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Sugar Annual

Sugar Update 2018

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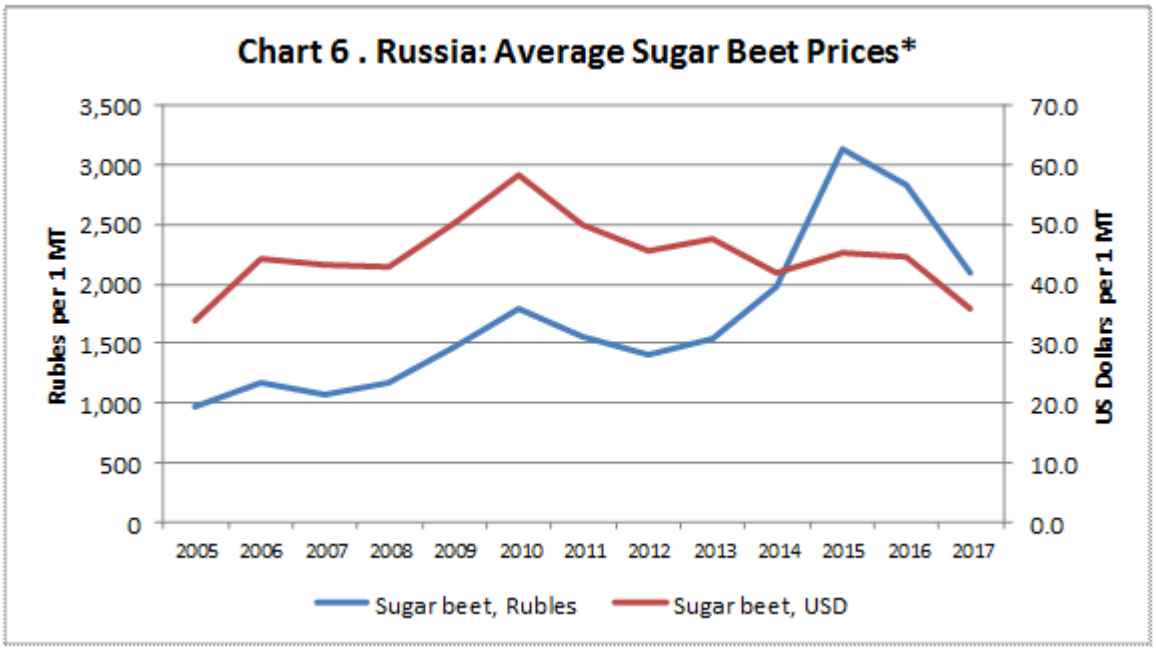
Report Highlights:
FAS/Moscow forecasts Russia's sugar beet production in MY 2018/19 to decrease by just over 3 percent to 47.1 million metric tons (MMT) due to a decline in yields and smaller sowing area for sugar beets. The continued decline in domestic prices for sugar beets will impact profitability of sugar beets for producers and processors in MY2017/18. Sugar production from beets in MY 2018/19 is forecast at 6.4 MMT, 1.5 percent lower than 2017/18. As with sugar beet production, the decrease is attributable to lower sugar beet yields and production forecasted for MY 2018/19 compared to the unusually high crop and yields of sugar beets in the 2016/17 season. Exports of refined sugar (in raw equivalent) continue to grow and are forecast to reach 690,000 MT in MY2018/19, or a 25 percent increase compared to estimated exports in MY 2017/18. Industry sources contend that the main constraint for increasing exports is the lack of infrastructure in Russian ports and insufficient production of high value sugar which foreign markets demand.

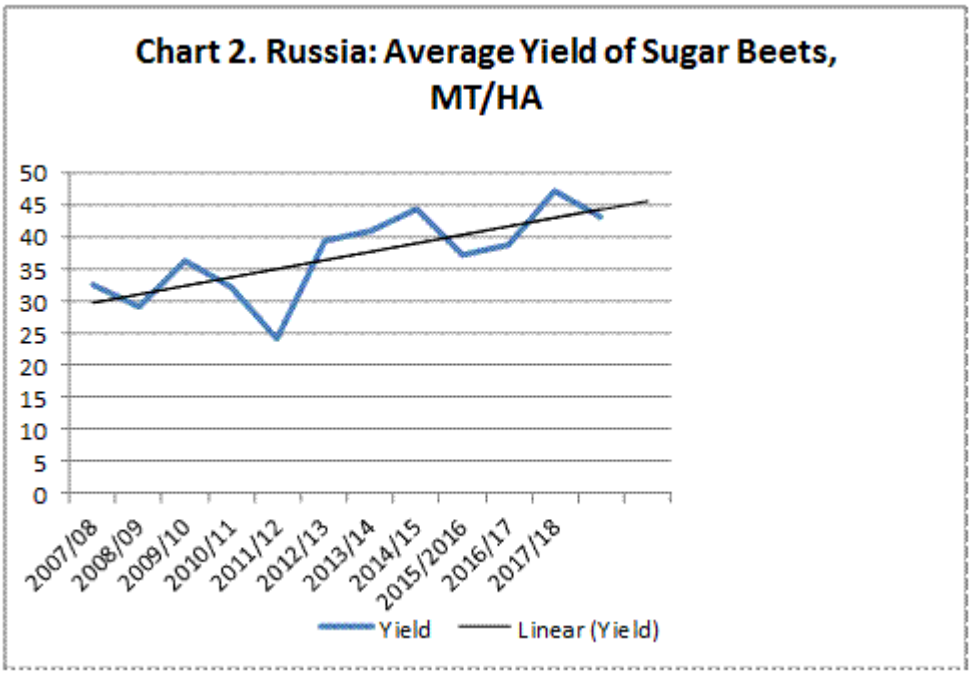
Executive Summary:
FAS/Moscow forecasts Russia's sugar beet production in MY 2018/19 to decrease to 47.1 million metric tons (MMT), or by more than 3 percent compared to the estimated 2017/18 production of 48.6 MMT. A decline in yields in MY2018/19 as well as smaller sowing area for sugar beets are the main factors in decreased production.

FAS/Moscow forecasts that the area sown to sugar beets in 2018/19 will decrease by 100,000 HA to 1.1 million hectares (about 8 percent), from 1.2 million hectares in 2017. The continued decline in domestic prices for sugar beets since the fourth quarter of 2017 (see Chart 6) is unlikely to create incentives for an increase in sown area for sugar beets in 2018.



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 fourth quarter of each year.
Source: Rosstat, FAS/Moscow calculations based on Russian Central Bank's exchange rate.

FAS/Moscow forecasts sugar beet yields at 42.6 MT/HA for MY 2018/19, almost 3 percent lower than the 2017/18 season, but still at a higher than average level. Average sugar beet yields for the five-year period (from 2012-2016) are reported at 41.6 MT/HA (see Chart 2).



Source: Rosstat

FAS/Moscow estimates that in MY 2017/18, nearly 48 MMT of sugar beets will be processed out of the 48.3 MMT beet crop and will produce 6.5 MMT of raw sugar. FAS/Moscow forecasts that given the 47.1 MMT sugar beet crop projected for MY 2018/19, 46.9 MMT of this crop will be processed.

Sugar beet production is concentrated among large-scale agricultural enterprises that account for nearly 88 percent of the 2017 sugar beet crop. Analysts suggest that in five years the sector will be totally consolidated into just a few, large organizations, and individual farmers will not be able to compete. Industry analysts estimate that, given the good quality crop and the expected average high sugar content in the beets, these large-scale, modern plants will be able to realize a sugar recovery rate of 17 percent. However, given the unpredictable weather conditions and the variance in sugar beet size, Post forecasts that the average sugar recovery rate will vary from 12 to 14 percent.

