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Approved By:
Robin Gray

Prepared By:
Staff

Report Highlights:

FAS/Moscow lowered its forecast of Russia's sugar beet production in 2014 from the April 2014 forecast by three million metric tons (MMT) to 36 MMT. This is an eight percent decrease from the sugar beet crop in 2013. This decline is largely attributable to lower yields, although planted area increased by one percent to 918,000 hectares. This decrease in supply of sugar beets will result in lower domestic production of white sugar from beets (beet sugar), and therefore FAS/Moscow decreased its forecast of Russia's beet sugar production to 4.2 MMT, five percent below last year's level. Given the expected lower domestic production of sugar beets, FAS/Moscow increased the forecast of imports of raw cane sugar. FAS/Moscow forecasts sugar imports to increase to 1.5 MMT in MY 2014/2015, from 1.2 MMT in MY 2013/2014.

Executive Summary:

FAS/Moscow lowered its forecast of Russia's sugar beet production in 2014 from the April 2014 forecast by three million metric tons (MMT) to 36 MMT. This is an eight percent decrease from the sugar beet crop in 2013. This decline is largely attributable to lower yields, although planted area increased by one percent to 918,000 hectares from 906,000 hectares in 2013. Sugar beet harvest started a week earlier than last year, and as of September 24, 2014, farmers harvested 12.3 million metric tons (MMT) from 333,700 hectares, or 36 percent of planted area. On the same date last year, farmers had harvested 10.5 MMT from 251,000 hectares, which was 28 percent of planted area. Although yields in 2014 have been almost ten percent lower than last year, the speedy harvest and relatively high processor demand for sugar beets will stimulate producers to deliver beets to processors as quickly and as efficiently as possible. Thus, losses of sugar beets on the field and in transit to processing plants will be lower than last year, and much lower than in 2011 and 2012 when the bumper sugar beet crop resulted in significant losses of beets on the field. Assuming minimum losses, the total utilization of sugar beets for sugar is forecast also at 36 MMT.

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

Sugar Beets Russia	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Sep 2012		Market Year Begin: Sep 2013		Market Year Begin: Sep 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	1,143	1,143	906	906	930	918
Area Harvested	1,090	1,090	850	850	915	910
Production	45,057	45,057	39,321	39,321	39,000	36,000
Total Supply	45,057	45,057	39,321	39,321	39,000	36,000
Utilization for Sugar	45,057	45,057	39,321	39,321	39,000	36,000
Utilization for Alcohol	0	0	0	0	0	0
Total Distribution	45,057	45,057	39,321	39,321	39,000	36,000
1000 HA, 1000 MT						

The reduced supply of sugar beets will result in lower domestic production of white sugar from beets (beet sugar), and therefore FAS/Moscow decreased its forecast of Russia's beet sugar production to 4.2 MMT. This is five percent below last year's level, which FAS/Moscow estimates at 4.4 MMT.

The recent macro-economic changes in Russia, including the softening of the ruble against the U.S. dollar, economic sanctions against Russia and Russian counter-actions, may result in a shift in Russian consumer demand. This shift is likely to include preferences for less expensive, staple food products, such as sugar and sugar based candies and domestic confectionary products. FAS/Moscow increased its forecasts of sugar domestic consumption in MY 2014/2015 from 5.6 MMT in MY 2013/14 to 5.8 MMT in MY 2014/15. Until recently human domestic consumption of sugar (Russian beet sugar and imported cane sugar) has been decreasing due to increased consumption of non-sugar sweeteners in the confectionary industry, most of which is imported. Thus, in MY 2004/05 consumption of sugar was 6.3 MMT, and decreased to 5.6 MMT in MY 2013/14.

Given the expected lower domestic production of sugar beets, FAS/Moscow increased the forecast of imports of raw cane sugar. FAS/Moscow forecasts sugar imports to increase to 1.5 MMT in MY 2014/2015, from 1.2 MMT in MY 2013/2014. Meanwhile sugar exports are forecast to decrease to less than from 10,000 MMT. Most of these exports will be destined for regions of the former CIS countries

(South Ossetia and Abkhazia).

