

## **Russia’s Sugar Industry: Transformation with Government Intervention**

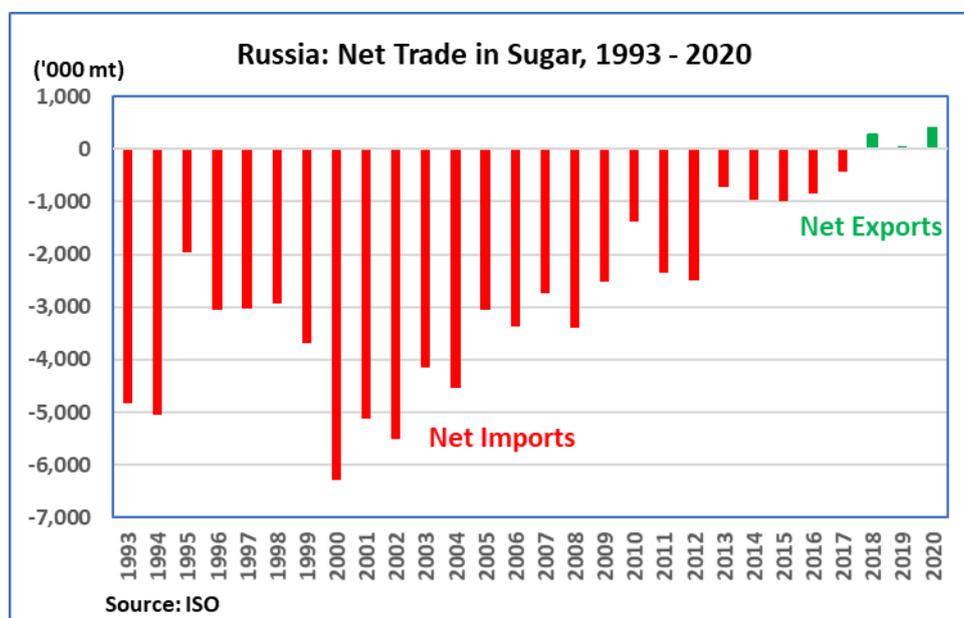
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**A report for the American Sugar Alliance by  
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### **Executive Summary: Sugar Self-Sufficiency from Scratch**

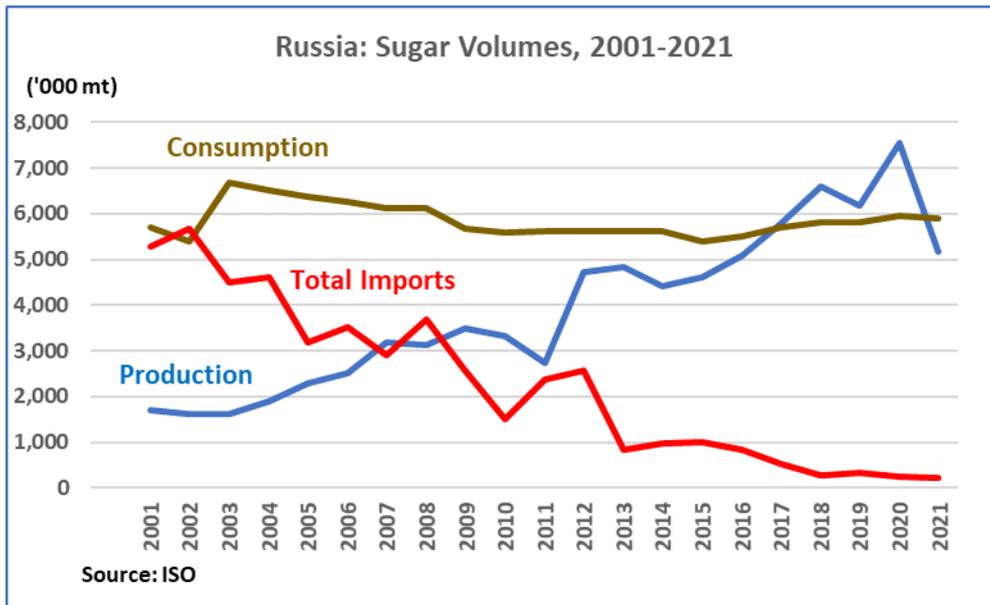
Up until 2012, Russia<sup>1</sup> was a major sugar importer, one of the world’s largest in many years. From 2000 to 2011 on average, the country imported 3.5 million metric tons of sugar annually<sup>2</sup>, representing 57% of domestic consumption. After 2017, however, Russia transformed itself to become a net exporter in some years.



From 2000 to 2020, consumption averaged 5.9 million metric tons and varied little. The transition from importer to exporter was production-driven.

<sup>1</sup> The terms “Russia” and “Russian Federation” will be considered synonymous in this report.

<sup>2</sup> “Tons” in this report are metric tons. 1 short ton = 0.907 metric ton.



How Russia achieved self-sufficiency in sugar is the subject of this report.

Whether from sugarcane or sugarbeets, producing sugar is capital-intensive both at the farm level and for industrial processing. The financial commitment needed to increase domestic beet sugar production by over 5 million metric tons (mmt), as Russia did, should not be underestimated. The government’s role was, and continues to be, substantial.

To obtain self-sufficiency in sugar, Russia originally relied on tariffs, later adding direct subsidies temporarily. Sugar was not a government priority. This, despite Soyuzrossahar, the Russian Union of Sugar Manufacturers, being a well-organized and vocal defender of sugar interests<sup>3</sup>. Government thinking about agriculture primarily focused on grains and meats.

The story of Russia’s march to self-sufficiency in sugar is best observed in two periods, 1992-2004 and 2004-2020. Within the latter period, government intervention played a huge role during 2010-2017.

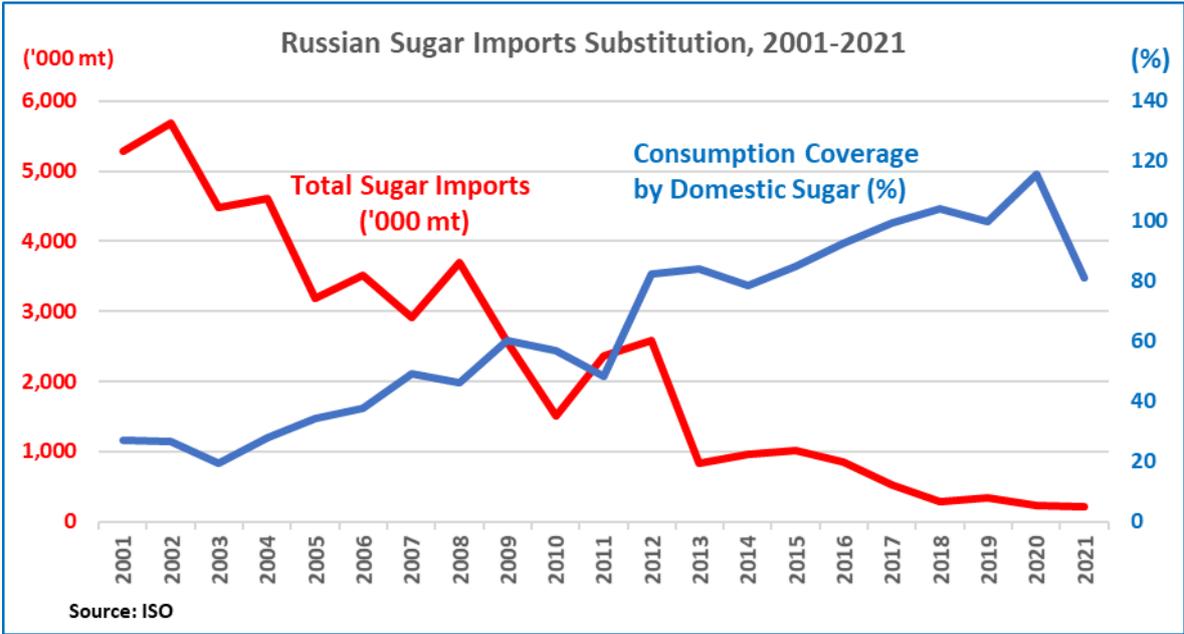
From 1992 to 2004, import duties and other import-control mechanisms such as licensing fluctuated widely. At first, they did not prevent beet prices and planted area from falling dramatically from Soviet-era production levels. However, these measures probably prevented sugarbeet production from disappearing entirely. Indeed, beet area settled at around 2 million acres and annual domestic sugar production returned to 2.3 mmt by 2004. Nonetheless, from 1999 to 2004, Russian beet sugar still only satisfied about 30% of domestic sugar demand. At that time, the domestic sugar industry essentially involved refining imported raw cane sugar in sugarbeet factories.

