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Sugar

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Report Highlights:

Ukraine's MY 2004/2005 beet sugar production is forecast to continue on the downward trend begun in the early 1990s, reflecting low profits. Rising domestic sugar consumption coupled with export opportunities provided by Free Trade Agreements with other FSU countries should stimulate higher imports of raw cane sugar in MY 2004/2005 as compared with the current marketing year.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

Government of Ukraine (GOU) policies have been ineffective in increasing domestic sugar beet production. MY 2004/2005 sugar production is forecast to decline, reflecting lower than expected sugar beet plantings and output as compared with last year. Ukraine will likely be forced to increase imports of raw cane sugar in MY 2004/2005 to a level in excess of one million tons in order to meet both domestic and export demand. Expected growth in the domestic confectionary industry coupled with improved access to FSU markets will be key in supporting this import forecast.

Production

Sugar Beets

An early spring has allowed farmers to begin sugar beet planting ahead of schedule. According to the Ministry of Agricultural Policy, farmers planted 14,000 hectares to sugar beets as of March 30, 2004. No plantings were observed by the same date last year. GOU officials expect a 17% increase in area planted to sugar beets in 2004 as compared with 2003. This optimistic outlook is driven by the requirement to produce 15.5-16.0 million MT of beets in order to assure production of 1.8 million MT of refined sugar (see Domestic Production Quotas under the Policy Section).

The Post believes that sugar beet production will continue on the downward trend begun in the early 1990s. Sugar beet profitability in 2003 was much lower as compared with grains and sunflower seed – the best alternatives available to Ukrainian farmers (see Statistical Tables Section).

MY 2003/2004. As was expected, sugar beet production in 2003 declined due to lower harvested area and despite higher yields compared with 2002. Ukrainian farmers did not harvest 14% of the area planted in 2003 due to poor crop conditions and below freezing temperatures that ended harvesting in late October 2003.

In July 2003, the State Statistics Committee of Ukraine (SSCU) reported the final area planted with sugar beets for further processing at 814,000 hectares (see GAIN Report UP3009). Farmers utilized some fields intended for sugar production in livestock feeding. In February 2004, the SSCU reduced the estimate of 2002 area planted sugar beets by 5% to account for sugar beets utilized as feed. Post incorporated this revised estimate into the Sugar Beets PSD table.

Sugar

The initial forecast of beet sugar production in **MY 2004/2005** reflects a reduction in sugar beet production as compared with the previous year. In the early 1990s, the Ukrainian sugar industry was comprised of 190 sugar beet plants producing 5 million MT of sugar. Over the past decade, capacity has been significantly reduced. The number of operational sugar beet plants declined from 126 in 2002 to 121 in 2003. Most of the closed plants have been dismantled and are unlikely to become operational again.

The National Sugar Producers Association *Ukrtsukor* has estimated that Ukraine could lose up to 40 sugar plants after joining the World Trade Organization due to the introduction of a tariff-rate quota (TRQ) on imported raw cane sugar. To date, the GOU has been ineffective in controlling sugar imports (see Policy Section). Lower-priced cane sugar imported via numerous duty-free channels competes with domestically produced beet sugar. According to data published on the Association's official site (<http://www.ukrsugar.kiev.ua>), the estimated

cost of beet sugar production in MY 2002/2003 was UAH 2.58 per kilogram (\$0.48/kg) in contrast with \$0.21/kg, the average raw cane sugar price reported in official import statistics.

MY 2003/2004. Despite a drop in sugar beet production in 2003 as compared with the previous year, beet sugar production in MY 2003/2004 increased by 2% due to higher sucrose content. According to *Ukrtsukor*, average sucrose content increased from 14.5% in 2002 to 15.7% in 2003.

Consumption

Sugar consumption in **MY 2004/2005** is forecast to increase slightly to reflect increasing demand from the domestic confectionary industry. Production of confectionary products and non-alcoholic beverages has been steadily increasing in Ukraine since 1997, creating additional demand for sugar. For 2003, the Department of Food Industries of the Ministry of Agricultural Policy of Ukraine reported an annual increase of 11% in the production of confectionary products. Ukrainian consumers are not generally concerned with sugar content in food products. Post expects a continued increase in sugar consumption in Ukraine.

Other Disappearance

Post uses this category to account for increased imports of raw cane sugar (HS 170111) re-exported as sugar-containing products (HS 1702). This product is not reflected in the Centrifugal Sugar PSDs (see GAIN Report Number UP3009 for details). Existing free trade agreements (FTA) among Former Soviet Union (FSU) countries generally exclude sugar, but not sugar-based products. For example, Ukraine exports sugar syrup produced from refined cane sugar to FSU countries and vice versa. According to official Ukrainian statistics, 5,600 MT of sugar was produced in CY 2003 from imported syrup.

Post did not forecast other sugar disappearance in MY 2004/2005 as it is expected that FSU countries will close legislative loopholes and eliminate deceptive sugar trade. Ukraine has already taken steps to exclude sugar syrup from FTAs and to ban domestic tolling schemes.

Imports

Imports of raw cane sugar in **MY 2004/2005** are forecast to increase from the revised current marketing year level due to lower than expected beet sugar production. This forecast is based on the assumption that Ukraine will improve market access for refined sugar to other FSU countries.

The estimate for raw sugar imports during the current marketing year has been reduced to reflect higher carryover stocks in MY 2002/2003 and increased production in MY 2003/2004.

Post recommends a correction in the official USDA data column for MY 2003/2004 refined sugar imports. Imports of refined sugar (HS 170199) into Ukraine in October 2003-January 2004 totaled 19,000 MT as compared with 14,000 MT imported during the same period in MY 2002/2003.