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

Sugar, Centrifugal Russia	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Oct 2012		Market Year Begin: Oct 2013		Market Year Begin: Oct 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	390	390	395	395	300	400
Beet Sugar Production	5,000	5,000	4,400	4,400	4,400	4,200
Cane Sugar Production	0	0	0	0	0	0
Total Sugar Production	5,000	5,000	4,400	4,400	4,400	4,200
Raw Imports	390	390	800	900	800	1,100
Refined Imp.(Raw Val)	345	345	350	350	300	400
Total Imports	735	735	1,150	1,250	1,100	1,500
Total Supply	6,125	6,125	5,945	6,045	5,800	6,100
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	15	15	30	30	50	5
Total Exports	15	15	30	30	50	5
Human Dom. Consumption	5,700	5,700	5,600	5,600	5,500	5,800
Other Disappearance	15	15	15	15	10	10
Total Use	5,715	5,715	5,615	5,615	5,510	5,810
Ending Stocks	395	395	300	400	240	285
Total Distribution	6,125	6,125	5,945	6,045	5,800	6,100
1000 MT						

Commodities:

Sugar Beets

Sugar, Centrifugal

Sugar Beet Production:

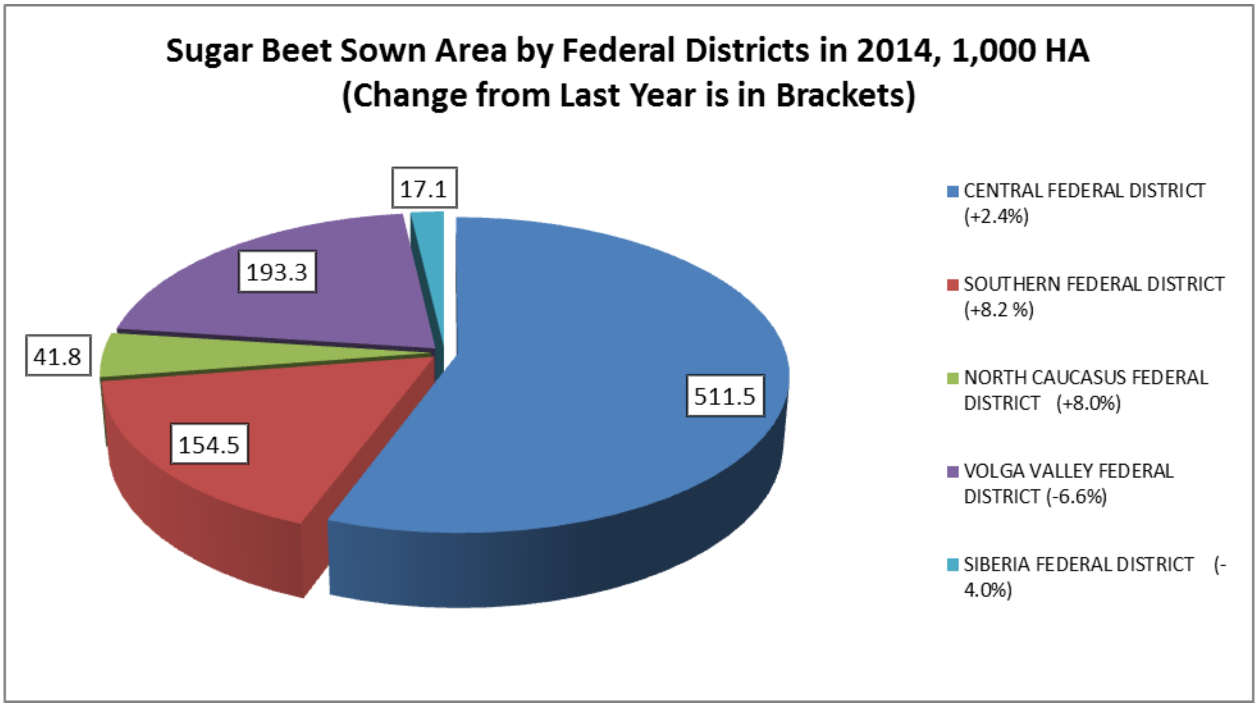
FAS/Moscow decreased its sugar beet production forecast from 39 MMT to 36 MMT, eight percent below the 2013 production level. This decrease is production is largely attributable to a decrease in yields. According to official data, the area sown to sugar beets in Russia in 2014 increased one percent from last year, to 918,000 hectares. 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 in 2014 (Table 3). Harvesting of sugar beets in 2014 started earlier than in 2013, and the first sugar refinery started working in Krasnodar kray in the Southern federal district (FD) on July 29, 2014, and in the Central FD on August 5, 2014.