After 2004, domestic Russian sugar production grew materially. Up to 2009, import-duties alone provided enough support for beet prices and quality to increase. Serious investment in beet processing had to wait until public funds were made available to the industry. Subsidies came in two “sub-programs” for the periods 2010-2012 and 2013-2015, with effective disbursements lingering beyond 2015. The government provided growers with partial financial compensation for the cost of agricultural inputs (fertilizer, herbicides, seeds), and the processing sector by subsidizing interest expense on both factory investments and crop financing.

<sup>3</sup> The authors are indebted to Soyuzrossahar, the Russian Union of Sugar Manufacturers, and to André Bodin, who is Chairman of the Board of the Russian Union of Sugar Manufacturers (Soyuzrossakhhar) and Executive Director of the Eurasian Sugar Association, for the information made available, without which this report would be much poorer.

From its inception in 1992, the Russian Federation deemed food security important. Until the second half of the 2000s, however, fiscal resources were too weak to buttress agricultural policies with strong financial incentives. Although there is no official information in the public domain on the exact timing of, and reasoning for, the official goal declared in the 2010 Food Security Doctrine to improve self-sufficiency in sugar to no less than 80% of internal demand with domestically-produced beet sugar, a number of explanations can be suggested. On the political level, a radical improvement in food security was considered part of a wider National Security Strategy and the most important component of demographic policy, prerequisite for the implementation of the strategic national priority - improving the quality of life of Russian citizens by guaranteeing higher life standards. Financially, there was an abundance of resources thanks to significant increases in revenues from oil and gas sales. Structurally, the industry had been fully privatized. Private owners had already made significant investments in maintenance and modernization. The sector was well-organized and lobbied efficiently through the Union of Sugar Manufacturers, Soyuzrosskhar.

**In total between 2010 and 2017, the government injected an estimated \$772 million<sup>4</sup> of public funds into the industry to support a doubling of sugarbeet-processing capacity and beet sugar output<sup>5</sup>.** Disbursements were front-loaded, with 90% of them occurring by 2017. These subsidy programs provided the industry with the incentive needed to double beet sugar supplies and entirely satisfy domestic demand. Since 2018, tariffs again constitute the main support tool for Russia’s domestic beet sugar industry, but self-sufficiency, crop fluctuations and electoral considerations introduce uncertainties.



Without both border protection and direct subsidies, there would have been no growth in Russian sugarbeet output and processing. Indeed, sugarbeet may have been replaced by other crops. Significant beet processing expansion occurred only after the government offered direct subsidies.

**During the key expansion period of 2010-17, we estimate the value of import protection and price support at \$295 million per year and direct subsidies at \$97 million per year, for an annual average value of government support for the Russian sugarbeet industry of \$392 million per year.** (See table and text box below.)

<sup>4</sup> All dollar values are U.S. dollars, converted from Russian rubles at annual average exchange rates unless otherwise noted.

<sup>5</sup> These amounts are based upon announced government financial commitments and industry estimates of effectively disbursed amounts.

Today, Russia is a significant player in the global sugar market: it is the second-largest beet sugar producer, after the EU<sup>6</sup>, and the seventh-largest consumer of sugar world-wide.

Nonetheless, from a policy perspective Russian sugar is now back where it was before the national subsidy “sub-programs” of 2010-2012 and 2013-2015: direct financial support has all but disappeared; it appears only on an ad hoc basis in response to short-term considerations. For example, confronted by an exceptional surplus, from 2019 the Russian government provided partial financial compensation of transport costs for sugar, molasses and beet-pellet exports.

Today, import duties do not protect prices against the effects of domestic competition. In a good crop year, such as 2019, the latter can bring domestic prices perilously close to world market levels. Worse, with elections later this year, the government is determined to impose price controls so low that, despite some targeted compensatory subsidies, industry losses are likely to ensue.

<b><u>Support and Expansion in the Russian Sugar Industry</u></b>			
<b>(Annual averages)</b>	<b>2004 -2009</b>	<b>2010-2017</b>	<b>2018-2020</b>
<b>Market Price Support (million \$)</b>	<b>325</b>	<b>295</b>	<b>339</b>
<b>Subsidies (million \$)</b>	<b>0</b>	<b>97</b>	<b>18</b>
<b>Total Support (million \$) =</b>	<b>325</b>	<b>392</b>	<b>357</b>
<b>Support per Ton of Beet (\$/t)</b>	<b>15</b>	<b>12</b>	<b>8</b>
<b>Beet Processing Increase (mt/day)</b>	<b>1,600</b>	<b>3,000</b>	<b>1,300</b>
<b>Sugar Production Increase (mmt)</b>	<b>1.6</b>	<b>2.6</b>	<b>1.5</b>

(Sources: OECD; Soyuzrossahar; ProSunergy estimates)

*The value of border protection here above is OECD’s Market Price Support (MPS). To calculate the MPS for a product, the OECD measures a difference in two prices, which is multiplied by a volume of production. This “Market Price Differential” is the gap between the price paid to the producer and a reference price. This gap represents a transfer of value because a support policy prevents the producer from receiving the reference price only. The reference price is usually derived from the price at the country’s border. This assumes that the price at the border is representative of a global price without including domestic policy interventions. The border price is adjusted to be observed at the farm gate: border and domestic prices are compared at the same level of production and distribution. “Refined sugar” is one of the 15 commodities in a “standard set” for which the OECD calculates Market Price Support. The OECD method facilitates comparisons between countries in relative terms. It does not measure how a price “premium” is distributed among economic agents in a given country. For Russian sugar, the OECD uses prices for actual imports (or exports) of refined sugar. Given Russia’s fixed refined sugar tariff, for Russia the OECD methodology gives an automatic increase in the relative level of “support” when world prices are low, and vice versa. Partial other estimates confirm the trends observed with OECD data, but absolute values differ.*

<sup>6</sup> However, as an independent country Russia is the world’s largest beet sugar producer.

## Turmoil: 1994 – 2004

The end of the USSR in December 1991 brought tremendous changes in the economies of its former republics, including, of course, Russia. Production subsidies largely disappeared, causing output of major crops to fall. Russian Gross Agricultural Output fell by 40% between 1990 and 1999. Grain production fell from 95 to 63 million tons per year, a drop of 34%; meat output dropped 50%, from 7.2 to 3.6 million tons.<sup>7</sup>

Like nearly all industrial, commercial, and agricultural operations following the demise of the USSR, the Russian sugar sector was quickly decentralized and later slowly privatized. In the rush to allow a market economy to develop, former sugar market controls such as COMECON preferential trade with Cuba and state support to sugarbeets were dropped<sup>8</sup>. Harvested sugarbeet area fell by 40% between 1992 and 2002. Whatever the painful disruption to past habits, annual sugar consumption dipped only temporarily to 5.4 million metric tons in 1996/97, as industrial food processing stumbled before recovering.

Throughout this transition the supply of sugar became even more dependent than before on raw sugar imports, much of which was refined during the off-crop in around half of about 90 small beet sugar factories. At the beginning of the new millennium, imports supplied 70 to 75% of Russia's sugar needs.