Sugar production from beets in MY 2018/19 is forecast at 6.4 MMT, 1.5 percent lower than the 2017/18 sugar production. This forecasted decrease in sugar production is attributable to lower sugar beet yields and production forecasted for MY 2018/19 compared to the unusually high crop and yields of sugar beets in the 2016/17 season.

FAS/Moscow forecasts that domestic human consumption of sugar will see a slight decrease of 1.8 percent in MY 2018/19 to 6.050 MMT, compared to Post's estimate of domestic consumption of 6.16 MMT for MY 2017/18.

Domestically-produced raw sugar from sugar beets comprised approximately 80 to 85 percent of this consumption. Per capita consumption has been gradually increasing since 2011. According to the Russian Union of Sugar Producers (SoyuzRosSakhar), Russian per capita consumption of sugar in 2018 is estimated at approximately 38-39 kg per capita per year, compared with the world average of 22 kg.

Sugar consumption is underpinned by a tradition of producing homemade preserves and alcohol and increasing consumption of confectionery products as well as increased domestic tourism as fewer Russians are traveling abroad.

Russia's imports of raw cane sugar and refined sugar are forecast to further decrease in MY 2018/19. FAS/Moscow estimates imports of raw cane sugar in MY 2017/18 at 30,000 MT, and forecasts imports at the same low level in MY 2018/19. Currently, Australia and Belarus are the major suppliers of raw sugar to Russia.

FAS/Moscow forecasts Russia's imports of refined sugar in MY 2018/19 at 270,000 MT (raw equivalent), and estimates imports of refined sugar in MY 2017/18 at 305,000 MT. The bulk of these imports came from Belarus (about 80 percent). Other suppliers of refined sugar to Russia are Poland and Lithuania.

FAS/Moscow revised numbers for exports of refined sugar (in raw value) from 250,000 MT forecasted for MY2017/18 to 550,000 MT for MY 2018/19. Such a significant increase in exports is attributed to higher than average sugar beet and sugar production during the 2017 season. From October 2017 to January 2018, Russia exported 323,370 MT of refined sugar, compared to 96,860 MT in the same period last year. Uzbekistan is the largest export destination with 186,513 MT of refined sugar, followed by Azerbaijan (39,296 MT) and Kazakhstan (31,791 MT) during the aforementioned four month period. Exports of refined sugar (in raw equivalent) are forecast to further increase to 690,000 MT in MY2018/19, or 25 percent increase compared to estimated exports in MY 2017/18. This significant increase is attributed to high levels of beet crop and sugar production in the last two seasons, large stocks and expansion of new foreign markets. However, Russia's exports of sugar will remain lower than its potential due to a lack of infrastructure in the Russian ports and not sufficient production of high value sugar that is in higher demand in foreign markets.

Commodities:

Sugar Beets

Sugar, Centrifugal

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

Sugar Beets	2016/2017		2017/2018		2018/2019	
Market Begin Year	Oct 2016		Oct 2017		Oct 2018	
Russia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	1110	1110	1120	1200	0	1105
Area Harvested	1092	1092	1105	1120	0	1100
Production	51300	51300	48600	48300	0	47100
Total Supply	51300	51300	48600	48300	0	47100
Utilization for Sugar	51300	51300	48600	48300	0	47100
Utilization for Alcohol	0	0	0	0	0	0
Total Distribution	51300	51300	48600	48300	0	47100
(1000 HA) ,(1000 MT)						

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

Sugar, Centrifugal

Table 2: Production, Supply and Distribution for Centrifugal Sugar, 1,000 MT Raw Value

Sugar, Centrifugal	2016/2017		2017/2018		2018/2019	
Market Begin Year	Oct 2016		Oct 2017		Oct 2018	
Russia	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	150	150	360	360	0	460
Beet Sugar Production	6200	6200	6400	6500	0	6400
Cane Sugar Production	0	0	0	0	0	0
Total Sugar Production	6200	6200	6400	6500	0	6400
Raw Imports	100	100	100	30	0	30
Refined Imp.(Raw Val)	350	350	300	305	0	270
Total Imports	450	450	400	335	0	300
Total Supply	6800	6800	7160	7195	0	7160
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	420	420	560	550	0	690
Total Exports	420	420	560	550	0	690
Human Dom. Consumption	6000	6000	6200	6165	0	6050
Other Disappearance	20	20	20	20	0	20
Total Use	6020	6020	6220	6185	0	6050
Ending Stocks	360	360	380	460	0	400
Total Distribution	6800	6800	7160	7195	0	7160
(1000 MT)						

Production:

FAS/Moscow forecasts Russia’s sugar beet production in MY 2018/19 to decrease to 47.1 million metric tons (MMT), or by more than 33 percent compared to the estimated 2018 production of 48.6 MMT. A decline in yields in MY2018/19 will result in decreased production as well as smaller sowing area for sugar beets. Based on the latest official data, FAS/Moscow revised its MY2017/18 beet production estimate to 48.3 MMT. This is less than one percent lower than was forecasted in the 2017 Sugar Annual. Post increased the MY2017/18 sugar beet sown area to 1.2 million hectares, nearly seven percent more than USDA official data. Post’s estimate reflects the latest Russian official data. FAS/Moscow forecasts that the area sown to sugar beets in 2018 will decrease by 100,000 HA to 1.1 million hectares (about 8 percent), from 1.2 million hectares in 2017. The continued decline in domestic prices for sugar beets since the fourth quarter of 2017 is unlikely to create incentives for an increase in sown area for sugar beets in 2018. In addition, recently the Deputy Minister of Agriculture called farmers to decrease sown area to sugar beets and put the area into other crops, such as soybeans and rapeseed. However, the demand for sugar beets from processors is expected to remain strong due to further investments in upgrading current facilities and improved processing and storage practices. Also, cane sugar continues to be expensive for the domestic market. As a result, imports are estimated to decrease, and will further stimulate demand for domestic sugar beets.

FAS/Moscow forecasts sugar beet yields at 42.6 MT/HA for MY 2018/19, almost 33 percent lower than the 2017/18 season, but still at a higher than average level. FAS/Moscow slightly updated its estimate for the MY 2017/18 sugar beet yield to 43.1 MT/HA. Higher than average yields for sugar beets in the last three years is mainly attributable to unusually favorable weather conditions in major production areas during both the growing season and the harvest, coupled with improved production technologies.

The majority of successful sugar beet growers are vertically integrated with large processing companies either through ownership or contractual arrangements. These processing companies typically supply farmers with imported planting seeds, chemicals, and even provide foreign equipment and harvesters. According to industry sources, these expenses for imported inputs comprise about 50-60 percent of the cost of sugar beet production. With the strong depreciation of the ruble since the beginning of 2014, inputs will continue to be expensive through 2018, 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; and the share of private farms and households in total production of sugar beets is just about six percent and is expected to shrink. Moreover, large sugar beet processors such as "RusAgro," "Prodimpex" and "Sucden" continue to invest in storage facilities, processing infrastructure and technologies, gradually ousting smaller producers and leading to consolidation of the sector.

Table 3. Russia: Sugar Beet Area, Production, and Marketing, MYs 2010/11 – 2017/18.