Krasnodar kray is one of the leaders in sugar beet production. By mid-September sugar plants in this province processed 3 MMT of beets, and produced 400,000 MT of sugar and 92,000 MT of dry beet pulp (bagasse – жом). Industry analysts estimate that sugar plants in Krasnodar kray will process up to 8.5 MMT of beets in MY 2014/15.

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

	Sown Area, 1,000 hectares			Share in the total sown area (percent)		
	2012	2013	2014	2012	2013	2014
Russia, Total	1,142.9	905.8	918.2	100.0	100.0	100
CENTRAL FD	627.8	499.6	511.5	54.9	55.2	55.7
including:						
Belgorod oblast	103.4	75.0	68.2	9.0	8.3	7.4
Voronezh oblast	148.1	102.4	100.5	13.0	11.3	10.9
Kursk oblast	111.9	94.6	100.6	9.8	10.4	11.0
Lipetsk oblast	84.1	81.6	88.5	7.4	9.0	9.6
Orel oblast	45.2	45.4	49.5	4.0	5.0	5.4
Tambov oblast	111.1	87.2	85.9	9.7	9.6	9.4
SOUTHERN FD	209.4	142.8	154.5	18.3	15.8	16.8
including						
Krasnodar kray			137.7			15.0
NORTH CAUCASUS FD	51.3	38.7	41.8	3.4	5.7	4.6
VOLGA VALLEY FD	235.4	206.8	193.3	20.6	22.8	21.1
including:						
Bashkortostan Republic	54.4	55.2	50.5	4.8	6.1	5.5
Mordovia Republic	21.7	20.3	24.0	1.9	2.2	2.6
Tatarstan Republic	61.3	55.3	48.3	5.4	6.1	5.3
Penza oblast	58.0	46.8	44.3	5.1	5.2	4.8
Ulyanovsk oblast	20.1	14.0	12.9	1.8	1.5	1.4
SIBERIA FD	19.0	17.8	17.1	1.7	2.0	1.9

