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Ukraine

Sugar

Sugar Annual

2008

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Report Highlights:

In marketing year 2007/2008, sugar beet production decreased by 24 percent. The profitability of sugar beets also decreased from 11% in 2006 to -10% in 2007 because of overproduction in marketing year 2006/2007 and beet sugar price decreases. As a result, the sugar beet sown area decreased in 2007 by 23% and is expected to remain low and stable through 2008.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Kiev [UP1]
[UP]

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Executive Summary

In marketing year 2007/2008, sugar beet and sugar production decreased by 24% and 30% respectively, compared to the previous year. This decrease followed the highest sugar beet crop (marketing year 2006/2007) recorded during the past 10 years. MY 2006/2007 sugar overproduction resulted in an excess supply in marketing year 2007/2008. Ukraine does not export sugar and was unable to consume all of the 2,850,000 tons of raw sugar produced that year. As a consequence, ending stocks were the highest level in the past 10 years. Large quantities remain unsold by farmers or sold unprofitably. This market condition resulted in farmers decreasing the sugar beet sown area by 23% in 2007/2008.

Production

In 2007/2008, the sown area for sugar beet crops decreased by almost 23% compared to 2006 levels despite the jump in sugar beet profitability recorded in 2006. Another reason for the decrease was higher profitability for oilseeds like sunflower and soybeans (please refer to the table below). In 2007/2008, the decrease in the spring sown area resulted in a 24% decrease in sugar beet production.

Ministry of Agriculture expects that sown area under sugar beet will decrease by 24% to 480,000 hectares in 2008. This decrease in the spring 2008 sown area will result in 15 million tons of sugar beet production, according to Ministry of Agriculture.

Profitability of Main Agricultural Crops (% Change)

	Grain	Sunflower Seeds	Sugar Beets
2000	64.8	52.2	6.1
2001	43.3	68.7	1.5
2002	19.3	77.9	-8.6
2003	45.8	64.3	6.2
2004	20.1	45.2	-0.8
2005	3.1	24.3	4.8
2006	7.4	20.7	11.1
2007	28.0	75.0	-10.0

Data source: State Statistics Committee of Ukraine and National Sugar Association

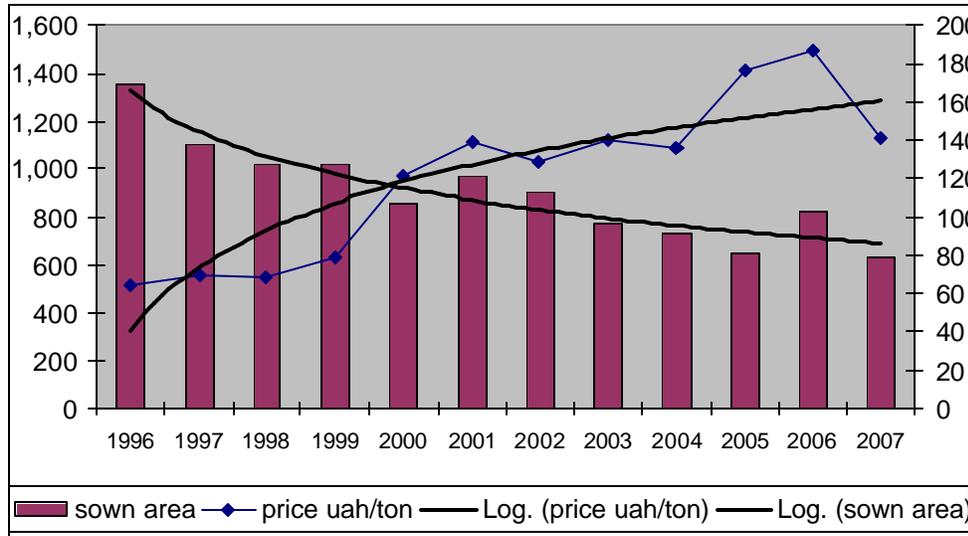
In 2008, the sugar beet sown area will likely remain comparable to the 2007 level. Other factors that will contribute to the decrease in sugar beet sown area are: a high winter wheat sown area; a lower total spring sown area compared to 2007; very low profitability for marketing year 2007/2008; sugar beet and sugar overproduction in marketing year 2006/2007; significant stocks of sugar at the processing plants and farms (traditionally farmers are compensated with sugar as payment for sugar beets they delivered to the sugar processing plant).

