have been upgraded in Krasnodar Kray and in Kursk Oblast.

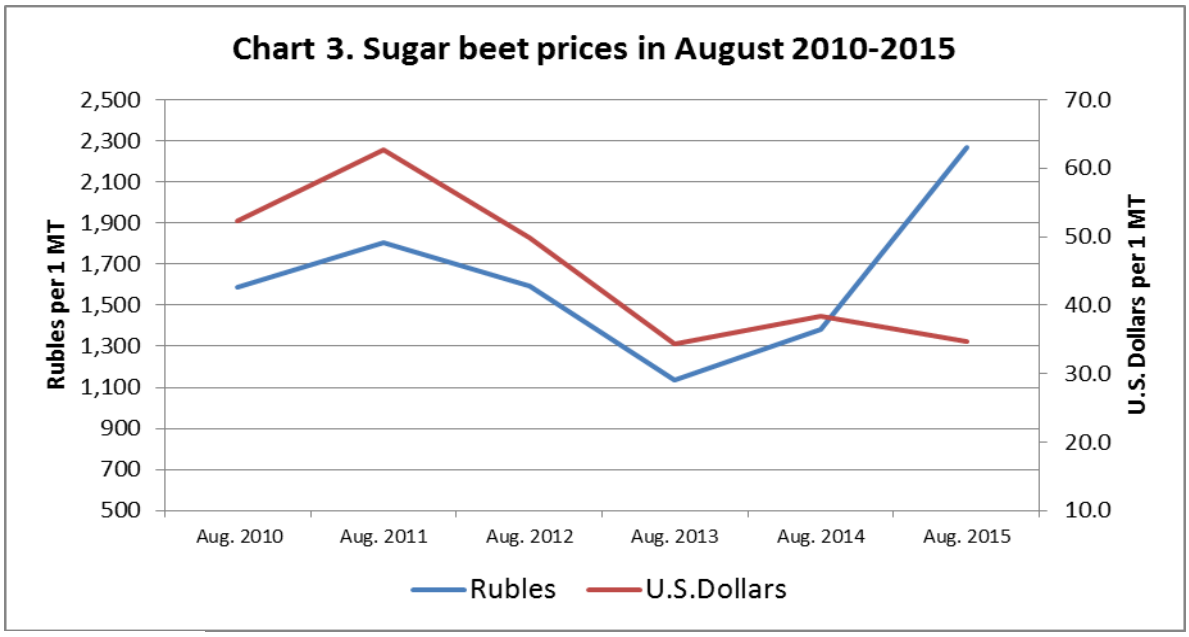
According to SoyuzRosSakhar, the Russian Association of Sugar Processors and Traders, as of September 25, 2015, sugar processing plants have processed already 11.4 MMT of sugar beets and produced over 1.4 MMT of raw beet sugar. On the same date in 2014, 10.4 MMT of sugar beets were processed and 1.2 MMT of raw beet sugar was produced. As of September 25, 2015 69 plants out of 73, have already started processing sugar beets[2].

Prices:

There is no official information on the current sugar beet price in Russia, because Rosstat reports on the prices in the months when product is actually sold, and the data on sugar beets sold to refineries in September has not yet been published. However, the demand for beets is high, and industry analysts report that the current (September, 2015) sugar beet prices vary around 3,000 rubles per MT in the sugar beet producing regions. In the first quarter of 2015, when the last batches of Russian sugar beets were sold, the average price of beets was 2,330 rubles per 1 MT[3]. According to Rosstat data, in August 2015, when the harvest had just begun and only a few plants had begun processing, Russia's average farmers' price of sugar beets was 2,266 rubles per MT. This is lower than the price of sugar beets in the first quarter 2015, but higher than beet prices in any other August in the last 6 years. Due to the devaluation of the Russian ruble, the U.S. Dollar equivalent price was at the lowest level in the last 6 years (Chart 3).