The 1992 agrarian reform transformed ownership and management of Russian farms. Schematically, the large collective farms<sup>9</sup> were decentralized and then privatized. The resulting farmland ownership structure was one of very large private farming concerns, "agro-companies", owning and managing hundreds of thousands of acres, feedlots, grain elevators, etc. ... and, sometimes, related industrial primary-processing assets such as sugarbeet factories or oilseed processing facilities.

The sugar industry was privatized relatively quickly. In theory at least, all factories had been privatized by the end of the 1990's with shares being distributed to employees and management. By 2005, 8 companies produced 69% of Russian beet sugar. Privatization has thus made Russian agriculture an oddity in which companies running extensive landholdings are often integrated downstream. It also concentrates food production in large private groups.

This farmland ownership structure has endured: in 2017, only 12% of sugarbeets were supplied by small farms; the balance (88%) came from large commercial farms, of which 78% belonged to agro-holdings operating beet factories.<sup>10</sup> In 2019, the top 5 sugarbeet processors together farmed 2.7 million acres and were responsible for 65% of Russia's domestic sugar production. Sucden, a French trading company which runs five sugar mills in Russia today, rotates sugarbeets with wheat, barley and malting barley, sunflower peas, and corn.

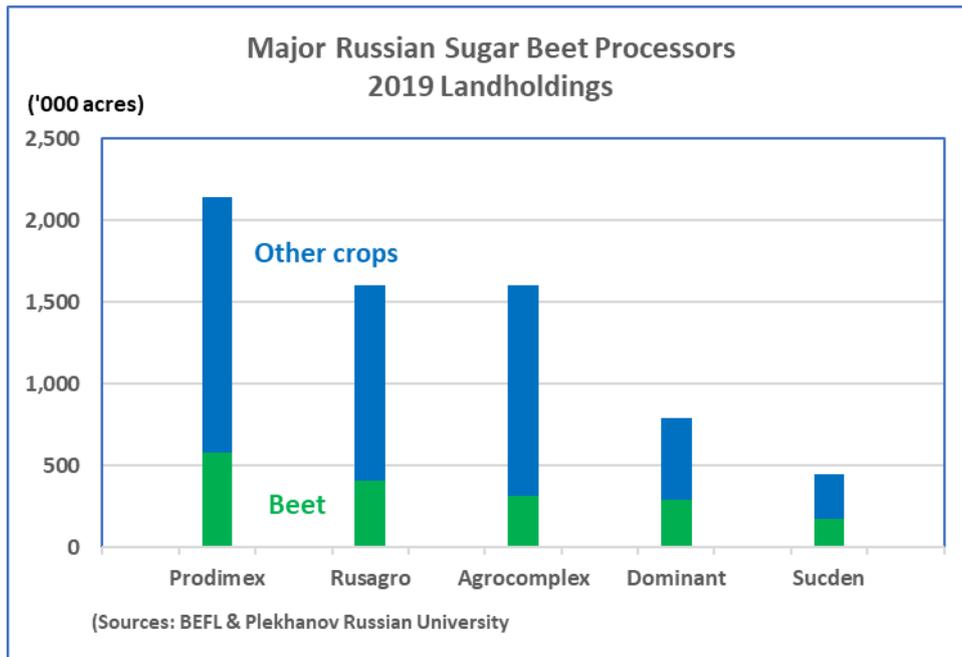
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<sup>7</sup> Russian Agricultural trade and world markets, by William M. Liefert and Olga Liefert, ERS, USDA Russian Journal of Economics 6 (2020).

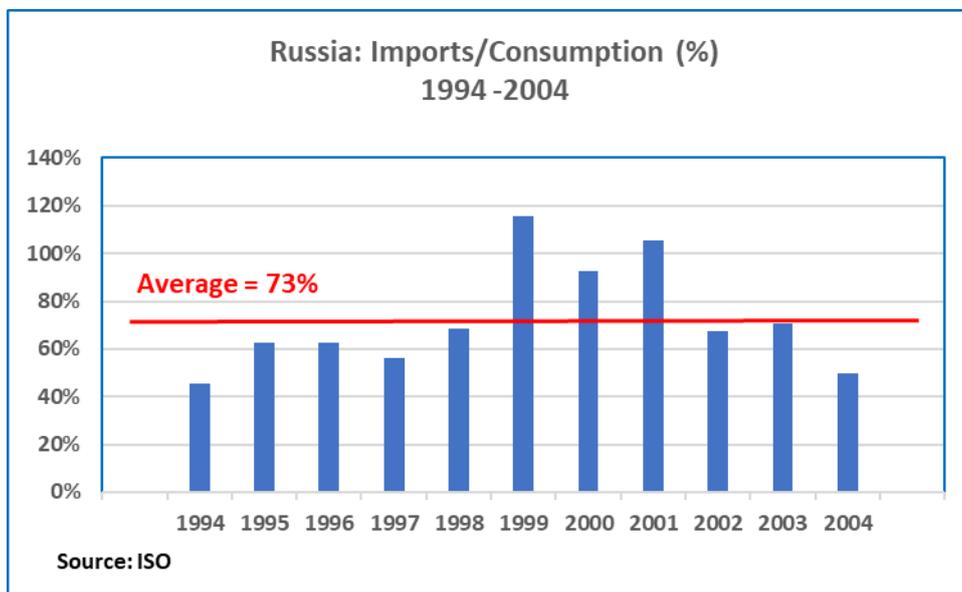
<sup>8</sup> The USSR commitment to purchase over 5 mmt raw Cuban sugar annually was excessive for the Russian Federation alone, and the price, at over twice the world market level, was unaffordable for the struggling Russian economy. In the 1990s, when Cuba still supplied Russia with over 2 mmt per year, Russian importers – private companies – paid only world market prices. Imports from Cuba fell to less than 200,000 tons by 2004.

<sup>9</sup> In the USSR there were two forms of agricultural enterprises: collective farms, or Kolkhoz, where members in theory had shares and were not employees, and state farms, or Sovkhoz, where there were only employees.

<sup>10</sup> 69% of beets are thus grown by factory-owners. Source: Rosstat, quoted in "Russian Agriculture: Growth and institutional challenges", Elsevier, February 2019, by Vasily Uzun, Natalya Shagida and Zvi Lerman.



From 1994 to 2004, the Russian Federation remained essentially supplied in sugar by importing raw sugar, which largely was refined in sugarbeet factories during the long inter-crop season. This “tolling” scheme was necessary for the financial viability of the supply chain. In 2002 still, over 55 of 84 sugarbeet factories operated also as raw cane sugar refineries when not processing beets. Remarkably that year, 5 factories did not process any beets at all and only refined imported raw sugar.



This may explain why sugar trading houses which import sugar were often corporate buyers of Russian sugar mills: the purchases allowed them to secure their operations by refining on location; it just happened that the raw cane sugar refineries they bought were also sugarbeet factories. By 2002, 80% of beet sugar factories belonged to sugar traders, mainly Russian, but some of them well-known foreign companies: early on, Cargill, ED&F Man and Sucden acquired beet factories. Only Sucden remains involved.

