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## Ukraine

### Sugar Annual

**2000**

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#### Report Highlights:

**Ukraine has changed from being one of the world's largest sugar producers and exporters at the beginning of the 1990's to a net sugar importer since MY 1998/1999. Despite attempts by the Ukrainian government to make beet production and sugar refining profitable, Ukraine will not meet increased domestic demand, particularly for the confectionary industry, with projected production levels. As a result, Ukraine will continue to import lower-priced raw cane sugar from Latin American counties in MY 2000/2001.**

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Includes PSD changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
Warsaw [PL1], UP

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## Executive Summary

Ukraine is expected to produce 14.5 million metric tons of sugar beets which would allow production of approximately 1.8 million metric tons of sugar (raw value) in 2000 which will represent a slight increase over 1999 production but is still less than 2 years ago. Total sugar production in MY2000/2001 is estimated at 2.1 million metric tons including refined sugar cane. Domestic sugar production will continue to fall short of increased sugar demand, particularly from the Ukrainian confectionary industry. As a result, Ukraine will continue to import lower-priced raw cane sugar. However, sugar imports in MY 2000/2001, are expected to be lower compared with the current marketing year due to the introduction of government incentives to establish minimum sugar beet procurement prices and a minimum wholesale sugar prices.

Overall sugar consumption in MY 2000/2001 will stabilize after increases during the past two marketing years. Increased demand in the Ukrainian confectionary industry will be constrained by the limited income and purchasing power of the population.

Sugar and sugar confectionary exports in MY 2000/2001 are projected to increase slightly due to demand from countries from the Former Soviet Union.

## Sugar Beets, PSD Table

PSD Table						
Country	Ukraine					
Commodity	Sugar Beets				(1000 HA)(1000 MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		09/1998		09/1999		09/2000
Area Planted	1000	1000	0	1035	0	950
Area Harvested	891	891	0	897	0	900
Production	15520	15520	0	13900	0	14500
TOTAL SUPPLY	15520	15520	0	13900	0	14500
Utilization for Sugar	15520	15520	0	13900	0	14500
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	15520	15520	0	13900	0	14500

### Production

Area planted with sugar beets is expected to be lower in 2000 compared with the previous two years while area harvested is projected to increase. A late frost in May 1999, destroyed some of the crop while, extremely hot and dry weather during the early 1999 summer significantly lowered yields. Soil moisture should be adequate entering the new planting season. While access to plant protection chemicals is not expected to improve in 2000, normal weather conditions should permit a return to larger yields and harvested area. Yields, are expected to be higher than in 1999 but lower than in 1998 due to a projected decrease to the application of mineral fertilizers and plant protection chemicals. Industry representatives noted that while supplies are adequate, most farms do not have funds available to purchase supplies.

In 2000, the GOU plans to introduce minimum prices for sugar beet procurement as well as wholesale sugar in order to support Ukraine's farmers and sugar refiners. Sugar beet production and sugar refining have not been profitable in Ukraine for last six years. In 1999, sugar beet production costs increased 15 percent in Ukrainian hryvna (UAH) equivalent compared with the previous year and reached UAH 93 per ton (approximately \$20). The average farm gate price for sugar beets during the same time increased 20 percent and reached UAH 85, which still did not cover production costs.

Most sugar beet production in 2000 will remain concentrated in the public sector. There are indications; however, that area under sugar beet cultivation on individual household plots will increase. Out of the total 15.5 million ton harvested in 1998, 1.4 million tons or nine percent were grown on individual household plots who have managed to establish direct commercial relations with sugar refineries. The preliminary 1999 results indicate that the share of small individual household farmers increased to 12 percent of the total sugar beet production. The small-scale production (0.05 - 0.4 Ha) of sugar beets in Ukraine has become a means of survival for the rural population. Production occurs with little or no machinery and has allowed individual household producers to save on high energy costs by using mostly family labour. The individual producers receive sugar and pulp (for feed) as payment from processors.

These farmers sell sugar on the open market augmenting their incomes.

## Marketing

During the past six years, the majority of sugar beets delivered by farmers to local refineries was processed on a tooling basis. Under such a system, farmers deliver beets for processing do not receive money as payment but are paid in-kind with sugar and beet pulp. Processors normally keep 70 percent of sugar for themselves and return the remaining 30 percent to farmers. This practice has significantly increased the number of sugar traders while at the same time reduced whole sale sugar prices.