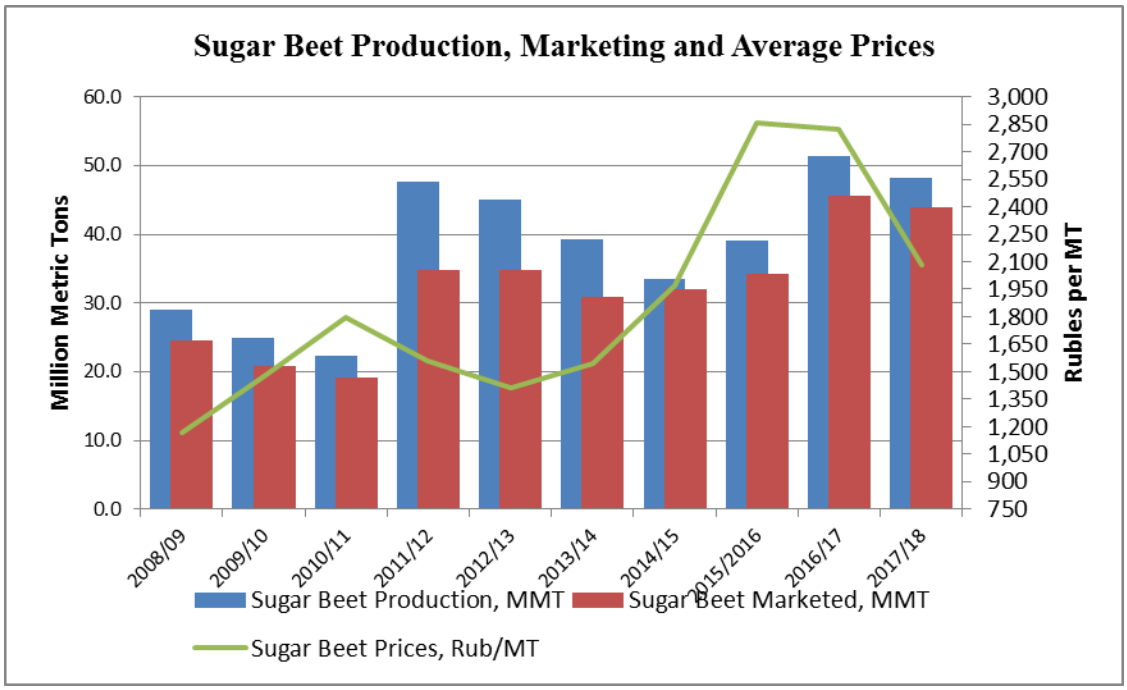
	2010/11	2011/12	2012/13	2013/14	2014/15	2015/2016	2016/17	2017/2018
Area Planted, 1,000 HA	1,160	1,292	1,143	904	919	1,020	1,108	1,200
Area Harvested, 1,000 HA*	923	1,215	1,102	889	906	1,005	1,092	1,120
Production, 1,000 MT	22,256	47,643	45,057	39,321	33,513	39,030	51,300	48,200
Yields (MT per harvested Area)	24.1	39.2	40.89	44.21	37.01	38.9	47.0	43.0
Sugar Beet Marketed, 1,000 MT	19,100	34,800	34,700	30,852	32,000	34,300	47,500	44,000
Sugar Beet Marketed, %	85.8	73.0	77.0	78.5	95.5	87.8	92.0	91.2
Sugar Beet Prices, Rub/MT	1,795	1,559	1,414	1,547	1,971	2,861	2,919	2,084

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

FAS/Moscow calculated marketed beets at 44 MMT in MY 2017/18, based on Rosstat's monthly and calendar year data for sugar beets sold by agricultural enterprises, adjusted by industry data for processed sugar beets as of January each year. Rosstat data for the 2017 sugar beet crop marketed by agricultural enterprises is only 36.6 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 in official statistics. Thus, the Russian Union of Sugar Producers (SoyuzRosSakhar) reported that as of the beginning of March 2018, processors already processed over 47.5 MMT of sugar beets, 26 percent more than at the same period in 2017. SoyuzRosSakhar also reported that one sugar facility continued processing beets

as of the end of March 2018. By the same time in 2017, all sugar plants had already stopped sugar beet processing.

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

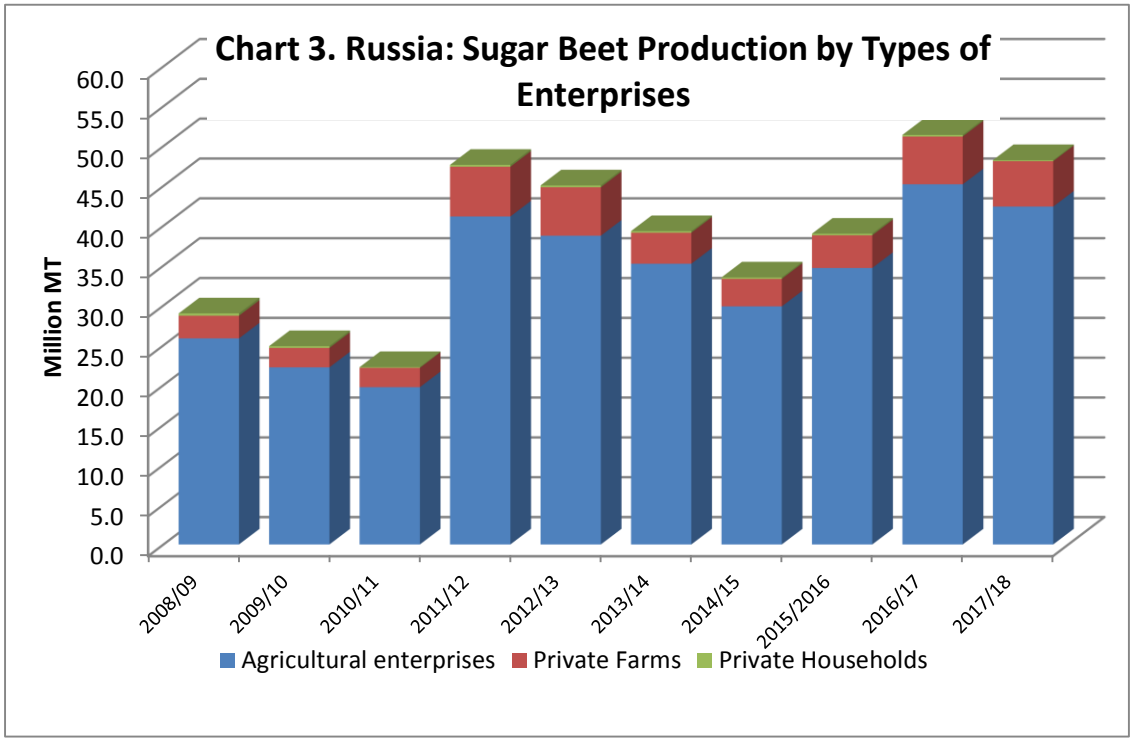


Source: Russian State Statistical Service (Rosstat) and FAS/Moscow calculations of marketed beets.