The table below depicts the downward trend in the sugar beet sown area over the past decade. This decrease actually began in 1990 and the correlation between high sugar beet prices and the decrease in the sown area is high. The unfavorable winter crop area in 2005, the higher profitability of sugar beet production in 2005, and the significant increase in the sown area of the spring crop in 2006 resulted in the temporary increase in the sown area in marketing year 2006/2007. For 2007/2008 and 2008/2009, some of the area that was

traditionally sown with sugar beets will now grow sunflower, soybeans, spring barley and corn (please refer to the graph, "Sown Areas for Major Crops").

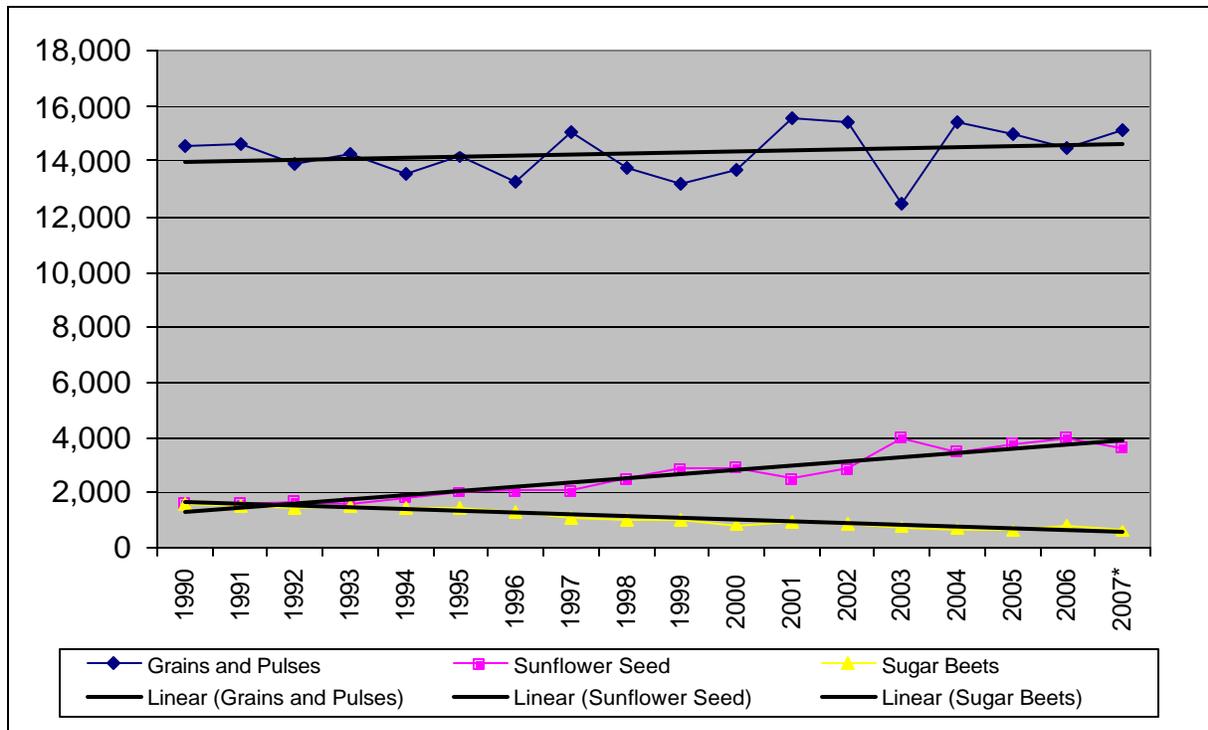
Sugar Beet Sown Area and Sugar Beet Prices

(Unit: 1,000 Hectares and UAH/tonne)



Source: State Customs Committee of Ukraine

Sown Areas for Major Crops (Unit: 1,000 Hectares)