[2] http://www.rossahar.ru/news/news_11011.html

[3] Given the volatility of Ruble, the sugar beet price in the U.S. Dollars changed from $37.5 per MT in the Ist Q 2015 to $46 per MT in September 2015.



Sourec: Rosstat

Transportation factor:
In 2015, problems with transportation may slow sugar refining industries and affect the profitability of these plants. Beginning July 1, 2015, Russian federal law tightened the requirements for permissible per axle load for heavy and oversized vehicles, setting a new limit at 20 MT. According to industry analysts, sugar factories had previously transported sugar syrup in 40 MT tanks, and they do not have 20 MT tanks. This federal law impacts that transportation of not only sugar producers but grain and oilseed producers as well, because grain, oilseeds and sugar syrups are transported in trucks that can carry more than 20 MT of load. The penalty for overloading is five hundred thousand rubles.

Some industry analysts reported that this law has begun to hamper the efficiency of sugar refining factories. For instance, some establishments have not had time to ship molasses (by-product of sugar refining), and warehouse stocks have grown beyond needed quantities. Again, the tanks, in which molasses are transported are designed for 40 ton loads. Filling the tank only half-full shifts the center of gravity and can cause the vehicle to lose balance. This situation has evolved in the middle of the harvest, and some sugar plants that work "from the wheels" may delay or stop transporting raw materials. In addition to the direct expenses caused by either two shipments instead of one, or the payment of fines, there is also an environmental impact. Previously, sugar factories would sell beet cake for use in animal feed. However, now the smaller shipments of this cake are unprofitable and plants are simply disposing of the cakes. This not only creates a new environmental problem, it also eliminates a cheap feed source for livestock producers.[4]

While the industry is carefully watching the ramifications of this new requirement, there have been no reports of plant stoppages.

Commodities:

[4] Source: http://mirnov.ru/rubriki-novostey/ekonomika/sladkaja-zhizn-zakonchilas.html

Sugar, Centrifugal

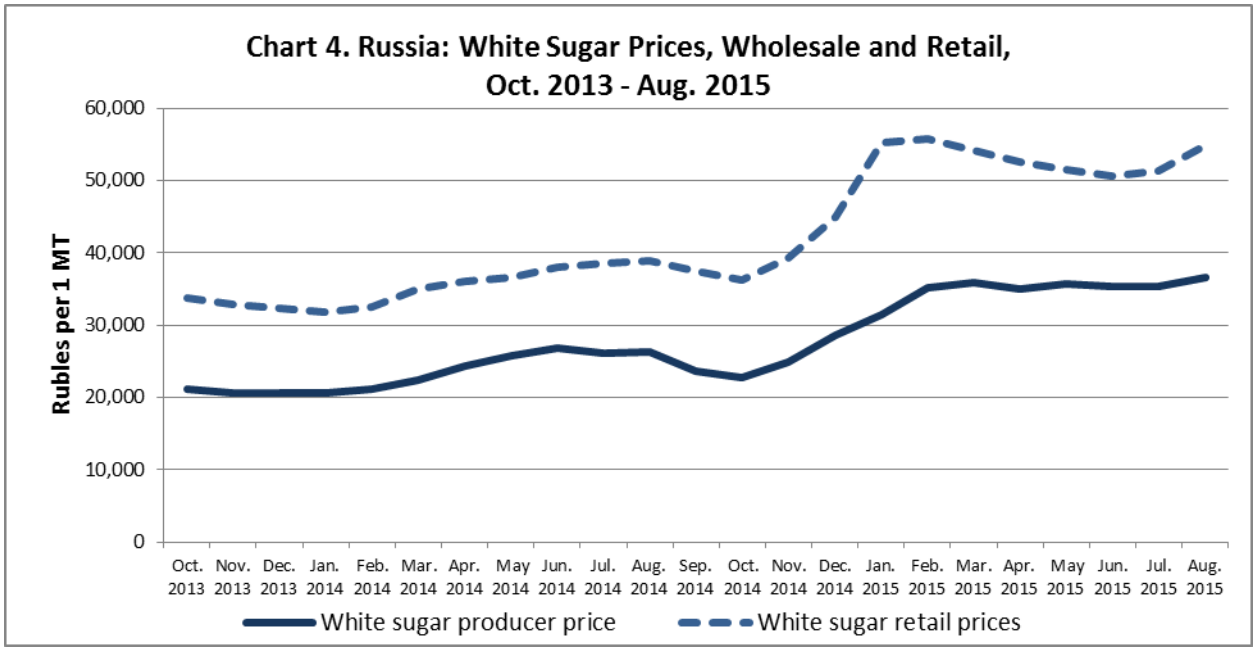
Production:
Sugar beet production is vertically integrated with sugar refineries in most beet producing provinces. On-field losses of sugar beets and losses during transport from the fields to the processing plants are relatively low. The beet crop in 2015 is expected to be higher than last year, but still not enough to meet Russia's demand for white sugar. Given the soft ruble that curbs imports of raw cane sugar, processor demand for 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 on 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 39 MMT.