## Centrifugal Sugar PSD Table

PSD Table						
Country	Ukraine					
Commodity	Centrifugal Sugar				(1000 MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		09/1998		09/1999		09/2000
Beginning Stocks	214	214	255	295	405	296
Beet Sugar Production	2000	2000	1800	1720	0	1800
Cane Sugar Production	0	0	0	0	0	0
TOTAL Sugar Production	2000	2000	1800	1720	0	1800
Raw Imports	200	240	200	380	0	300
Refined Imp.(Raw Val)	1	25	1	1	0	0
TOTAL Imports	201	265	400	381	0	300
TOTAL SUPPLY	2415	2479	2455	2396	405	2396
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	160	134	50	30	0	50
TOTAL EXPORTS	160	134	50	30	0	50
Human Dom. Consumption	2100	2050	1850	2070	0	2070
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	2000	2050	2000	2070	0	2070
Ending Stocks	255	295	405	296	0	276
TOTAL DISTRIBUTION	2415	2479	2455	2396	0	2396

## Production

Total Ukrainian sugar production in MY 2000/2001 is estimated 1.8 million ton (raw equivalent) with the assumption that sugar output per ton of processed beets will be 12.4 percent. In addition to beet sugar, refineries will process approximately 300 TMT of raw cane sugar in MY 2000/2001 bringing total sugar production up to 2.1 million ton.

Ukraine's 192 sugar refineries can process an estimated 50 million metric tons of sugar beets per year however, in MY 1999/2000 refineries only operated at 28 percent capacity. According to the Ukrainian National Association of Sugar Producers *Ukrtsukor*, Ukrainian refineries produced 1,639 TMT of sugar from 1999 sugar beets with an estimated raw value at 1,720 TMT.

Of the 192 existing Ukrainian sugar processing factories, 163 processed beets in MY 1999/2000. There are only three sugar refineries that worked over 70 days; 29 refineries worked between 50-70 days; 73 operated between 30-50 days and the remaining 58 were functioning only 10-30 days. The Chertkovsky Sugar Refinery in Ternopil Oblast processed 299 TMT, the largest quantity of beets processed by a Ukrainian refinery in 1999. Nevertheless, it operated only 45 days in 1999/2000. According to *Ukrtsukor* data, dry weather conditions reduced the quality of sugar beets and increased storage losses. The average sugar output per ton of processed beets decreased from 12.8 percent in MY 1998/1999 to 12.3 percent in MY 1999/2000 with higher color index. Some factories registered sugar output as low as 10 percent.

It is projected that the number of sugar refineries operating in MY 2000/2001 will be reduced. It is estimated that refineries must work an average of 60 days per season in order to make sugar beet processing profitable. The major problem for the Ukrainian sugar beet processing factories has been the lack of operating capital and old equipment. There are 153 sugar refineries that were built over a century ago. The sugar production has not attracted investment because of overall losses in the industry and old debt.

### **Consumption**

The latest available official statistics indicate per capita consumption of sugar at 31.5 kg in 1998 which was a slight increase from 1997 but still much lower than the early 1990s when per capita consumption was

50 kgs. Given the increase in production the past two years, we would expect per capita consumption to again increase in 1999. Industrial consumers will mostly bare the burden of higher prices for beet sugar in order to make domestic beet sugar production profitable. The steady increases in sugar confectionary consumption in MY 1998/1999 and MY 1999/2000 will slow and stabilize at the level achieved during the current marketing year. Confectionary producers constrained by low consumer purchasing power will have to reduce their profit margins in order not to lose market share. The estimate for MY 1999/2000 consumption level has been increased based on higher imports and reduced exports.

### **Trade**

Ukraine imports primarily raw cane sugar as specified under a government quota. Ukraine will continue to import raw cane sugar albeit at reduced levels in MY 2000/2001 due to expected higher domestic sugar production and stagnant demand from the confectionary industry. MY 2000/2001 raw sugar imports are currently projected at 300 TMT. According to some estimates, there are 70 Ukrainian refineries that can process raw cane sugar.

We have increased our estimates of raw cane sugar imports in MY 1999/2000 based on monthly trade data. Imports of raw cane sugar in MY 1998/1999 continued past the beginning of the new marketing year. The previous year, imports stopped in July 1998 which coincided with the start of the sugar beet

harvest. It has been estimated that based on available monthly trade data that October-December 1999 raw cane sugar imports amounted 42 TMT. In MY1999/2000, the GOU will likely to allow imports of an additional 350 TMT of raw cane sugar under the preferential import quota before September 2000 due to growing domestic demand. MY 2000/2001 sugar imports are estimated at 380 TMT.

The estimate of MY 1998/1999 total sugar imports has been revised based on available statistics and is now estimated at 265 TMT, including estimated 25 TMT (raw value) of refined sugar imports from Belarus, Moldova, Russian Federation, Poland and Hungary.