Source: State Customs Committee of Ukraine

Sugar Beets PSD Table

Ukraine										
Sugar Beets										
	2006	Revised		2007	Estimate		2008	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		09/2005	09/2005		09/2006	09/2006		09/2007	09/2007	MM/YYYY
Area Planted	674	674	674	825	825	825	680	680	635	(1000 HA)
Area Harvested	640	640	640	788	788	788	645	645	584	(1000 HA)
Production	15500	15500	15500	22420	22420	22420	14835	14835	17065	(1000 MT)
Total Supply	15500	15500	15500	22420	22420	22420	14835	14835	17065	(1000 MT)
Utilization for Sugar	15500	15500	15500	22420	22420	22420	14835	14835	17065	(1000 MT)
Utilizatn for Alcohol	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Distribution	15500	15500	15500	22420	22420	22420	14835	14835	17065	(1000 MT)

Trade

No sugar beets were imported into Ukraine until May 2005 because of the prohibitively high import duty (50%, but not less than 125 Euro per 1 metric ton). The Ukrainian Parliament (Rada) reduced the import duty to 20% *ad valorem* in May 2005 opening the Ukrainian market for the first time in September 2005 to imports of sugar beets (HS Code 121291) for processing. Total imports of sugar beets from September through January 2005 reached 113,000 tons. Import volumes for October 2006 through September 2007 decreased to 35,805 tons.

Sugar Beet Imports (HS121291), Tons

Country	Oct 05-Sep 06	Oct 06-Sep 07	Oct 07-Jan 08
Belarus	71,389	14,778	0
Poland	24,984	5,278	0
Lithuania	19,993	15,749	0
Total	116,366	35,805	0

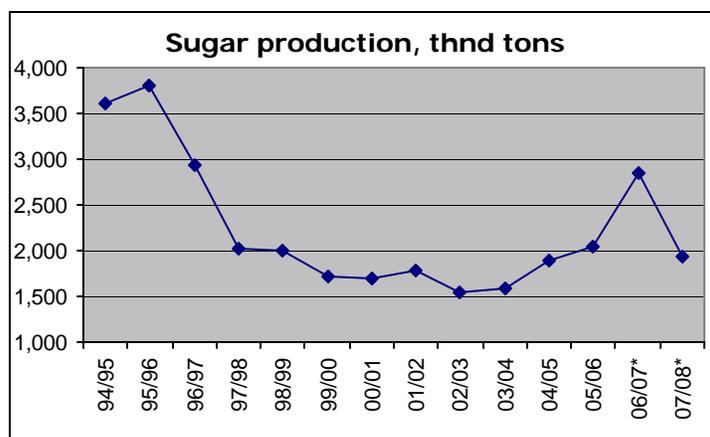
Source: State Customs Committee of Ukraine

Sugar beet production increased by 36% in 2006 and was the highest recorded level since 1994. As a consequence, sugar beet imports decreased. The total volume of sugar beet imports from Belarus, Poland and Lithuania in 2007 was only 30% of the volume recorded a year earlier.

For marketing year 2008, the sugar beet sown area is likely to decrease to historically low levels. Sugar beet imports will be possible but will not be significant.

Beet Sugar Production

Production of beet sugar in marketing year 2007/2008 was revised down by 30% over marketing year 2006/2007 as a result of lower sugar beet production. As of February 2008, sugar processing plants had processed 95% of the sugar beet crop and produced 1,850,000 tons of sugar for marketing year 2007/2008. Final sugar production for marketing year 2007/2008 is estimated at 2,010,000 tons.



Source: State Customs Committee of Ukraine

06/07 and 07/08 – FAS-Kiev Estimation

Sugar PSD Table

Ukraine										
Sugar, Centrifugal										
	2006	Revised		2007	Estimate		2008	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		10/2005	10/2005		10/2006	10/2006		10/2007	10/2007	MM/YYYY
Beginning Stocks	178	144	178	125	91	125	785	751	785	(1000 MT)
Beet Sugar Production	2054	2054	2054	2850	2850	2850	1935	1935	2010	(1000 MT)
Cane Sugar Production	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Sugar Production	2054	2054	2054	2850	2850	2850	1935	1935	2010	(1000 MT)
Raw Imports	39	39	39	10	10	8	260	260	260	(1000 MT)
Refined Imp. (Raw Val)	35	35	35	10	10	9	50	50	11	(1000 MT)
Total Imports	74	74	74	20	20	20	310	310	310	(1000 MT)
Total Supply	2306	2272	2306	2995	2961	2995	3030	2996	3105	(1000 MT)
Raw Exports	0	0	0	0	0	0	0	0	0	(1000 MT)
Refined Exp. (Raw Val)	31	31	31	10	10	10	20	20	10	(1000 MT)
Total Exports	31	31	31	10	10	10	20	20	10	(1000 MT)
Human Dom. Consumption	2150	2150	2150	2200	2200	2200	2250	2250	2300	(1000 MT)
Other Disappearance	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Use	2150	2150	2150	2200	2200	2200	2250	2250	2300	(1000 MT)
Ending Stocks	125	91	125	785	751	785	760	726	795	(1000 MT)
Total Distribution	2306	2272	2306	2995	2961	2995	3030	2996	3105	(1000 MT)