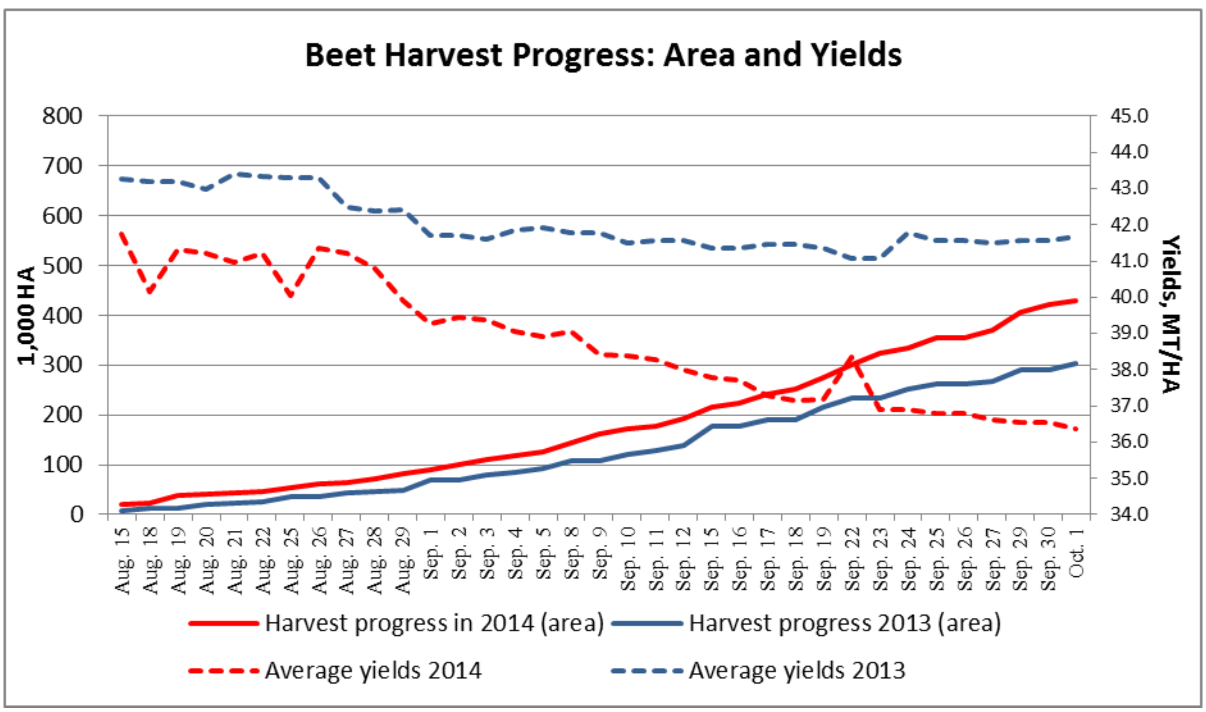
Source: State Statistical Service (Rosstat)



Source: Rosstat

Sugar beet harvest progress

The 2014 Russian sugar beet harvest began a week earlier than last year, in early August in Krasnodar kray (Southern federal district – FD). Usually in Russia harvest season extends through October.



Source: Ministry of Agriculture

According to the Ministry of Agriculture of the Russian Federation, as of October 1, 2014, farmers harvested 15.66 MMT of sugar beets from 430,600 hectares. This harvest accounts for 47 percent of the planned harvest area. At the same time in 2013, farmers had harvested 12.62 MMT of beets from 302,800 hectares. The average sugar beet yields are lower than last year - 36.36 MT/HA compared to 41.68 MT/HA on the same data in 2013. However, these yields are higher than yields in either 2012 or 2011.

As of October 1, 2014, the status of the sugar beet harvest in the major sugar beet producing federal districts was as follows:

- Farmers in the Central Federal District (FD) harvested 7.8 MMT of sugar beets from 232,900 hectares, 46 percent of area planned for harvest;
- Farmers in the Southern FD harvested 3.87 MMT of beets from 84,700 hectares, or 55 percent of planned harvest area. Krasnodar kray is the major producer of sugar beets in the Southern FD. Farmers in Krasnodar kray harvested 3.76 MMT of beets as of October 1st, and sugar refineries located in Krasnodar kray have already processed most of beets and produced over 0.4 MMT of white refined sugar and 0.1 MMT of pulp. Traditionally, Krasnodar kray accounts for 22 percent of Russia's sugar market;
- Farmers in the North Caucasus FD harvested 0.88 MMT of beets from 15,500 hectares, or 41 percent of area planned for harvest;
- Farmers in the Volga Valley FD harvested 2.85 MMT of beets from 89,700 hectares, or 47 percent of area planned for harvest. Processors plan to process up to 6 MMT of sugar beets. Given that most plants in the Volga Valley federal district have been modernized, the volumes of production of white centrifugal sugar in this FD may reach 800,000 MT[1].

<u>Sugar beet processing</u>
According to SoyuzRosSakhar, the Russian association of sugar processors and traders, the number of sugar refining plants that will process sugar beets in MY 2014/15 decreased from 78 plants last year to 71 plants. Those 71 plants are located in the major growing areas and have been upgraded with modern equipment. As of mid-September, 61 plants have already started processing sugar beets:

- In the Central FD there are 41 plant (in 2013, 44 plant were reported), and 36 of them began processing sugar beets;
- In the Southern FD all 13 plants (15 plants in 2013) have been working;
- In the North Caucasus FD there are 3 plants, and 2 of them were working by mid-September;
- In the Volga Valley FD 9 out of 13 plants (in 2013 – 15 plants) started working by mid-September/

Since the beginning of harvest, and as of mid September, plants have stored over 7 MMT of raw beets, 17 percent more than on the same date last year, and processed 830,000 MT of sugar, 39 percent more than last year[2]. However, given the lower beet crop and the early start of its processing, the processing of beets is likely to finish earlier than last year. Imports of raw cane sugar may also begin earlier.