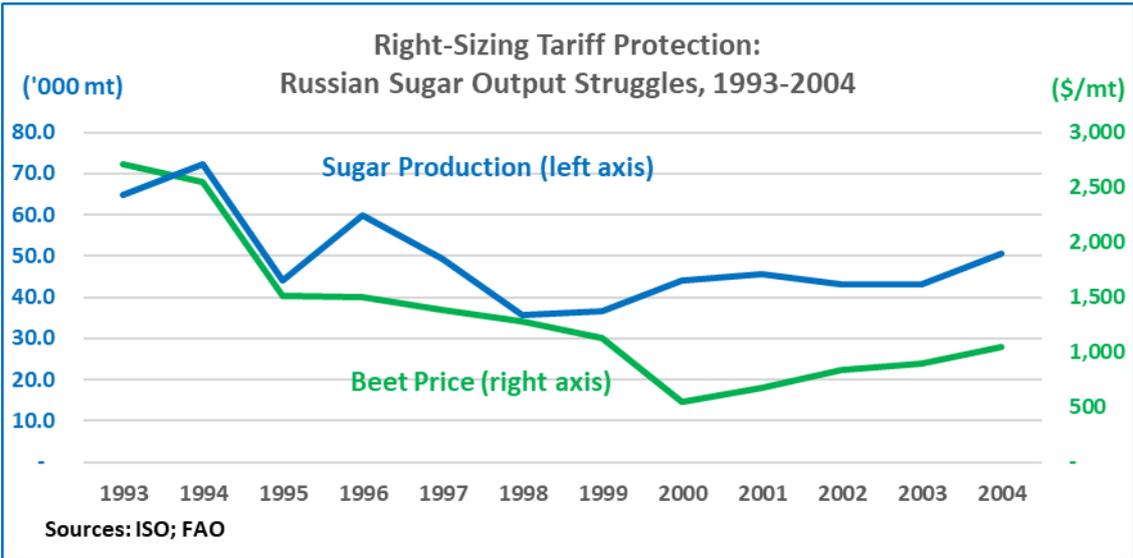
With operators interested in making a margin from refining raw sugar and processing sugarbeet often in the same installations but not at the same time, the primary economic threat came from refined sugar imports. The duty on refined sugar imports was set at \$240/t, a level that prohibited white sugar imports

from the world market. How to reconcile refining throughput, beet production and competitive market prices through raw sugar import management, however, was more complicated. Little by little, by trial and error, these contradictions were overcome but, as mentioned earlier, over the period sugarbeet output dropped.

At the time, the main tools with which Russia could support its sugar industry were import duties and Tariff Rate Quotas. Properly set, these could keep both raw sugar refining and sugarbeet growing (and processing) financially viable. However, Russia’s controls on sugar imports went through a 10-year period of trial and error with varying levels of duties and changing TRQ management rules. During the 1990’s domestic production stagnated.

In 1994, the tariff on both refined and raw sugar imports was 20%. In 1995, the raw sugar tariff was dropped to 1%. Early on, it was realized that better protection during the beet harvest was needed to secure domestic production: from August to December 1998, the raw duty on raw sugar imports grew to 75%; in 1999, despite continuing low world market prices, the duty for refined and raw sugar imports fell to 45% for the second half of the year; in 2000, the second-half duty on raw sugar was again dropped, this time to 10% at a time that saw better world market prices.

Overall, this fluctuating protection proved weak: from 1992 to 2001, sugarbeet prices dropped 70% and Russian sugar production dropped 34%. This situation lasted until 2001, when higher tariff rates were introduced alongside minimum absolute duty values, seasonal rates and a TRQ for raw sugar. These new sugar import rules stabilized Russia’s sugarbeet base.



Russia’s sugarbeet industry found itself under pressure from imports and fluctuating trade rules. Although it was not destroyed, it retreated: area sown in beet fell from 3.5 million acres around 1992 to 2 million in 2004 and sugar production from 2.5 mmt to 1.7 million. Clearly, the tariff regime of that time was not enough to sustain, let alone boost, domestic Russian sugar production.

In particular, in 2001 the government made operators bid for in-quota raw sugar by submitting the duty they were prepared to pay to obtain licenses. In theory, the seasonal changes to import tariffs and TRQ licenses were calibrated to maintain beet sugar economic viability during the harvest period. With material changes to minimum and maximum duties, TRQ amounts and seasonality, this last construct lasted until 2004 and arrested the decline in domestic sugar output.

As an example of sugar import tariff rules, in 2003:

- The refined sugar duty was \$271/t (EUR 240/t), rising to \$305/t (EUR 270/t) in the third and fourth quarters. (The 2001 average world market refined sugar price was \$215/t.)

- The duty for the then 3.65-million-ton raw sugar TRQ was \$107/t (EUR 95/t) to which had to be added an auction-determined license fee of \$102.60/t. (The 2001 average world market raw sugar price was \$156/t.)
- For out-of-quota raw sugar, the duty was a flat \$226/t (EUR 200/t), rising to \$260/t (EUR 230/t) in the third and fourth quarters.

This complex and fluctuating system of import controls was about to be both simplified and stabilized.<sup>11</sup>

## **Growth, At Last: 2004 - 2020**

Thanks to the country's abundant farmland and favorable natural endowments, food was one sector where Russia could hope to improve output and, early on, the Russian Federation sought less dependency upon foreign capital and imports.

The concept of food security provided the policy basis for government intervention in agriculture. Underlying it was a desire to reduce import-dependency. The move to a market economy had practically eliminated subsidies; what little there had been was largely directed to reducing the cost of imported inputs: their disappearance damaged production profoundly.<sup>12</sup> Consequently, Russia suffered from a trade deficit in food. Given Russia's potential farmland<sup>13</sup>, this was unacceptable for an administration intent on restoring sovereignty. Deficits in dairy and meat products were especially disturbing as they indicated a problem not of volume alone, but also of quality: access to a healthy diet was limited.

The 2010 "Doctrine on Food Security of the Russian Federation" was designed to address these challenges and sugar was one product which would benefit from government support. It did. For sugar, the aim was to grow and process enough domestic sugarbeets to cover 80% of domestic consumption. Unfortunately, until oil prices rose from the low levels prior to 2004, government finances were too weak to provide meaningful financial support to agriculture. Until then, only import duties gave Russian agriculture a measure of protection, but this proved crucial in maintaining a small but slowly growing supply of sugarbeets.

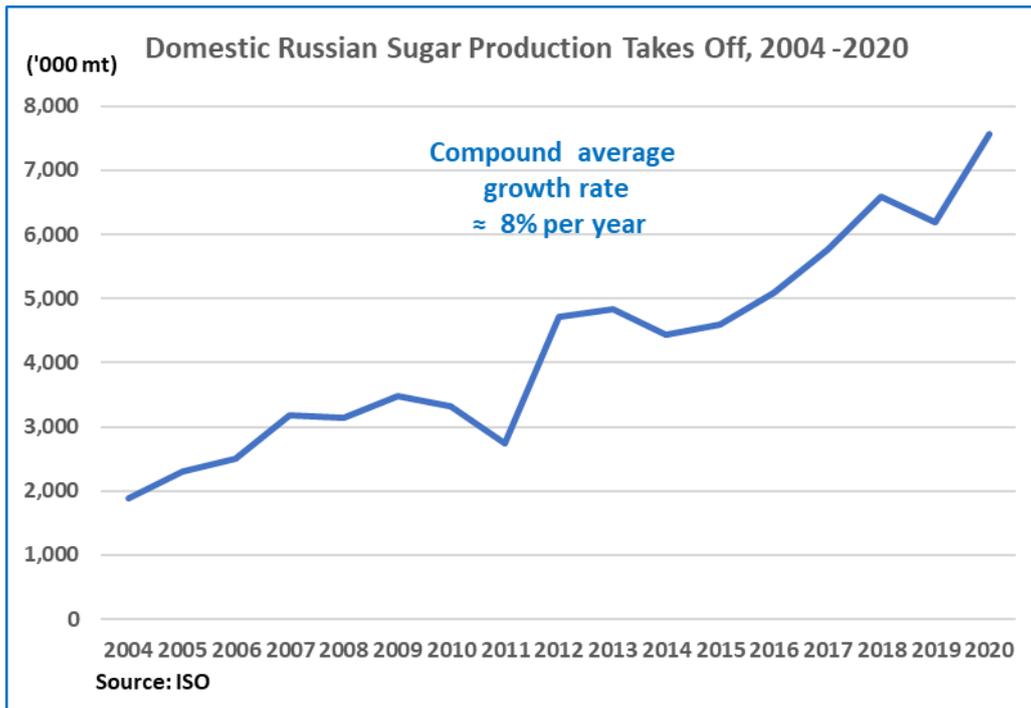
As elsewhere, with sufficient tariff protection against unreasonable world market prices and with natural conditions for growing a sugar crop, private capital to improve and expand production was attracted to the industry. This suited the desire to strengthen Russia's food security and, by reducing the need for imports, saved foreign-exchange and secured employment in agricultural areas.