2017/18 Crop

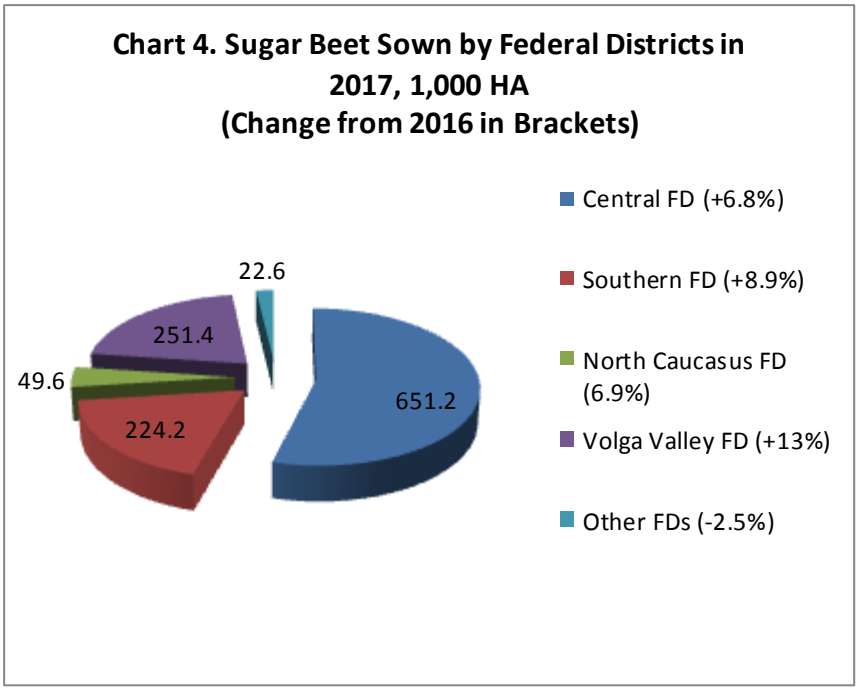
According to official data, the area in Russia sown to sugar beets in 2017 was 8.2 percent higher than the previous year, or 1,199 thousand hectares. However, higher than average soil moisture during maturing season for beets caused by increased rainfall resulted in six percent smaller production and lower yields - by 8.5 percent. Despite the downward trend in production and yields in MY 2017/18, they are still 15.8 percent and 3.4 percent, respectively, higher than average for 5 year period (2012-2016).

Sugar beet production is concentrated among agricultural enterprises, which account for nearly 88 percent of the 2017 sugar beet crop. The share of production among private back-yard households in the last 10 years never exceeded 0.5 percent of total production. Industry reports that most large sugar processing companies that have their own agricultural land are planning to increase area sown to beets so they have stable supply of beets and have to source less from outside farmers. However, such expansion will not be significant.



Source: Rosstat

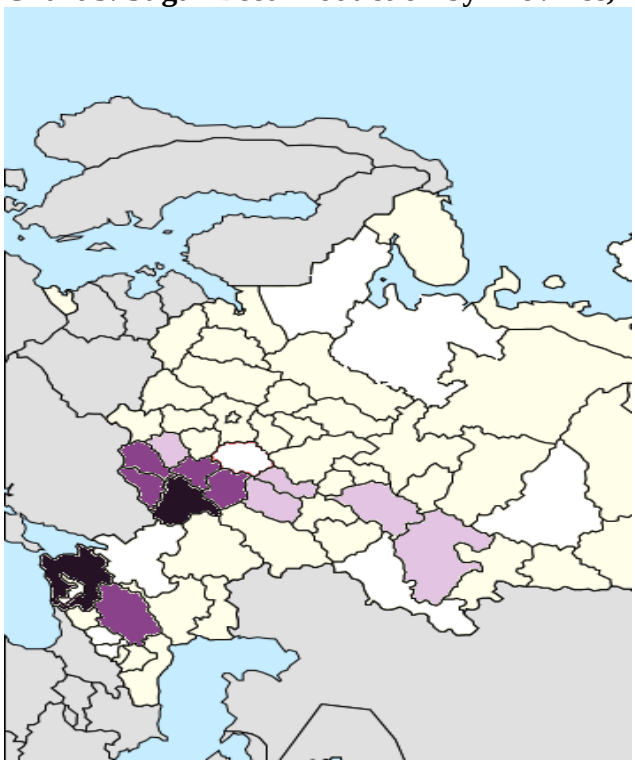
The Central Federal District of the Russian Federation remains the major producer of sugar beets, followed by the Volga Valley Federal District and the Southern Federal District. Relatively stable weather during vegetation of beet root but higher precipitation than last year in Central Federal District and Southern Federal Districts during beet maturing resulted in smaller roots and less sugar content of beets. Sugar beet yields in the Central Federal District decreased from record high yields in MY 2016/17 by nine percent or to 42.7 MT/HA, and by 12 percent to 48.8 MT/HA in Southern Federal District. Bad weather and heavy rains in the North Caucasus Federal District during beet harvesting and processing from September through October 2017 affected yields and they were reported at lower levels than in 2016, or at 54.2 MT/HA versus 66.3 MT/HA in 2016. An increase in sowing area for beets in 2017 by 66 percent in the North Caucasus Federal District did not compensate for lower production in the region. More favorable weather in the Volga Valley Federal Districts and expansion of sowing area for sugar beets by more than 12 percent, resulted in increased production of 8.5 percent to 8.45 MMT, and yields increase from 35.5 MT/HA in 2016, to 36 MT/HA in 2017.



Source: Rosstat

Twelve Russian provinces produce 91 percent of the sugar beet crop. All of these provinces are located in European Russia. The major sugar beet processing facilities are also located in these provinces: 70 out of 85 Russian sugar plants are located in these provinces. According to SoyuzRosSakhar, the Russian Association of Sugar Processors and Traders, 75 processing plants were in operation in MY2017/2018.

Chart 5. Sugar Beet Production by Province, 2017



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

Highest Sugar Beet Production in 2017:

1. Krasnodar kray – 20.6 percent (16 plants)
2. Voronezh oblast – 12.4 percent (9 plants)
3. Kursk oblast – 10.0 percent (11 plants)
4. Tambov oblast – 9.2 percent(5 plants)
5. Belgorod oblast - 5.7 percent (10 plants)
6. Lipetsk oblast – 9.9 percent (6 plants)
7. Orel oblast – 3.4 percent (4 plants)
8. Tatarstan Republic – 6.3 percent (3 plants)
9. Penza oblast – 4.4 percent (3 plants)
10. Bashkortostan Republic – 3.2 percent (4 plants)
11. Mordovia Republic – 1.5 percent (1 plant)
12. Stavropol kray – 4.5 percent (2 plants)

Source: FAS/Moscow based on Rosstat data

Input supply

Industry analysts estimate that due to the soft ruble, the cost of imported inputs, especially seeds have increased significantly. The major expenses for sugar beet production are planting seed, fertilizer and agrochemicals. These inputs account for over 50-60 percent of the cost of production of sugar beets. Until 2016, prices for most domestically-produced mineral fertilizers were linked to the dollar rate and world prices, as fertilizers produced in Russia are largely exported. However, starting from 2016 the Ministry of Agriculture and Association of Fertilizer Producers (RAFP) were able to come to agreement which curbed fertilizer prices in the domestic market (for more details of the agreement please refer to the 2017 Sugar Annual. However, even with a decrease in fertilizer prices (see below), most small, private farmers are still unable to afford fertilizer.

- **SEED:** Imported seed accounts for almost 70 percent of total sugar beet seed used for sowing, and therefore represents a significant share of the cost of sugar beet production in Russia.