FAS/Moscow increased its forecast of beet sugar production from 4.5 MMT (2015 Annual Report projection) to 4.7 MMT. This production will be the highest level in the last 3 years, and 8.0 percent more than the estimated production of 4.35 MMT for MY 2014/15. The new forecast is based on increased production of sugar beet, low losses, and continued high efficiency of most of refining plants that are 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.

Analysts' estimates of Russia's production of raw sugar from beets in MY 2015/16 vary from 4.6 to over 4.8 MMT[5].

Consumption:
FAS/Moscow estimates Russian consumption of sugar in MY 2014/15 at 5.7 MMT, and forecast consumption increase in MY 2015/16 to 5.8 MMT. Up to the summer 2014, consumption of sugar in Russia was decreasing due to growth in the confectionary and food processing industries that used alternative, including imported, sweeteners. In many processing technologies, the use of sugar was replaced by the use of different sugar substitutes, including artificial sweeteners and high-energy glucose-fructose syrups. The lack of a growing demand is illustrated by the relative stability of the wholesale sugar prices until May 2014.

[5] Source: http://graintek.ru/uchastniki/media/news/801/



Source: Rosstat

Trade:
Domestic production of beet sugar is the number one factor for trade. However, in MY 2014/15, trade in raw and refined sugar was seriously impacted by the devaluation of the Russian ruble, which affected Russian imports and increased incentives to export. Domestic production of sugar in MY 2014/15 was lower than in MY 2013/14, but imports decreased. Given that human domestic consumption of sugar increased during that same period, stocks of sugar went down. In MY 2015/16, domestic production is forecast to increase. However, high levels of domestic sugar consumption will stimulate traders to keep imports of raw cane sugar at the same, or even slightly higher, level as in MY 2014/15.

Imports
FAS/Moscow forecasts imports of sugar (imports of raw cane sugar and imports of refined sugar in raw equivalent) in MY 2015/16 at 1.15 MMT, only 50,000 MT higher than estimated imports in MY 2014/15. Imports of raw cane sugar are forecast to rise from 0.65 MMT in MY 2014/15 to 0.7 MMT in MY 2015/16, and imports of refined sugar (raw equivalent) will remain the same as in MY 2014/15 – 0.45 MMT.

According to the Russian State Customs Service, in the first 9 months (October – June) of MY 2014/15, Russia imported 563,729 MT of raw cane sugar (Table 4). The major suppliers of raw cane sugar to Russia are Brazil, Cuba and Thailand. Imports decreased by almost 11 percent compared to the same period a year ago, but were higher than in the whole marketing years 2011/12 and 2012/13.

According to official customs data, imports of refined sugar in the first 9 months of MY 2014/15 were 265,335 MT or 288,419 MT in raw equivalent[6]. Russian Customs Service began reporting trade with Belarus, and Belarus in 2014/15 was the major supplier of refined sugar. The share of total Russian imports of refined sugar from Belarus is 84 percent. There are reports that some imports may actually

[6] 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.

come from Ukraine, but are reported as imports from Belarus. Other suppliers of refined sugar to Russia during the period October 2014 through June 2015 were Poland and Lithuania (Table 5).