Consumption

Consumption of sugar will likely continue to increase at a slow growth rate during marketing year 2007/2008 because of increased demand by the food processing sector. Ukrainians continue to consume sugar, primary refined sugar, and often use sugar for home canning. Historical data for sugar, consumption for substitutable products and consumption of sugar by households in Ukraine is provided in the Statistical Tables Section.

Trade

Imports

The import of raw cane sugar may increase in marketing year 2007/2008, especially if Ukraine accedes to the WTO. After WTO accession, the annual calendar year import quota for cane sugar will be set at 260,000 tons. This amount was approved on March 7, 2007 with the passage of Decree # 404. The expectation is that after Ukraine accedes to the WTO, 260,000 tons of cane sugar will be imported during marketing year 2007/2008 despite the high carry over that is forecasted. Importers prefer to import raw cane sugar to Ukraine because the profitability of cane sugar is much higher than for beet sugar.

Imports of Raw Cane Sugar (HS 170111), 1,000 Tons

Country	Oct 03-Sep 04	Oct 04-Sep 05	Oct 05-Sep 06	Oct 06-Sep 07	Oct 07-Jan 08
Brazil	269	159	26	6,783	0
El Salvador	20	0	12	0	0
Guatemala	39	0	1	0	0
United States	22	0	0	0	0
Peru	14	0	0	0	0
Anguilla	10	0	0	0	0
Estonia	53	0	0	0	0
Germany	0	0	0	0	0
Belarus	21	0	0	0	0
Colombia	2	0	0	0	0
Cuba	45	0	0	0	0
Total	495	159	39	6,7	0

Source: State Customs Committee of Ukraine

Imports of Refined Sugar Raw (HS 170199), 1,000 Tons

Country	Oct 03-Sep 04	Oct 04-Sep 05	Oct 05-Sep 06	Oct 06-Sep 07	Oct 07-Jan 08
Kazakhstan	6	14	33	3.8	
Poland	14	12	1	0	
Denmark	0	0	1	0.7	0.3
Lithuania	16	26	0	0	
United States	0	9	0	0	
Georgia	13	0	0	0	
Estonia	2	0	0	0	
Russia	10	0	0	0	
Belarus				4.6	11
Total	62	61	35	9	11

Source: State Customs Committee of Ukraine

Exports

The forecast for sugar exports in marketing year 2007/2008 has increased compared to marketing year 2006/2007 estimates. The export estimate for marketing year 2006/2007 has been adjusted to coincide with Ukrainian State Customs Committee data.

Exports of Refined Sugar Raw (HS 170199), 1,000 Tons

Country	Oct 03-Sep 04	Oct 04-Sep 05	Oct 05-Sep 06	Oct 06-Sep 07	Oct 07-Jan 08
Kazakhstan	10	0	14	1	0
Azerbaijan	56	0	10	0	0
Georgia	43	1	5	0.2	0
Moldova	107	36	1	0	0
Poland	0	10	1	0	0
Russia	3	0	0	0	0
Estonia	2	0	0	0	0
Virgin Islands	1	0	0	0	0
Afghanistan	4	4	0	0	0
Armenia	12	0	0	0	0
Uzbekistan	1	3	0	0	0
Slovakia	10	0	0	0	0
Tajikistan	1	0	0	0	0
Turkey	59	0	0	0	0
Kyrgyzstan	2	0	0	4.8	0
Total	311	55	31	6	0

Source: State Customs Committee of Ukraine and FAS-Kyiv

Stocks

Despite existing legislative provisions that are currently in place, the government has been unable to create an effective sugar intervention mechanism because of insufficient funds in the state budget that would be necessary to purchase government stocks.