- **FERTILIZER:** Prices for the most popular types of mineral fertilizers decreased on average 2-3, as of March 26, 2018. The Minister of Agriculture, Alexander Tkachov, reported in late March that agricultural producers purchased 1.12 MMT of fertilizers which is 33 percent higher than at the same period in 2017. According to the Ministry of Agriculture, prices of the most

popular fertilizers (including VAT, packaging, transportation and delivery to farms) mostly decreased. As of March 26, 2018, prices compared with the same date last year are as follows:

- Carbamide decreased by 2 percent to 17,996 rubles per 1 MT;
- Ammonia nitrate decreased by 2 percent to 13,667 rubles per 1 MT:
- Potassium chloride decreased by 4 percent to 14,689 rubles per 1 MT;
- Azophoska (nitrogen, phosphorus, potassium compound fertilizer) decreased by 2 percent to 19,874 rubles per 1 MT; and
- Ammophos (compound fertilizer) decreased by 2 percent to 27,470 rubles per 1 MT.

- **AGROCHEMICALS:** 70 percent or about 80,000 MT of total agrochemicals and pesticides are imported to Russia, primarily from China. Recently the Russian Ministry of Agriculture came out with an initiative to strengthen measures and control over registration and import of agrochemicals. This may result in a decrease in use of agrochemicals in 2018, possibly leading to the deterioration of the overall Russian phytosanitary situation.

Consumption:

FAS/Moscow estimates that in MY 2017/18, nearly 48 MMT of sugar beets will be processed from the 48.3 MMT beet crop and will produce 6.5 MMT of raw sugar. FAS/Moscow forecasts that given the 47.1 MMT sugar beet crop projected for MY 2018/19, 46.9 MMT of this crop will be processed.

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 this target primarily to the favorable market situation (prices) and to weather, as well as private investments rather than to government support.

Various analytical agencies estimate total sugar consumption in Russia is between 5.7 – 5.8 MMT annually. Industry sources believe that the only way to keep the sector profitable is to develop exports and find new markets for Russian sugar. High production of sugar worldwide depressed sugar prices as a result Russian sugar is losing competitiveness. In addition, higher competition with Ukraine is another limiting factor for increasing exports. According to Andrey Bodin, Chairman of the Russian Sugar Union, it is important to view exports not only just to remove surplus of sugar from the local market, but as a targeted process that will require measures of financial support. Also, according to the same source, organizing cooperatives will help in structuring sowing turnover and getting stable profit per hectare. However, in the near term Russia needs to resolve a number of permanent problems, including sugar quality, assortment and infrastructure.

Russia continues to be strongly dependent on imported planting seeds, food and feed additives. In addition, current agricultural technological development in Russia is primarily based on foreign scientific achievements. The share of imported seeds for different crops varies from 20 to 80 percent. For sugar beets 70 percent of seed is imported.

A new Federal Scientific and Technical Program for Agricultural Development in 2017-2025 (Program) was adopted via Russian Government decree No. 996 on August 25, 2017. The Government believes the Program should help decrease Russia's dependence on imports of technologies, seeds, diagnostic and plant protection products, medicines for veterinary use, and others. Among other results, it is expected to increase production of seeds of new domestic varieties of agricultural plants. However, the Program looks more like a framework document, with more substance to be added to it as product-focused subprograms are drafted and approved. However, with no new federal budget financing planned for the Program, it will have to compete for funds from the five existing programs identified in the Program, which creates additional risks of underfinancing in the tight Russian federal budget environment.

Given that budgets are very tight, it is unlikely that in 2017 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 2005 to 2017 in rubles and in U.S. dollars. In the fourth quarter of 2017, the price of sugar beets demonstrated a 25 percent decline to 2,090 rubles per 1 MT, while in the same period in 2016 the average price of sugar beets was 2,825 rubles per 1 MT.

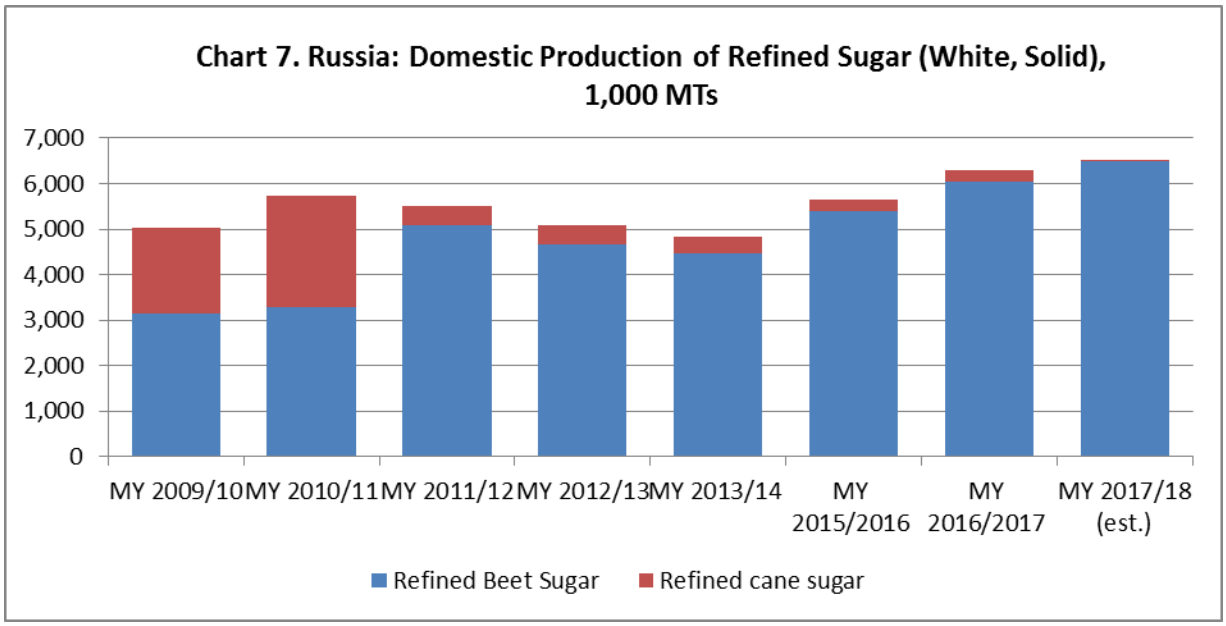
Commodities:

- Sugar Centrifugal

Production:

FAS/Moscow forecasts that given the 47.1 MMT sugar beet crop projected for MY 2018/19, 46.9 MMT of this crop will be processed. Weather 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 approximately 14-15 percent because of the average state of Russian processing facilities, though, reportedly, in some facilities achieved sugar output as high as 17 percent in MY 2017/18. Sugar production from beets in MY 2018/19 is forecast at 6.4 MMT, 1.5 percent lower than the 2017/18 sugar production. This forecasted decrease in sugar production is attributable to lower sugar beet yields and production forecasted for MY 2018/19 compared to the unusually high crop and yields of sugar beets in the 2016/17 season.

According to Rosstat, during the period September 2017 through March 26, 2018, Russian plants produced 6.45 MMT of white (refined) sugar. FAS/Moscow estimates sugar production in MY 2017/18 at 6.53 MMT, including 6.5 MMT of sugar from sugar beets and 30 TMT from raw cane sugar. The share of raw cane sugar contracted as imports is estimated to decline drastically (see Chart 7). Higher production of raw sugar in 2018 is attributable to a higher than average sugar beet crop and yields, and improvements made in storing and processing that have decreased losses.