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<sup>11</sup> Today, the import duty on raw sugar is revised monthly by the Eurasian Economic Commission and published on its website <http://www.eurasiancommission.org/ru/act/trade/catr/ett/Pages/default.aspx>

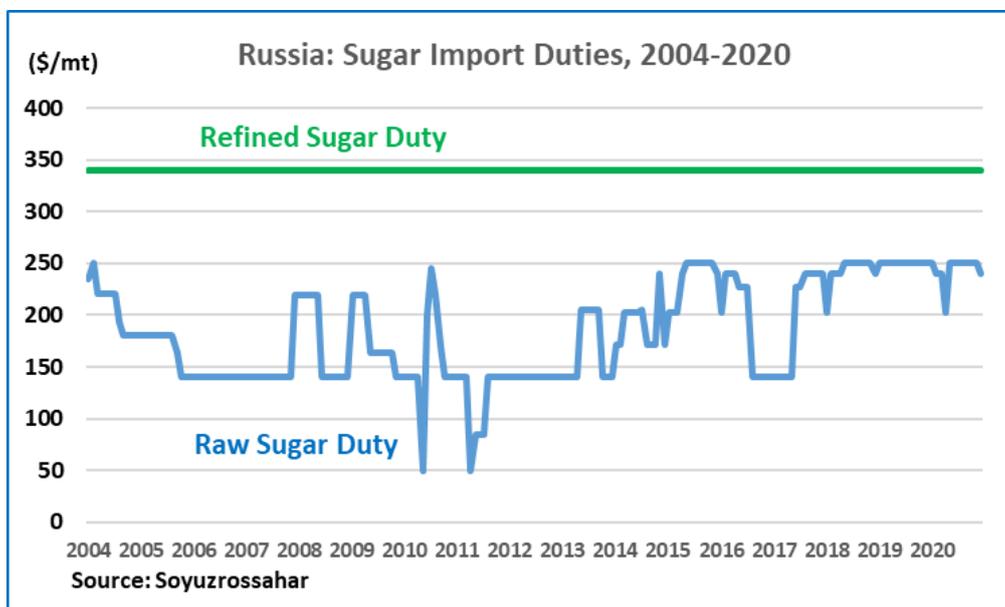
<sup>12</sup> "Russian Agricultural Trade and World Markets", by William M. Liefert and Olga Liefert, Russian Journal of Economics 6 (2020).

<sup>13</sup> 530 million acres, of which 300 million acres of arable land and the balance is for pasture. Source: FAO.



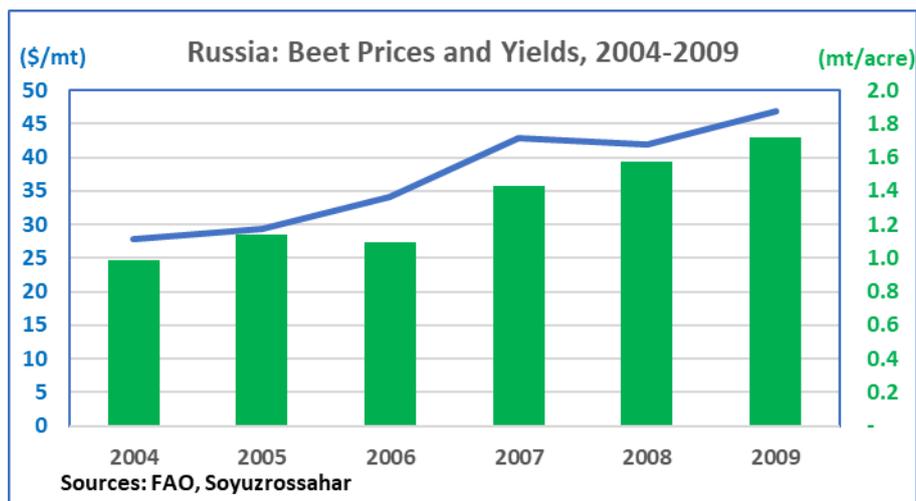
### Growth Begins: 2004 – 2009

From 2004, the rules for sugar imports stabilized: for raw sugar imports, a variable duty that is strictly a function of the world market price level; for refined sugar, the duty was set at a fixed rate of \$340/t (Russia’s WTO-bound ceiling). Most of Russia’s sugar imports were raw<sup>14</sup>.



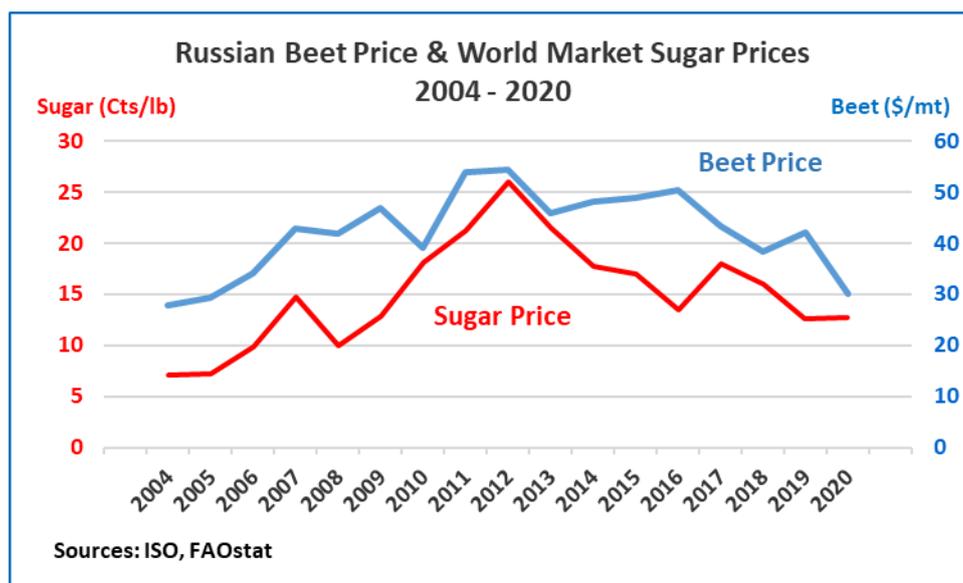
With relatively high level of protection against refined sugar imports and more predictable duties on raw sugar for refining, beet prices and yields progressed significantly.

<sup>14</sup> Under the Customs Union, however, Byelorussia exports about 200,000 mt of refined sugar duty-free to Russia.



With border protection providing an estimated \$15/t price boost to the industry<sup>15</sup>, from 2004 to 2009 annual domestic sugar supply grew 50%, from 2 to 3 million tons, thus fulfilling up to 50% of domestic demand.

But after 2011, world market prices fell and with them, so did Russian beet prices.