Sugar Production:
FAS/Moscow estimates white sugar production from beets in MY 2013/14 at 4.4 MMT. Given the decreased sugar beet crop, FAS/Moscow forecast that production of beet sugar (sugar from beets) in

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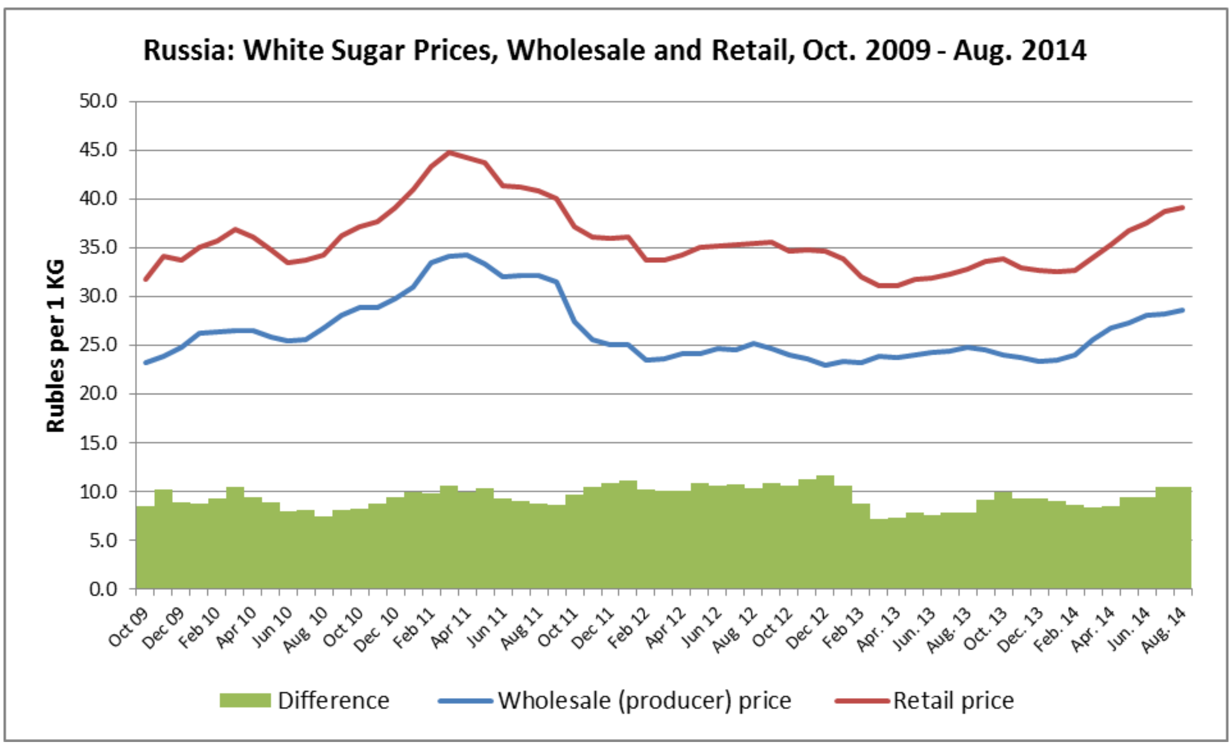
[1] Russian Ministry of Agriculture (www.mcx.ru) and SoyuzRosSakhar (http://www.rossahar.ru/news/news_7587.html
[2] http://www.rossahar.ru/news/news_7546.html

MY 2014/15 will decrease to 4.2 MMT. Industry analysts' forecasts of beet sugar production vary from 4.2 to 4.6 MMT[3] in MY 2014/15.