Source: FAS/Moscow calculations based on Rosstat data

Large sugar beet processors, such as "RusAgro,""Prodimpex" and "Sucden", report that their processing plants have produced high volumes of sugar this season. For example, 16 "Prodimpex" sugar plants processed 10.6 MMT of sugar beets in 2017/18 which produced 1.46 MMT of sugar. The share of sugar beets processed from the company's agricultural land has been increasing and currently accounts for 57 percent. "RusAgro" plants processed 5.7 MMT of sugar beets into 842,300 MT of sugar which is eight percent higher than in MY2016/17. "Sucden" plants processed 3.3 MMT of sugar beets into 443,000 MT of sugar this season. 46 percent of processed sugar beets were supplied from the company's land. Despite an increase in sugar production reported from major processing companies in MY 2017/18, they state that this season is more challenging than 2016/17. The biggest concern is a downward trend in prices for sugar both domestically and in the world market. For example, RusAgro's 2017 annual revenue from the sugar business decreased 19 percent, to 3.3 billion rubles. According to General Director of agroholding Maxim Basov, this drop in revenue is due to a decline in prices for sugar of 23 percent from the beginning of the season. The revenue drop was partly compensated by increasing sales volumes, but only by 4 percent. Other large sugar processors report that their profit margin this season was 75 percent lower than expected, primarily due to low prices. According to the Chairman of the Russian Sugar Union (SoyuzRosSakhar) Andrey Bodin, prices for sugar beets this marketing year do not compensate for the cost of inputs and there is a concern that banks may not provide credits to sugar beets producers in 2018/19. According to industry sources, currently sugar processing facilities have a capacity to produce up to 7 MMT of sugar without further investments to production capacities.

There are 85 sugar plants registered in Russia, and they are located in 22 provinces of the Russian Federation[1]. However, industry analysts estimate that in 2017/18, only 75 plants were productive, and these sugar plants were also located in the major sugar beet producing areas. IKAR analysts estimate that sugar output from beets is increasing and in in some facilities reached almost 17 percent in MY2017/18. This compares with a sugar output of 12-13 percent several years ago. However, the

[1] http://rossahar.ru/Sugar-factories-in-Russia-and-CIS/Russia/

current economic problems in Russia and the soft ruble will make large scale further modernization of sugar processing facilities in 2018/2019 unlikely. However, according to publication in AgroInvestor magazine regarding the development of sugar beet sector in Russia, major market players such as Sucden and ProdImpex report on their intention to keep the sowing area for sugar beets the same or even increase it. Some of the major players will continue modernization of their processing capacities in compliance with the business plan, as they state that engineering and purchasing equipment decision are made well in advance and this process does not depend on spikes and current market situation in the market. However, modernization of processing plants and as a result increased competitiveness helped the industry to survive without losses during the difficult periods. According to the same source, another challenge in the sector is that starting from 2015 the Ministry of Agriculture has stopped supporting any sugar plant renovation under the government program that provides financing to cover the interest rate on loans. As a result, processors have to cover 100 percent interest on credit which impacts their bottom line.

Market analysts report that due to continued growth in inputs (sugar beets for sugar production), lower world market prices, and consolidation of the sector, prices failed to rebound after the traditional wholesale price dip from August to November. Analysts also report that the decline in wholesale prices for sugar started in late July 2017 and continued through December 2017. During this period prices declined from 34.26 rubles/kg in July 2017 to 22.92 rubles/kg in December 2017. Sugar prices started to recover by mid-January, reaching 25-26 rubles/kg. Traditionally, sugar prices increase between December and July; however analysts believe that the seasonal price increase for sugar will be very moderate in 2018. Thus, the Ministry of Agriculture reported that at the end of March 2018, the average retail price for sugar was reported at 36.14 rubles/kg, or 18 percent lower than the average price in the same period in 2017.

The stock exchange price for raw sugar (ICE, New York) hit a 2-year low of $ 269 per MT in February 2018, or 28.7 percent lower compared to the same period in 2017. The world prices for white sugar have seen a significant decline from $530 per MT in February 2017 to $360 per MT in January 2018. However, Russia produces only a minimal amount of sugar at this higher quality level. Most of Russia's sugar production is 104 ICUMSA. The current Russian domestic price for this sugar in March 2018 is $492 per MT, but the domestic price has been declining as a result of a high sugar beet crop in 2017. Industry sources report that with the significant decline of domestic prices and the increasing cost for production and transportation that the profitability of sugar processing has declined to less than 10 percent this season. Industry sources report that increasing sugar volumes for export prevented processors from more financial losses and maintained both sugar beet producers and processors on the verge of profitability. Trade sources believe that in order to improve profitability of the sector, there is a need for investments into port infrastructure, construction of new storage facilities and improving sugar quality. Currently Russia's storage capacity for sugar is estimated at only 50 percent of total production.

Stocks:

Different experts estimate that the MY 2018/19 Russian refined sugar surplus will vary from 600,000 MT to 800,000 MT. The record high production of sugar beets in 2016/17 and higher than expected production in MY2017/18 have resulted in a surplus of white sugar on the domestic market. The lack of infrastructure to support exports and limited export destinations for lower-quality Russian white sugar will contribute to increasing stocks. Post revised the MY2017/18 sugar ending stock estimate from

210,000 MT to 460,000 MT, more than double the previous forecast. Post forecasts sugar stocks for MY 2018/19 at 400,000 MT based on expectations that stocks will start to return to relatively normal levels with a lower crop forecasted in the 2018/19 season and increasing exports.

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 is no official data on the production or consumption of sugar sweeteners in Russia. Industry analysts estimate that the 2016 market capacity in Russia is about 50,000 MT. The market is forecast to increase, on average, three 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."

According to a publication in the agricultural magazine "Expert-South", Joint Stock Company "Aston Products and Food Ingredients" located in Rostov sold 50 percent of its shares in the starch industry to ADM. The purpose of the agreements is to continue developing sweeteners and starches production in Russia. Aston is one of the largest food and food ingredients processors in Russia. It is one of the top-5 companies in volumes of grain processing. Reportedly, Aston and ADM will invest in two processing facilities in Ryazan and Vladimir provinces with total annual capacity of 200,000 MT. According to the Institute of Agriculture Marketing Studies (IKAR), Aston's share in the total production of syrups in Russia is 18 percent, while its share in Russia's starch production is eight percent. In the near future, the company will start investing in expanding processing facilities for these products at the Russian plants.

Experts estimate that high fructose corn syrup accounts for approximately 10 percent of total Russian consumption of glucose syrups. Russia's domestic production of glucose-fructose syrups has also been increasing and reached (SoyuzRosSakhar estimate) over 0.6 MMT in 2017. The Central Federal District is the largest producing region for glucose fructose syrup, accounting for more than for 70 percent of total production. The second largest region is the Southern District with 25 percent. The largest producer of these products is Cargill at the Efremovsky plant in Tula Oblast in the Central FD. Industry analysts think that Russia exports most of these products. However, the current economic situation, tight financial conditions, the ruble fluctuations and an expected decrease in demand for food containing imported ingredients, as well as lack of awareness among population of this product may curb domestic consumption of other sweeteners and switch consumer demand to natural sugar. This tendency, however, may not affect domestic production of glucose-fructose syrups for exports, because the soft ruble makes exports more attractive than sales in the domestic market.

Consumption:

FAS/Moscow forecasts that domestic human consumption of sugar will see a slight decrease of 1.8 percent in MY 2018/19 to 6.050 MMT, compared to Post's estimate of Russian domestic consumption of 6.16 MMT for MY 2017/18. Post revised estimates for domestic consumption of sugar in MY2017/18 down by 0.5 percent to 6.16 MMT compared to Post's previous forecast of 6.2 MMT in 2017. This revision is made based on the latest official statistical data. Despite the slight decline forecasted in domestic consumption for 2018, Russia's total consumption still remains high compared to other countries due to continued demand from the confectionery sector and stable production of homemade jams and preserves, as well as home-made alcohol. Alcohol prices increased sharply due to the GOR's excise policy, and sugar consumption for alcohol after its increase in MY 2016/17 is expected to be stable in the next season. Although there is no official data on the use of sugar for home-made preserves and alcohol, reportedly, consumers may buy more sugar than they need for homemade preserves and have it stored for the next season. Another factor that will keep high levels of domestic sugar consumption in 2018 is an increase in domestic tourism. The largest sugar consumption is likely to occur during the high-tourism period of May-September.