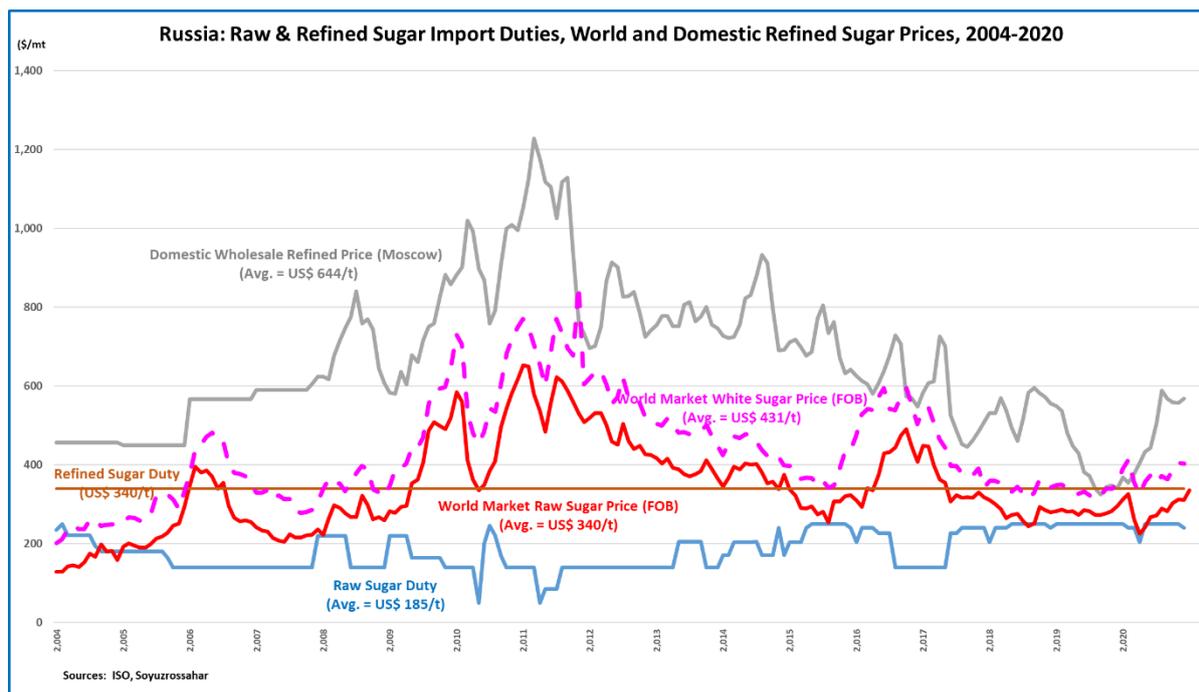
Russia’s import tariff level was unexceptional: from 2011 to 2013, a period in which raw sugar imports still covered nearly 20% of Russian consumption, Russia’s weighted ad valorem average import duties on raw sugar were 28%. For major sugar importing countries, they were 33.4%.<sup>16</sup>

From 2010, the estimated value of border protection fell. First to \$12/t of beet, then to \$8/t.

Throughout the period running from 2004 to 2015, there was a strong correlation between domestic Russian and world market price movements.

<sup>15</sup> This is the value of OECD Market Price Support applicable to Russian beet sugar; how this “premium” is shared between economic agents is unclear, but a large part must help support sugarbeet pricing.

<sup>16</sup> ISO MECAS(14)07, “Government Sugar Trade Policy – Tariffs and Tariff rate Quotas”.



During this period, the average spread between the wholesale market price registered in Moscow and the New York #11 FOB raw sugar world market price amounted to \$362/t; Russian raw sugar tariff averaged \$168/t, so that, once the duty was paid, the remaining average gross difference between imported raw sugar and the domestic price in Moscow was \$194/t. That difference had to pay for credit finance, maritime freight, insurance, port charges and transportation to the refinery, raw sugar refining operations and transportation to Moscow. Available information from IKAR<sup>17</sup> on this succession of costs point to a small and variable refining margin left for the factories. Over the period, logistics and processing costs needed to refine import-duty-paid raw sugar were barely covered by selling prices. There was little financial benefit from import tariffs accruing to refining raw sugar. In relative terms, this probably rendered beet processing more attractive.

From 2016 to 2020, the average import duty increased to \$232/t, and the average gross difference between domestic prices and world market prices for refined sugar grew to \$288/t. However, once domestic supplies reached 80-90% of demand, internal market balances sometimes affected price, eroding the “tariff premium”. This was the case in 2016-2017, and again in 2019-2020.

Non-tariff barriers to imports of sugar are practically non-existent. GMO technologies in food products are currently not allowed in Russia, but as there is no GMO sugar traded internationally, it is immaterial. Neither are there any phytosanitary regulations specific to sugar.

For sugarbeets, tariffs certainly led to prices higher than would have been the case otherwise but direct and indirect financial subsidies were needed to turbo-charge private-sector investment in the Russian sugar sector.

### Funding Expansion: 2010 – 2018

To distribute subsidies, a government must have enough financial resources. As the price of oil began rising in 2004 so did Russian fiscal revenues: between 2003 and 2008, the country’s oil revenues grew tenfold to over \$200 billion a year<sup>18</sup>. From about \$100 billion in 2000, the Russian Federation’s consolidated budget grew to \$650 billion in 2008, of which 27% was funded by oil and gas revenues.

<sup>17</sup>The Institute for Agricultural Market Studies (IKAR) – [www.ikar.ru/eng/](http://www.ikar.ru/eng/)

<sup>18</sup> “Russia’s Management of Oil and Gas” by Antoine Heuty; February 2012.

With this windfall and an improving economy, the government could lace domestic policies with attractive financial incentives.

From its inception in 1992, the Russian Federation deemed food security to be important. Until 2006, however, fiscal resources were too weak to buttress agricultural policies with strong financial incentives. Russia's overall agricultural policy aims are set in "Food Security Doctrines". Published in 2004, 2010 and 2020, these provide foundations for specific agricultural programs and incentives. For example, the July 2007 Presidential Decree n°466 implemented the "Agricultural Developments 2008 – 2012" State Program, which aimed to increase agricultural production by 24.1% against 2006 output and obtain a 70% share of retail sales for domestic foodstuffs. Its specific target for sugar was that the domestic beet sugar share of production (including refining of imported raw sugar) should reach 67% by 2012, against 61% in 2008.

In October 2009, Ministry of Agriculture Decree n°501, "Development of Russia's Sugar Sector, 2010 – 2012", sets annual goals increasing beet production to 36.2 mmt and beet sugar to 4,320,000 tons; it even estimates the overall related financial effort: 61.44 billion Rubles (equivalent to \$2 billion at average 2010-2012 exchange-rate) of which 17 billion Rubles (\$560 million) would be subsidized with public funds.

Thus, in each period covered by a Food Security Doctrine, one finds incentive programs setting targets and detailing support, with each program fitting into another somewhat like Russian dolls. The above 2010 – 2012 development plan fitted into the January 2010 Food Security Doctrine, which called for domestic sugar supply to satisfy 80% of national demand.

Thus, the 2013 – 2020 State Program for Agricultural Development was adopted in July 2012 by Presidential Decree n°717, in line with the 2010 Food Security Doctrine. It sought to guarantee Russia's food independence through:

- accelerated import substitution for meat, milk, vegetables, seed potatoes and fruit and berry products;
- improved competitiveness of Russian agricultural products in the domestic and world markets in view of Russia's entry into the WTO in August 2012;<sup>19</sup>
- increased financial stability of enterprises in the agro-industrial complex;
- sustainable development of rural areas;
- improvements in efficient and ecologically-sound use of land and other resources;
- better marketability of Russian agricultural products.

The State Programs for arable crops reserved \$9.7 billion over 8 years for grains, flour and bread, pasta, sugarbeets and sugar, vegetable oils, fruit and vegetables, wine and linen. Of this amount, \$1.6 billion was earmarked to support fixed asset investments.