Sugar Consumption:

FAS/Moscow estimates human domestic consumption of centrifugal sugar in MY 2013/14 at 5.6 MMT, 0.1 MMT less than in MY 2012/13. The reduction has been due to a continued shift from sugar to other alternate sweeteners in the confectionary industry. Up to the beginning of summer 2014, domestic consumption of sugar was flat in Russia. 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 stagnation of demand up to spring 2014 is illustrated in the relative stability of wholesale sugar prices. However, beginning March 2014, wholesale and retail prices of sugar began increasing, perhaps because of the significant changes in the Russian macro-economic environment.

In MY 2014/15, Russia's domestic sugar consumption will likely be influenced by macro-economic changes in the Russian economy. Such changes include the softening of the ruble against the U.S. dollar and economic sanctions against and by Russia, which may also increase prices of imported goods, including equipment, planting seeds and chemicals. This environment is likely to curb domestic production of sugar beets. On the other hand, these macro-economic changes may also result in increased domestic consumption of staple food products, including sugar vs. alternate sweeteners, most of which are imported. FAS/Moscow increased its forecast of Russia's human, domestic consumption of sugar to 5.8 MMT in MY 2014/15.



Source: Ministry of Agriculture of the Russian Federation

[3] http://www.rossahar.ru/news/news_7587.html, (http://www.ikar.ru/press/1799.html)

Trade in Sugar

Assuming that Russia's human domestic consumption of sugar will increase to 5.8 MMT, FAS/Moscow increased its forecast of imports of sugar (raw equivalent) to 1.5 MMT, a 25 percent (or 0.3 MMT), increase from last year. Projected imports include: imports of 1.1 MMT of raw sugar, a 30 percent increase from MY 2013/14, and 0.4 MMT imports of refined sugar (raw value), a 14 percent increase from MY 2013/14. Until MY 2011/12, Russian production of refined cane sugar, from imported raw cane sugar, accounted for up to 40 percent of sugar production. The bumper sugar beet crop in 2011 and 2012 and decreasing consumption has lowered the share of sugar from imported raw cane sugar to approximately 10 percent of Russia's overall white sugar production. In MY 2014/15, this tendency is likely to slow or stop.

Raw cane sugar imports from traditional Russia's suppliers, such as Brazil and several other South American countries, are forecast to increase. The major supplier of refined sugar will continue to be Belarus.

The tables below show Russia's trade in sugar based on official data from Russia's Customs Service. The Russian Customs Service does not always include trade within the Customs Union and therefore may differ from FAS/Moscow trade estimates for MY 2013/14.

According to the Russian State Customs Service, in the first seven months of MY 2013/2014, Russia imported 292,000 MT of raw cane sugar (Table 4). The major supplier of raw cane sugar to Russia was Brazil. Meanwhile the Brazilian Customs Service reports that its exports of raw cane sugar (HS code 171114) in October 2013 through August 2014 amounted to 1.33 MMT.

The Russian State Customs Service reported that from October 2013 through April 2014, Russia imported approximately 35,500 MT of refined sugar (approximately 38,000 MT in raw equivalent). As mentioned previously, this data does not match FAS/Moscow estimates because of the discrepancy in not reporting of trade among the Customs Union countries, including Russia, Kazakhstan and Belarus. Of note in the Customs Union trade, during the period January through July 2014, Russia imported from Belarus over 200,000 MT of refined sugar, the equivalent of approximately 215,000 MT of raw sugar.