The Russian Association of Confectionery Producers (RACP) reports that the total market share of confectionery products in the Eurasian Economic Union (EAEU) has increased in recent years and is estimated at 4.0 MMT in CY 2017. Production of confectionery products in Russia in CY reached 3.68 MMT, or 2.3 percent higher than the production in CY 2016. RACP also believes that the domestic confectionery market is close to saturation therefore the forecast for the next two years is expected to moderate at growth of 2-3 percent. Reportedly, the Russian confectionery sector consumes about 1.5 MMT of sugar annually. RACP also reports that the average consumption of confectionery products in Russia started to rebound in 2016, after a decline in per capita consumption to 22.6 kg per capita. Average per capita consumption in CY 2017 is estimated at 23.1, a 2.3 percent increase compared to CY 2016. 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 a significant increase in the domestic price of sugar because of the large MY 2017/18 sugar beet crop and record stocks. It is more likely that price increases will be tied to ruble devaluation and a final increase in demand for sugar in foreign markets. Different sources estimate current demand for white sugar in Russia varies between 5.8 – 5.9 MMT.

Trade:

Imports: Raw Sugar

Russia's import of raw cane sugar is expected to decrease drastically to 28,877 MT in MY 2016/17 and continue a downward trend in MY 2017/18, mostly being displaced by the large domestic crops in MY 2016/17 and MY2017/18. There is no official data yet on raw cane sugar imports in MY 2017/18, but data for the first four months (October 2017 – January 2018) show that Russia imported more than 85 percent less raw cane sugar than in the same period the year before. This decrease in imports may also be attributable to fluctuations of ruble to dollar exchange rate, good harvest of sugar beets and improved processing.

FAS/Moscow estimates imports of raw cane sugar in MY 2017/18 at 30,000 MT, and forecasts imports

at the same low level in MY 2018/19. Currently, Australia and Belarus are the major suppliers of raw sugar to Russia in MY 2016/17.

Table 4. Russia: Imports of Raw Cane Sugar (170111, 170113, 170114), MT in MY (Oct.-Sept.)

	2012/13	2013/14	2014/2015	2015/2016	2016/2017	Oct. 2016 - Jan. 2017	Oct.2017- Jan. 2018
World	473,784	690,291	606,576	253,556	28,877	19,569	2,365
Brazil	345,956	500,944	436,745	100,991	0	0	0
Australia	0	0	0	65,835	11,117	11,117	0
Cuba	23,000	120,438	134,775	55,893	0	0	0
Thailand	32,483	21,017	22,000	3,050	0	0	0
Kazakhstan	0	0	0	22,892	0	6,125	0
Belarus		131	5,036	2,171	11,288	20	0
Colombia	3,149	3,795	2,410	2,401	2,893	871	983
Mauritius	0	0	3,058	2,893	2,694		638
Honduras	0	0	0	0	300	200	100
Other	69,196	43,966	18,336	5,610	885	585	644

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 2018/19 at 270,000 MT (raw equivalent), and estimates imports of refined sugar in MY 2017/18 at 305,000 MT. From October 2017 through January 2018, Russia imported 76,472 MT of refined sugar (HS Numbers 170191 and 170199), a 22 percent drop compared with the same period last year. The bulk of these imports came from Belarus (about 80 percent). Other suppliers of refined sugar to Russia are Poland and Lithuania.

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

	2012/13	2013/14	2014/15	2015/16	2016/17	Oct.16-Jan.17	Oct.17-Jan.18
World	76,397	283,489	427,224	371,269	276,564	98,171	76,472
Belarus	11,605	180,581	368,564	316,076	236,353	78,975	60,096
Kazakhstan	0	0	37	1,882	0	5,806	
Poland	26,166	19,856	18,446	25,718	23,503	6,576	12,056

Brazil	8,370	16,036	14,588	13,109	2,700	2,160	0
Lithuania	18,014	11,803	19,263	11,032	10,986	3,172	3,126
Finland	497	515	486	334	323	146	104
Mauritius	816	496	110	68	131	11	43
Denmark	448	420	140	232	44	44	
Germany	316	221	147	258	300	77	135
France	56	340	1627	199	702	619	62
United States	394	511	304	295	491	196	98

Source: Russian Customs

Exports: Refined Sugar

FAS/Moscow revised numbers for exports of refined sugar (in raw value) from 250,000 MT forecasted for MY2017/18 to 550,000 MT. Such a significant increase in exports is attributed to the higher sugar beet and sugar production during the 2017 season. From October 2017 to January 2018, Russia exported 323,370 MT of refined sugar, compared to 96,860 MT in the same period last year. Uzbekistan is the largest export destination with 186,513 MT of refined sugar, followed by Azerbaijan (39,296 MT) and Kazakhstan (31,791 MT) during the aforementioned four month period. The increased number of shipments from Russia to CIS country is due to the decision of the Russian Railways (RZD) to increase the discount for transit shipments of raw cane sugar by rail to Tajikistan, Turkmenistan and Uzbekistan through Russian ports to 30 percent. The decision amends a December 16, 2016 decision in regard to "revision of the terms of shipment. The tariff rates of CIS countries, as well as adjustment coefficients for them, were set at the end of 2016. For example, in Kazakhstan imports of raw sugar with a zero percent tariff are allowed from 2010 through 2019. In Kyrgyzstan and Armenia, imports of raw sugar at a zero percent tariff are allowed from 2015 through 2025. Discounts of 10 percent off the transportation tariff for up to 600,000 MT and 20 percent for over 600,000 MT were applied to shipments of raw cane sugar in hopper cars to Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan through Russian ports[2]. The new discount was in effect from October 1 to December 31, 2017. Also, lower export prices for sugar in 2017/18 contributed to this increase. Recently Russia has been facing strong competition from other suppliers in Ukraine, Belarus and Kazakhstan. Many of the CIS countries have state programs to support their sugar industry. The quality of Russian sugar does not meet the quality standards demanded by many markets. Only eight percent of the sugar produced in Russia meets the highest quality standard, ECUMSA 104, while 35 percent of sugar produced in Ukraine is high quality sugar. Experts state that the main constraint for increasing exports is lack of infrastructure in Russian ports: to date Russia does not have capacity to ship sugar either by container or on a vessel as a result most of Russia's supplier markets are CIS countries where the cargo can be delivered by railways. However, according to the Ministry officials, negotiations for long-term agreements are on the way with China, Japan and Morocco to start shipping sugar by 2020. Also, Russia is planning to increase shipments to current destinations, including Serbia, Egypt and Mongolia.