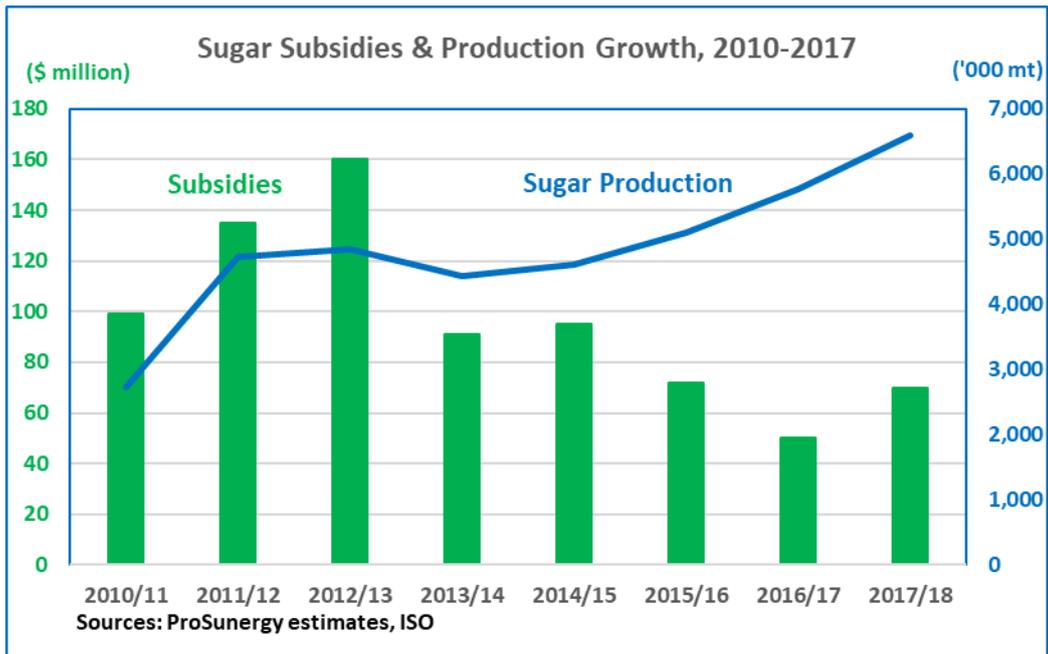
For sugar specifically, by 2020 the State Programs sought to:

- grow domestic beet output to 41 mmt, and sugar production to 5.4 mmt;
- increase the share of Russian beet sugar in retail trade to 93.2%, and the share of domestically-produced beet seeds to 75%;
- increase storage capacities for sugar, beet pulp and molasses to 70% of production of sugar and pulp, and 90% of molasses output.

Being able to store enough sugar to supply demand over a whole year was particularly important as, otherwise, only imports could do the job. The program for sugar was successful, with sugar production growing, factory asset expanding, and self-sufficiency attained.

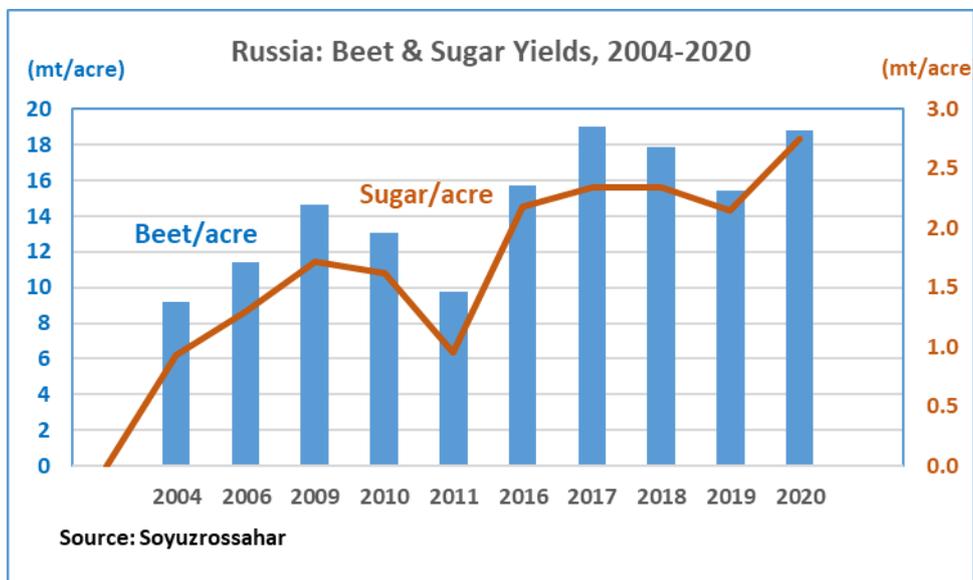
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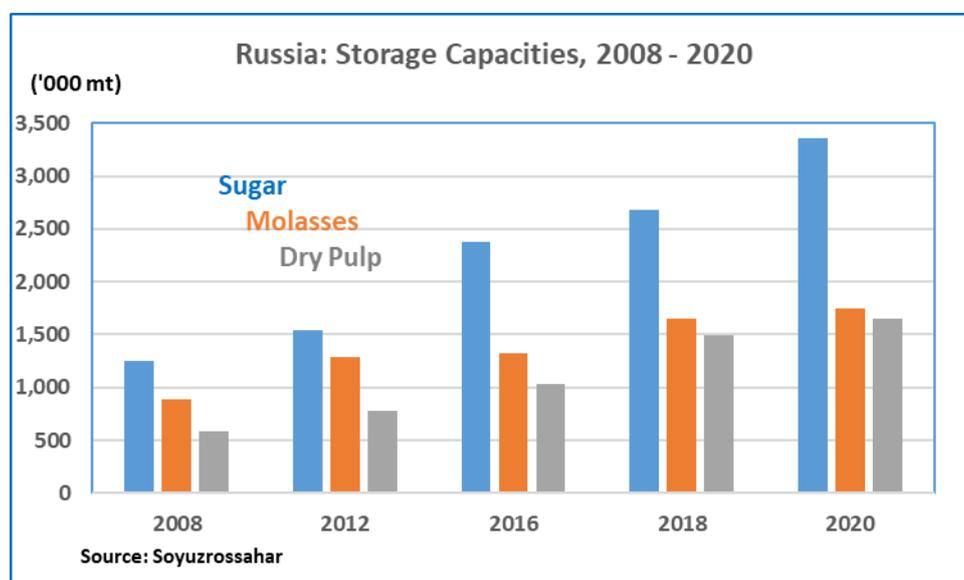
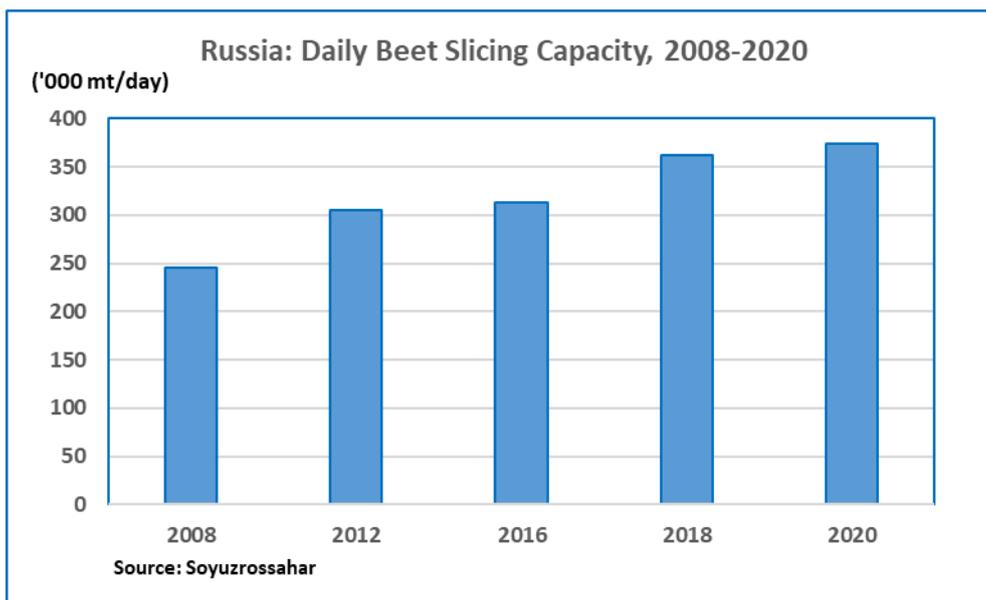
<sup>19</sup> In 2012, when Russia joined the WTO – the bound rate for the import-duty on raw sugar was adjusted from \$270 to \$250 per metric ton.