### Import Trade Matrix, Centrifugal Sugar, MT

Imports for:	CY 1998	CY 1999
U.S.	4	9
Others		
Brazil	21697	169119
Cuba	49400	102400
Salvador	37252	25089
Guatemala	0	13999
Belarus	0	5250
Moldova	1400	4164
Hungary	2	79
Russian Federation	290	33
Poland	14	31
Germany	24	29
Total for Others	110079	320193
Others not Listed	28685	79
Grand Total	138768	320281

### Export Trade Matrix, Centrifugal Sugar, MT

Exports for:	CY 1998	CY 1999
U.S.	0	0
Others		
Russian Federation	56168	44306
Turkmenistan	9284	12981
Azerbaijan	23939	5397
Belarus	8714	2306
Georgia, Republic of	2382	1024
Latvia	325	626
Uzbekistan	1634	513
Kazakhstan	976	320
Estonia	1171	285
Tajikistan	1080	198
Total for Others	105673	67956
Others not Listed	1715	120
Grand Total	107388	68076

Exports of sugar from Ukraine in MY 2000/2001 are currently projected at 50 TMT or slightly higher than the current marketing year. It is expected that despite relatively high prices of Ukrainian sugar, exports will continue to the countries of the Former Soviet Union under intergovernmental agreements such as barter payments for Turkmenistan natural gas and Azerbaijan diesel fuel. There have been also some negotiations concerning Ukrainian sugar exports to the Georgian Republic under intergovernmental agreement. On the other hand, Russia will not lift duties on Ukrainian sugar in MY 2000/2001 because of imports of cheap raw cane sugar.

Sugar exports in MY 1999/2000 have been insignificant. According to available monthly sugar trade data, September - December 1999 exports were only 3.4 TMT compared with 70 TMT exported during the same period in 1998. Ukraine lost the Russian market for sugar due to high prices on Ukrainian

sugar and increasing import duties and the VAT set by the Russian government in order to protect the Russian domestic sugar market.

The revived Ukrainian confectionary industry will partially offset declining sugar exports by increased exports of confectionary products. Exports of Ukrainian candies made of sugar, caramels and other sugar confectionary products (HS Code 170490700) increased from 37 TMT (\$36.8 million) in CY 1998 to 63 TMT (\$44.4 million) in CY 1999. Imports of sugar confectionary products to Ukraine were only 364 tons in CY 1999.

## **Policy**

The Parliament of Ukraine will review a law establishing a 350 TMT raw cane sugar import quota with the preferential import tariff of one percent of customs value but not less than EUR 1 per ton. It is expected that the quota will be approved under pressure from domestic sugar processors and will remain effective through September 1, 2000. The standard import duty on all sugar in Ukraine is EUR 300 per ton. Meanwhile, the GOU, concerned with decreasing domestic sugar beet and refined sugar production continued to write off the debts of sugar refineries to the State Budget. The refineries were forgiven all debts to the State and local budgets that had been accumulated prior to January 1, 1998.

The Parliament adopted the Law of Ukraine "On The State Regulation of Sugar Production and Marketing" on June 17, 1999 to become effective on January 1, 2000. This is the second attempt of the GOU to regulate the sugar market. In May 1997, The Cabinet of Minister of Ukraine approved the Resolution # 490 introducing minimum sugar beet procurement prices at UAH 70 per ton (approximately \$25) and refined sugar price at UAH 1,190 per ton (approximately \$476). The average cost of production at that time was \$450 dollars per ton of sugar. The old law, however, failed because it required processors to pay money to farmers instead of bartering for sugar beets. The processors' operating capital was primarily eliminated by inflation. The actual sugar market prices were lower and there was no effective mechanism in place to enforce the regulations; therefore, the GOU cancelled its decision on minimum prices in September of 1997 when it became evident that the processors could not pay money for delivered beets.

It is hoped that the introduction minimum prices will encourage investment an higher productivity in the refining sector. The GOU may decide to encourage only profitable refineries, which may cause the number of refineries to decrease to 70 with an average operating season of 70 days per year. The reduction in the number of refineries may be politically difficult for the government. In Ukraine, even old, inefficient sugar refineries are a source of employment, child care and other services.

## Marketing

### Prices Table, Centrifugal Sugar

Prices in	USD	per uom	
Year	1998	1999	% Change
Jan	383.1	310.19	-19.03%
Feb	410.89	302.27	-26.44%
Mar	385.42	309.33	-19.74%
Apr	434.83	304.92	-29.88%
May	418.06	301.39	-27.91%
Jun	339.3	566.27	66.89%
Jul	491.75	429.64	-12.63%
Aug	420.76	378.68	-10.00%
Sep	344.83	569.84	65.25%
Oct	356.69	349.93	-1.90%
Nov	374.31	385.49	2.99%
Dec	306.34	499.28	62.98%

Average monthly FOB sugar export prices declared by exporters

### Stocks

There is no official published data on stocks. Government held stocks are considered highly sensitive and there is no source of information on stocks held by refineries or confectionary companies. Ending stocks which are held by processors are estimated lower at 276 TMT for MY 2000/2001.