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

	2012/1	2013/1	2014/1	2015/1	2016/1	Oct.	Oct.2017

[2] http://doc.rzd.ru/doc/public/ru?STRUCTURE_ID=704&layer_id=5104&refererLayerId=5103&id=6748

	3	4	5	6	7	2016-Jan. 2017	-Jan.2018
World	6,140	3,013	8,395	21,045	395,526	96,860	323,370
Tajikistan	30	32	34	5,509	43,054	24,116	4,342
Kazakhstan	0	471	3,858	3,762	131,416	36,035	31,791
Ukraine	0	25	1,028	3,122	29,043	7,487	20,534
Abkhazia	1,133	831	458	1,106	1,290	311	580
Mongolia	844	792	702	850	1,707	1,090	737
South Ossetia	174	466	519	620	692	326	297
United States	335	155	143	71	75	18	21
Uzbekistan	54	87	106	92	1	0	186,513
Belarus	49	62	333	578	31,225	2,072	23,678
Turkmenistan		14	11	9	6,098	2,158	225
Kyrgyzstan		6	18	1686	28,392	7,203	5,729
Armenia	0	0	833	1,308	13,367	755	8,604
Azerbaijan			26	192	88,725	10,982	39,296

Source: Russian Customs

Policy

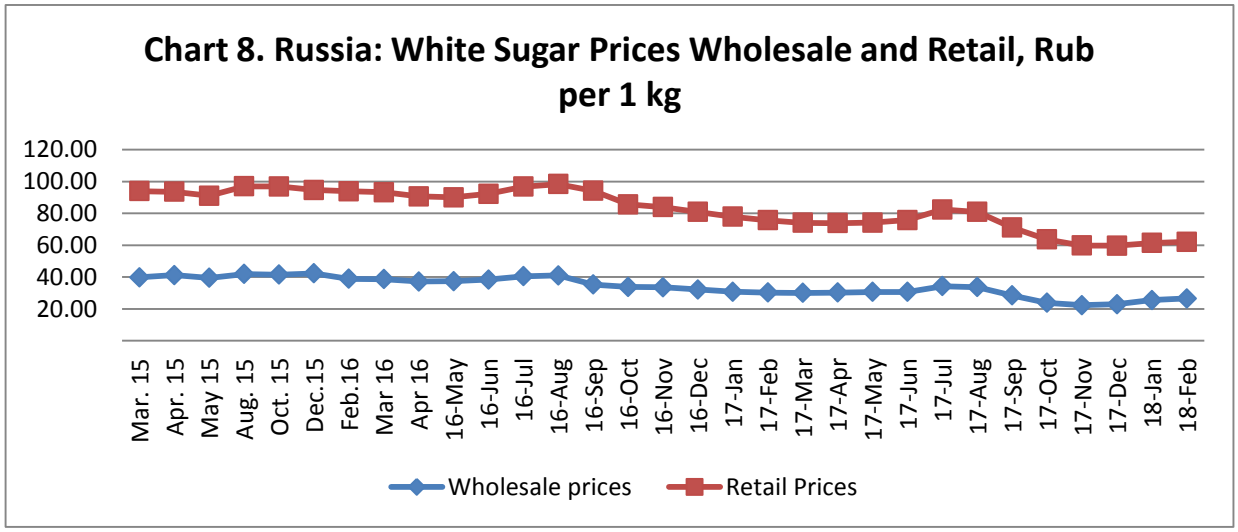
A variable scale of import duties was adopted by the GOR in 2004 and is a unique tool which allows for smoothing sharp fluctuations in the price of sugar in the world market. In accordance with the current procedures, the import duty on raw sugar from countries of the Customs Union in February 2017 was $250/MT. The rate of import duties on raw sugar varies in the range of $140-260 per 1 MT.[3]

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 are 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.

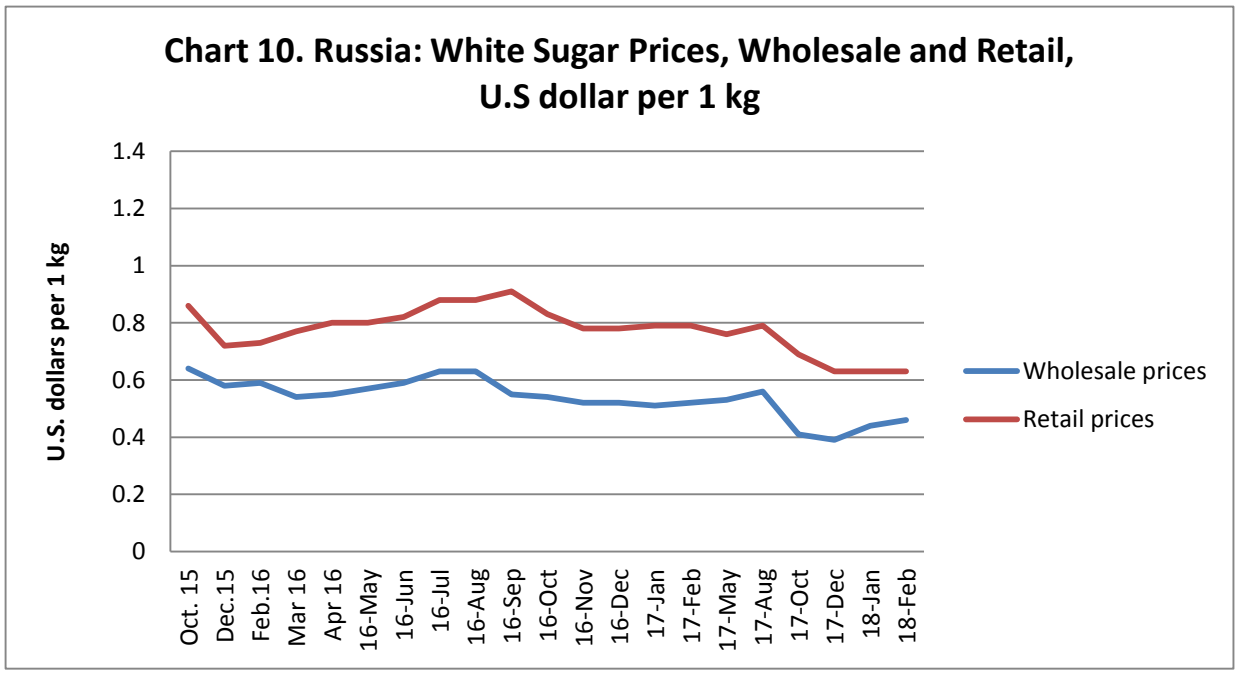
[3] On August 22, 2012, Russia acceded to the WTO. In accordance with the commitments made customs duties on raw sugar during the period from September 2013 to September 2014 were adjusted from $270 to $250 per 1 MT. Currently within the Common Customs Tariff of the Eurasian Economic Union (ETT EAEC), a variable scale of import duties in the range of $140-$250 per MT is applied to raw sugar. Detailed text ETT EAEC can be found here: http://www.eurasiancommission.org/ru/act/trade/catr/ett/Pages/default.aspx

Marketing:

Starting in February 2016, prices in Russia began to reflect the world downward trend in prices. The worldwide drop in the price of sugar is attributable to high sugar production globally and the strengthening dollar. Analysts report that for the last five seasons, worldwide production of sugar has been above total consumption and inventories are at high level in Russia, Belarus, Ukraine and Moldova. In July-August 2017, the wholesale and retail prices for sugar in Russia reached their peak and then started downward. Similarly to 2016, in 2017 the ruble price for sugar did not rebound as expected in November, but rather continued the downward trend. During this same period, the world/dollar price for sugar also was decreasing to the end of 2017, and started to slowly stabilize in January-February 2018. (See Charts 8 and 9)



Source: Russian Ministry of Agriculture, Price in U.S. Dollars is calculated based on the Central Bank's exchange rate. https://www.cbr.ru/statistics/?PrtId=svs



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