Table 4. Russia: Imports of Raw Cane Sugar (170111, 170113, 170114), Metric Tons

	2009/10	2010/11	2011/12	2012/13	2013/14	Oct. 2013 - Jun.2014	Oct. 2014 - Jun. 2015
World	1,948,603	2,258,773	445,480	472,727	689,306	635,101	563,729
Brazil	1,636,818	1,954,788	313,420	345,956	500,944	478,944	436,745
Cuba	80,863	45,800	61,459	23,000	120,438	90,438	98,884
Thailand	40,830	123,566	43,751	32,483	21,017	21,017	22,000
Guatemala	64,515	64,146	0	23,000	19,677	19,677	0
Argentina	40,643	20,500	0	1	18,000	18,000	0
Mauritius	3,965	5,786	5,081	5,476	4,751	3,493	2,495
Colombia	11655	857	2466	3148	3795	3025	2906
Other	69,314	43,330	19,303	39,663	684	507	699

Source: Russian State Customs Service

Table 5. Russia: Imports of Refined Sugar (HS numbers 170119 and 170199), Metric Tons

	2009/10	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**10/13 - 06/14**	**10/14 - 06/15**
World	72,663	86,317	56,053	76,397	283,489	201,167	265,335
Belarus	0	255	0	11,605	180,581	131,973	223,455
Moldova	5,742	25,332	2,552	1,914	47,053	28,720	0
Poland	36,570	13,285	30,333	26,175	19,866	18,581	15,645
Brazil	3,786	24,038	4,251	8,370	16,036	8,880	8,013
Lithuania	511	1,383	14,636	18,014	11,803	8,358	14,231
India	0	729	152	152	1,563	1,563	0
Finland	539	492	415	503	516	449	436
Mauritius	1,087	803	931	816	497	450	108
Denmark	759	397	554	476	496	416	120
Germany	575	2,487	588	547	388	345	134
France	90	9,490	96	62	341	64	681
United States	726	397	394	512	306	204	208
Colombia	2,736	1,060	110	27	0	0	266
Belgium	33	225	122	165	2,597	499	374
Ukraine	125	1	21	5,975	0	0	11
Other	19,384	5,943	898	1,084	1,446	665	1,653

Source: State Customs Service

Policy:

The Russian federal budget is tight in CY 2015, and economic problems are expected to continue into 2016. The GOR has declared a policy of import substitution for agricultural and food products as a priority. However, so far there has been little financial support for these priorities. The sugar sector was not listed among the priority agricultural sectors that need additional government support. Thus, in 2014/15 there were no changes in the Russian government policy concerning the Russian sugar industry. The high domestic production of sugar beets in 2011 and 2012 was accompanied with significant crop losses both on farm and during delivery of the sugar beets to processing enterprises. As a result, industry analysts considered that Russia did not need any increase in capacity of sugar beet processing, but rather needs to focus on modernizing existing capacity to increase energy-efficiency, decrease sugar losses, and increase "deep processing." In 2014/15, the general economic situation put a natural lid on investments into expansion of processing capacity. Whoever was able to get money, invested in modernization and the increase of storage capacity of sugar beets, raw sugar, molasses and pulp. Due to the current agricultural budget situation, neither sugar beet producers, nor processors, expect any significant increases in governmental support in the coming marketing year.

Recently the Ministry of Agriculture proposed to increase the sugar self-sufficiency target for 2020 under the Russian Food Security Doctrine from 80 percent to 90 percent (share of domestic production in the total supply). At present, the share of domestic production of the human domestic consumption of sugar is already 80 percent. However, the Ministry of Agriculture's proposal does not point out the sources for such increase of domestic production of sugar. These changes to the Food Security Doctrine have not yet been adopted by the Government.