Marketing year 2006/2007 stocks will be unusually high, a direct result of the high stocks recorded in 2005/2006, the measured increase in consumption and a very low level of exports. High stocks for marketing year 2006/2007 are expected to carry over, resulting in high stock levels for marketing year 2007/2008 as well.

Policy

GOU Established Minimum Prices for Sugar and Sugar Beets, Quotas "A" and "B"

Date of GOU decree	MY	Sugar beet price	Sugar price	Quota A* – domestic market	Quota B** – international market
12/25/2001	2002/2003	UAH 165/ \$33	UAH 2370/ \$470	1800	
12/25/2002	2003/2004	UAH 165/ \$33	UAH 2370/ \$470	1800	
02/04/2004	2004/2005	UAH 165/ \$33	UAH 2370/ \$470	1800	
12/21/2005	2005/2006	UAH 142/ \$28	UAH 2370/ \$470	1790	
02/20/2006	2006/2007	UAH 163/ \$32	UAH 2375/ \$471	1840	185
03/07/2007	2007/2008	UAH 170/ \$34	UAH 2500/ \$495	2040	
03/03/2008	2008/2009	UAH 141/ \$28	UAH 2083/ \$417	2040	

*Quota "A" – the quota of sugar production earmarked for the domestic market by Ukrainian plants

**Quota "B" – the quota of sugar production earmarked for export to international markets

Source: *The Cabinet of Ministers of Ukraine*

On December 13, 2006, the President of Ukraine signed a law establishing an annual cane sugar import quota. The significance of this law is that for the first time a substantial amount of cane sugar will be able to enter the country without special government approval. The annual quota will be set at 260,000 tons. The law will be implemented upon Ukraine's accession to the WTO. The in-quota duty rate will be 2% of the costume's value and the out-of-quota duty rate will be assessed at 50% of the value.

Statistical Tables

Area Planted and Rate of Return for Investments in Grain, Sugar Beet and Sunflower Seed Production from 1990-2007, 1000 Hectares

	1990	1994	1996	1998	2000	2001	2002	2003	2004	2005	2006	2007*
Grains and Pulses	14,583	13,526	13,247	13,717	13,646	15,585	15,447	12,494	15,433	15,004	14,515	15,114
Rate of Return for Grains, % Change	275,1	214,1	64,6	1,9	64,8	43,3	19,3	45,8	20,1	3,1	7,4	28
Sunflower Seed	1,636	1,784	2,107	2,531	2,943	2,502	2,834	4,001	3,521	3,743	3,964	3,604
Rate of return for Sunseed, % Change	236,5	224,1	53,0	22,0	52,2	68,7	77,9	64,3	45,2	24,3	20,7	75
Sugar Beets	1,607	1,485	1,359	1,017	856	970	897	773	733	652	815	610
Rate of Return for Sugar Beets, % Change	29,5	66,0	3,8	-12,0	6,1	1,5	-8,6	6,2	-0,8	4,8	11,1	-10

Data source: *State Statistics Committee of Ukraine.*

* -preliminary estimate from *State Statistics Committee of Ukraine*

Imports of Sugar into Ukraine (HS1701) (1,000 Tons)

Country	Oct 03-Sep 04	Oct 04-Sep 05	Oct 05-Sep 06	Oct 06-Sep 07	Oct 07-Jan 08
Kazakhstan	5	13	30	4	0
Brazil	269	159	26	7	1
El Salvador	20	0	12	0	0
Guatemala	39	0	1	0	0
Poland	13	11	1	0	0
Denmark	0	0	1	1	0
Lithuania	15	24	0	0	0
United States	22	8	0	0	0
Estonia	55	0	0	0	0
Peru	14	0	0	0	0
Russia	16	0	0	0	0
Anguilla	10	0	0	0	0

Georgia	12	0	0	0	0
Belarus	21	0	0	5	10
Colombia	2	0	0	0	0
Cuba	45	0	0	0	0
Total	559	215	71	16	11