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

	2008/09	2009/10	2010/11	2011/12	2012/13	Oct. 2012 - Apr. 2013	Oct. 2013 - Apr. 2014
World	1,763,070	1,948,603	2,258,773	445,480	385,158	360,537	291,990
Brazil	1,489,518	1,636,818	1,954,788	313,420	320,456	299,456	227,052
Thailand	57,708	40,830	123,566	43,751	32,483	32,483	21,017
Cuba	142,762	80,863	45,800	61,459	23,000	23,000	0
Argentina	0	40,643	20,500	0	0	1	18,000
Guatemala	0	64,515	64,146	0	0	0	19,677
Mauritius	827	3,965	5,786	5,081	5,431	3,304	3,047

Colombia	2,512	11,655	857	2,466	3,148	1,783	2,768
Other	69,743	69,314	43,330	19,303	640	510	429

Note: Due to changes in Codes Descriptions, since 2012, most of imports of raw cane sugar are in code 170114, instead of 170111.
Source: State Customs Service

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

	2008/09	2009/10	2010/11	2011/12	2012/13	Oct. 2012 – Apr. 2013	Oct. 2013 – Apr. 2014
World	91,412	72,663	86,317	56,053	64,385	35,117	35,475
Poland	16,450	36,564	13,276	30,325	26,166	14,567	13,899
Moldova	30,993	5,742	25,332	2,552	1,914	1,914	2,769
Brazil	18,666	3,786	24,038	4,251	8,370	2,565	8,745
Lithuania	0	511	1,383	14,636	18,245	12,578	6,071
India	790	0	729	152	152	152	1,563
Mauritius	175	1,087	803	931	816	522	418
Germany	445	575	2,487	588	316	135	106
France	1,576	84	9,490	80	54	38	48
Guatemala	0	0	3,120	0	0	0	0
Finland	437	539	492	415	497	430	426
Belgium	26	25	216	116	159	93	424
Denmark	167	759	397	554	476	236	330
Other	21,687	22,991	4,554	1,453	7,220	1,887	676

Source: State Customs Service.

Exports

Russia does not export notable quantities of refined sugar (beet or cane) containing added flavoring or coloring matters (HS Number 170191). Almost all exports are shipped to markets in the former Soviet Republics. In recent years, Russian exports to the Former Soviet Republics have been replaced growing national production of sugar and stronger competition from other suppliers such as Ukraine. FAS/Moscow estimates Russia's exports of sugar in MY 2013/14 at 30,000 MT, and forecasts it to decrease in MY 2014/15 to less than 10,000 MT. Due to proximity, Krasnodar kray and some other provinces of the Central FD are likely to be the main suppliers of refined sugar to Crimea.

Table 6. Russia: Exports of Refined Sugar

	2008/09	2009/10	2010/11	2011/12	2012/13	Oct. 2012 - Apr. 2013	Oct. 2013 - Apr. 2014
World	147,978	31,432	16,897	78,058	5,519	4,539	1,290
Mongolia	540	691	743	600	844	577	493
United States	39	122	119	269	335	247	118
Tajikistan	38,382	10,633	4,732	27,244	30	16	40
Kyrgyzstan	2	2	4,246	12,508	832	832	2

Uzbekistan	71,738	1,048	3,198	6,553	54	25	72
Moldova	3	3	2,382	1,241	501	501	0
Turkmenistan	13,677	5,227	1,031	11,323	14	8	4
Azerbaijan	3,869	343	12	15	18	10	16
Armenia	10	10	14	9	14	11	9
Other*	19,718	13,353	420	18,296	2,877	2,312	536
.* Included in Other are Abkhazia and South Ossetia							

Source: State Customs Service. This data does not match FAS/Moscow estimates because since 2010 Russia and Kazakhstan are part of a customs Union, and trade is no longer reported between these two countries.

Policy

There are no changes in Russian government policy concerning the Russian sugar industry. High domestic production of sugar beets in 2011 and 2012 was accompanied by significant crop losses both on-farm and during delivery to processing enterprises. Additionally, domestic consumption of sugar stabilized between 5.4 MMT to 5.6 MMT. These factors, along with very strong competition from other countries, make large scale exports unlikely. As a result, industry analysts consider that at present Russia does not need to increase its sugar beet processing capacity. Rather, analysts have encouraged the industry to focus on modernizing existing capacity to increase energy-efficiency, decrease sugar losses, and increased "deep processing." Also, modernization is needed to increase storage capacity of sugar beets and raw sugar, molasses and pulp. Given the current agricultural budget situation, neither sugar beet producers nor processors are expecting any significant increases in governmental support in the coming marketing year.