Information on ex-post delivered subsidies is not readily available. Financial assistance processes do not necessarily use up all the allocated budgets. Furthermore, support was spread between federal and regional (oblast) budgets, and not all programs were taken up successfully or fully. Thus, the amounts actually delivered to the industry are estimates. The two sugar “sub-programs” of 2010-2012 and 2013-2015 made about \$772 million available to the industry, some of which may have been disbursed after 2015.

As intended, these subsidies improved beet yields and pushed factory investment.





The national sub-programs "Development of the sugarbeet sub-complex of Russia" for 2010-2012 and 2013-2015 primarily delivered funds by subsidizing operating costs through:

- Part compensation of the cost of mineral fertilizers;
- Part compensation of the cost of herbicides;
- Part compensation of the interest on one-year credits used to buy sugarbeets;
- Research and development subsidies.
- Part compensation of the interest expense on investment credits used for factory modernization and in the 2013-2015 program, warehouse facilities for sugar, molasses and beet pallets;

Most likely, subsidized interest rates for investments in processing and storage drove capacity growth.

Since 2015, there has been no government interest in renewing sugar "sub-program" subsidies. With domestic output well above the target of 80% of consumption, authorities probably feel that national sugar supplies are now sufficient.

Although its growth is notable, the Russian beet sugar industry remains relatively inefficient by American and Western European standards: field yields are low, processing campaigns are only about 100 days long and average factory beet throughput, at some 5,000 tons per day, is low. Consequently,

the domestic sugar cost of production is relatively high<sup>20</sup> when compared to other major beet sugar industries.

### After 2019: Good Harvest and Export Blues, Bad Harvest and the Politics of Price

The issue with a protected sugar market in which there is a close domestic supply/demand equilibrium is how to keep it balanced despite nature’s vagaries.

Year	Production ('000 t)	Consumption ('000 t)	Surplus/Deficit ('000 t)
2019	6,181	5,820	361
2020	7,555	5,950	1,605
2021	5,175	5,900	- 725

For Russia, an unexpected record crop in 2019/2020 brought in 7.6 mmt of sugar, fully 1.3 million tons more than a year before and 27% above domestic consumption. Consequently, domestic prices crashed, falling to \$365/t on average between May 2019 and April 2020 against \$530/t in the previous 12 months. Prices even fell below import-parity.

At first, the federal government attempted to help, supporting exports through subsidies compensating up to a third of the cost to transport sugar, molasses and beet pulp pellets to export terminals from 2019 to March 2021. These probably amounted to \$10 to 15 per ton of exported sugar. Exports mostly went to Eurasian Economic Union and Commonwealth countries and to other Community of Independent States countries, all of which have sugar deficits<sup>21</sup>. In addition, Presidential Decree N°522 allowed producers to form a single export selling desk from April 2020, but it has not been implemented yet. Central Asia constitutes the only market where the geographical premium and a common border policy (at least in theory) make Russian sugar exports competitive against sugar from the world market. In this context, modest exportable surpluses when the Russian beet crop is large should be expected.

But then, and perhaps just as well for domestic prices, the 2020/21 beet crop was disastrous: with lower prices, beet area dropped 18%; furthermore, poor weather affected plant development. Just about 5.2 mmt of sugar will be supplied and that is 20% below estimated domestic demand. Despite high initial stocks, prices rose by 50% in mid-2020, then by 78% by November<sup>22</sup>.

Looking ahead, 2021 is an election year and the Russian government is determined to rein in food inflation. The beet lifting campaign ended on 10 December 2020. The beet crop reached 33.5 mmt and

<sup>20</sup> Above \$500/t against a North-Western European level of less than \$400/t.  
<sup>21</sup> The Commonwealth of Independent States (CIS) is a regional organization of countries which formed it after the collapse of the Soviet Union. Nine out of the fifteen former Soviet Republics are member states: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan and Uzbekistan. Another two are associate members (Ukraine and Turkmenistan). Georgia withdrew its membership in 2008, while the Baltic states (Estonia, Lithuania and Latvia) chose not to participate at all. In 2009, three members of the CIS (Belarus, Kazakhstan and Russia) set up the CIS Customs Union, which later (in 2014) was transformed into the Eurasian Economic Union – the EAEU. At the end of 2014, Armenia and the Kyrgyz Republic joined the EAEU.  
<sup>22</sup> Source: Reuters – Rusagro; increase to 4<sup>th</sup> quarter of 2020.

the average beet yield was only 14.74 t/acre. This is down 38.4% from the 54.4 mmt beet harvest of a year ago, when the average beet yield was much higher at 19.41 t/acre.

On the back of this poor crop, sugar prices rose about 50% between August and November 2020, to RUB 45,635/t (26.5¢/lb). This was the highest average monthly price since July 2016. Early December, President Putin suggested introduction of limits on prices for a number of staple foods, including sugar. In response, the Ministry of Agriculture, sugar companies, industrial users and retailers across signed an agreement pledging to cap the ex-factory price of sugar between December 2020 and March 2021 at RUB 360/t (21.21¢/lb). In March, the voluntary agreement was extended for three more months, until June 2021. This time, the government decided to compensate part of the industry's losses and announced a subsidy equivalent of 2.95¢/lb capped, however, at \$40 million and only for up to 600,000 tons sold from 1 April to 1 August. In a further move to hold prices down, Russia implemented a 350,000-ton duty-free refined sugar import quota from May 15 to September 1, 2021<sup>23</sup>.

Having succeeded in developing a domestic sugar industry capable of supplying the country's needs fully, Russia now faces the challenge of making supply and demand balance well enough to make retail price movements bearable. It appears fairly certain that the Russian government will remain closely involved in the future of the Russian sugarbeet industry.

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<sup>23</sup> Requires the consent of the Eurasian Economic Commission (EEC).

## **Authors**

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Patrick Chatenay has been involved with the sugar industry since 1985 when he joined Saint Louis Sucre, at that time the second-largest sugar and ethanol producer in France. In 1990, he was appointed to Saint Louis's Executive Board on which he served until he left the company in 2008.

As part of his responsibilities for Saint Louis, he acted as Assistant Managing Director of Azucarera Ebro, the largest Spanish sugar producer, and as a board member of IANSA, the Chilean sugar producer and food processor. From 2003 to 2008, Patrick researched acquisition opportunities in the Brazilian sugar/alcohol industry. Patrick is an independent non-executive director of ALTEO Limited, which produces sugar in Mauritius, Kenya and Tanzania.

In 2008, he founded ProSunergy, which provides strategic advice and implementation services for the world's sugar, renewable energy and bio-fuel industries.

He holds a MS Economics (Econometrics) and a B.A. in English (Teaching) from the University of Paris, a Diploma in Public Administration from the Political Science Institute of Paris and an MBA from Columbia University in New York.

### **Sergey Gudoshnikov**

Sergey was educated in Moscow in international trade economics. More than 40 years of his professional career were dedicated to the sugar market.

From 1978 to 1988, he worked as a sugar trader in Moscow and was deputy director of the sugar department of VO Prodintorg, at that time the sole importer of sugar into the Soviet Union.

In 1988, he joined the Secretariat of the International Sugar Organization in London as Senior Economist responsible for the analysis of political and economic drivers of the world sugar market.

He is the author of numerous articles analysing world and regional sugar markets. He co-authored the book *The International Sugar Market* published in 2004 by Woodhead Publishing Ltd in the USA and the UK. Sergey retired from the ISO in April 2020.