Imports of All Sugar by HS Category into Ukraine*

MY 04/05	Refined Sugar (HS 170199)	Raw Cane Sugar (HS 170111)	MY 05/06	Refined Sugar (HS 170199)	Raw Cane Sugar (HS 170111)	MY 06/07	Refined Sugar (HS 170199)	Raw Cane Sugar (HS 170111)	MY 07/08	Refined Sugar (HS Code 170199)	Raw Cane Sugar (HS 170111)
Oct-04	1,021	10,935	Oct-05	1,449	17,000	Oct-06	381	-	Oct-07	0.631	-
Nov-04	13,214	10,110	Nov-05	660	7,805	Nov-06	71	-	Nov-07	1.486	-
Dec-04	5,049	0	Dec-05	4,656	13,742	Dec-06	1,890	737	Dec-07	3,079	-
Jan-05	7,043	0	Jan-06	6,418	3	Jan-07	15	1,920	Jan-08	5.420	0.632
Feb-05	4,023	1	Feb-06	774	0	Feb-07	0.103	0.538	Feb-08	3,087	0.632
Mar-05	2,246	0	Mar-06	380	0	Mar-07	0.076	0.592	Mar-08		
Apr-05	308	10,611	Apr-06	5,488	8,000	Apr-07	0.891	1.361	Apr-08		
May-05	10,398	0	May-06	1,633	0	May-07	0.781	-	May-08		
Jun-05	737	0	Jun-06	6,476	4,500	Jun-07	0.853	-	Jun-08		
Jul-05	2,126	0	Jul-06	784	7,680	Jul-07	1.745	-	Jul-08		
Aug-05	7,497	125,917	Aug-06	2,311	0	Aug-07	1.147	-	Aug-08		
Sep-05	2,688	1,080	Sep-06	992	0	Sep-07	1.230	-	Sep-08		
Total	56,350	158,654	Total	32,021	58,730	Total	10,000	9,208	Total	6,173	1.264

Data Source: State Statistics Committee of Ukraine (*As is basis)

Sugar Exports From Ukraine (HS 1701)
(1,000 Tons)

Country	Oct 03-Sep 04	Oct 04-Sep 05	Oct 05-Sep 06	Oct 06-Sep 07	Oct 07-Jan 08
Kazakhstan	9	0	13	1	0.01
Azerbaijan	52	0	9	0.01	
Georgia	40	1	5	0.2	
Moldova	99	33	1	0.01	0.01
Poland	0	9	0	0	
Russia	3	0	0	0	
Estonia	2	0	0	0	
Virgin Islands	1	0	0	0	
Afghanistan	3	4	0	0	
Armenia	11	0	0	0	
Uzbekistan	1	3	0	0	
Slovakia	9	0	0	0	
Tajikistan	1	0	0	0	

Turkey	54	0	0	0	
Kyrgyzstan	2	0	0	4.8	
Total	286	50	28	6.02	0.02

Data Source: State Statistics Committee of Ukraine

Monthly Sugar Exports from Ukraine *
(Tons)

MY 03/04	HS 1701	MY 04/05	HS 1701	MY 05/06	HS 1701	MY 06/07	HS 1701	MY 07/08	HS 1701
Oct-03	46	Oct-04	0	Oct-05	1	Oct-06	0	Oct-07	1
Nov-03	33	Nov-04	11	Nov-05	2	Nov-06	1	Nov-07	15
Dec-03	65	Dec-04	5	Dec-05	2	Dec-06	0	Dec-07	4
Jan-04	12	Jan-05	0	Jan-06	2	Jan-07	0	Jan-08	63
Feb-04	5	Feb-05	4	Feb-06	7	Feb-07	1.233	Feb-08	
Mar-04	39	Mar-05	6	Mar-06	6	Mar-07	667	Mar-08	
Apr-04	25	Apr-05	2	Apr-06	1	Apr-07	165	Apr-08	
May-04	19	May-05	4	May-06	1	May-07	40	May-08	
Jun-04	14	Jun-05	3	Jun-06	0	Jun-07	8	Jun-08	
Jul-04	12	Jul-05	2	Jul-06	2	Jul-07	16	Jul-08	
Aug-04	15	Aug-05	7	Aug-06	0	Aug-07	63	Aug-08	
Sep-04	1	Sep-05	6	Sep-06	2	Sep-07	2	Sep-08	
Total	286	Total	50	Total	28	Total	963	Total	83

Data Source: State Statistics Committee of Ukraine (HS 1701) (*As is basis)