Post updated the **MY 2001/2002 import** estimates for raw and refined sugar based on information provided via the World Trade Atlas®. Ukraine imported 1.39 million MT of raw cane sugar (HS 170111) and 75,000 MT of refined sugar and sucrose (HS 170199) in October 2002-September 2003.

Exports

In MY 2004/2005, Ukraine is expected to continue to increase exports of refined cane sugar, mainly within the Commonwealth of Independent States (CIS). Despite the most recent moves taken by Ukraine to exclude sugar from existing FTAs with the Republics of Georgia and Moldova, CIS countries have agreed to eliminate barriers to trade in refined sugar by 2007.

The **MY 2001/2002** refined sugar export estimate was increased slightly, based on final marketing year trade data. Ukraine exported 334,000 MT of sugar (refined basis) in October 2002-September 2003.

Stocks

MY 2004/2005 sugar ending stocks are forecast to remain at the current market year's revised stock level and will depend largely on the level and timing of raw cane sugar imports. There is no published official information on Ukraine's carryover stocks. Statements made by GOU officials suggest that both private and government held stocks totaled 1.4 million MT as of the beginning of March 2004. The **current marketing year** ending stocks estimate was raised based on increased beet sugar production, the previous year's carryover inventory and available information on stocks held as of March 2004.

Significant sugar imports at the end of the marketing year (see Monthly Sugar Imports table) were the basis for increasing the **MY 2002/2003** ending stocks estimate. Ukrainian sugar refineries could not have processed significant quantities of the sugar imported in June-September 2003 by October 1, 2003, the beginning of the next marketing year.

Policy

The GOU has utilized domestic production quotas, administrative price fixing, TRQs, interest rate compensation and other policy measures to regulate the domestic sugar market. The ultimate goal of GOU policy is to provide a sufficient profit level for both sugar refineries and sugar beet farmers. Regrettably, most GOU measures aimed at protecting the domestic sugar beet industry have been ineffective.

Domestic Market Controls

Production Quotas. The MY 2004/2005 refined sugar production quota was set at 1.8 million MT by GOU Resolution #117, dated February 4, 2004. There is only one reasonable explanation why the GOU has maintained a domestic production quota when domestic beet sugar production has been inadequate to meet demand -- the goal of improved efficiency in sugar beet processing. To that end, domestic production quotas are allocated to those refineries that have shown competent performance in the past.

Guaranteed Support Prices. MY 2004/2005 minimum prices have been established at UAH 165 per 1 MT of sugar beets (\$31/MT) and UAH 2370 per 1 MT of refined sugar (\$445/MT). The GOU has no financial resources available to provide direct subsidies to sugar beet farmers and refineries in support of these prices. Nevertheless, these prices have been administratively fixed and could be considered guaranteed support prices since all market operators are prohibited from selling at a lower price under the threat of fines.

Import Controls

Ukraine's import controls are ineffective. Large quantities of sugar enter Ukraine by-passing import quotas and tariffs. While Ukrainian companies are allowed to import sugar duty-free for further refining and re-exporting, some of this sugar remains in Ukraine. **According to Post estimates, a composite of 300,000 MT of sugar, or 20% of all sugar imported in MY 2002/2003, entered the country duty-free and was not restricted by the import quotas and tariffs described below.**

Import Quotas. Since MY 1998/1988, the first year when domestic beet sugar production did not meet demand, raw cane sugar imports into Ukraine have increased considerably. Once of the most sensitive issues in Ukraine's negotiations to join the World Trade Organization (WTO) is the size of a sugar TRQ. Currently, the GOU establishes TRQs on a case-by-case basis. Ukraine has offered to establish a maximum raw cane sugar TRQ of 260,000 MT. Reportedly, some member nations are insisting on a TRQ as high as 600,000 MT.

No import TRQ has yet been announced for MY 2004/2005.

The only quota on imported raw cane sugar for the current marketing year has been set at 125,000 MT. This quota expires on September 15, 2004 and has not yet been auctioned. The under quota import duty will be set at €30/MT with an additional €60/MT minimum auction fee. The quota will be auctioned to importers in June-July 2004 once information on sugar beet plantings becomes available.

Import Tariffs. Post updated the table on under quota and over quota import duties provided in GAIN Report Number UP3009 using average import prices for raw cane and refined sugar for MY 2002/2003. The standard import duty on all kinds of sugar remains unchanged at €300/MT (over quota import duty).

Ukraine's Sugar Import Duties

	U.S. cents per 1 kg		Ad valorem, %	
	Raw	Refined	Raw	Refined
Under Quota				
MY 2002/2003 combined TRQs*	12.11	X	56.9%	X
MY 2003/2004 (125 TMT TRQ)**	10.62	X	49.9%	X
Over Quota	35.40	35.40	166.2%	114.2%

Data source: State Statistics Committee of Ukraine and Post's own calculations.

* Average weighted for both TRQs effective during MY 2002/2003.

** Assuming average MY 2002/2003 import prices on raw and refined sugar and announced import duty and minimum auction fee set for the MY 2003/2004 TRQ of 125,000 MT.

Non-Transparent Support

As part of a farm and agribusiness restructuring program, in 2000 the GOU wrote off all tax debts of sugar beet factories for the period prior to May 2000 in an attempt to make the sector more attractive to potential investors.

State intervention purchases are also non-transparent. The State Committee for the State Material Reserve (Derzhreserve) was tasked to purchase 100,000 MT of sugar produced during MY 2003/2004. The GOU has not declared how much sugar was actually purchased,

nor has the GOU announced how much of this sugar is intended for intervention stocks vs. strategic reserves.

References

The most recently submitted GAIN Reports on Sugar can be downloaded from the FAS web site at <http://www.fas.usda.gov/scriptsw/attacherep/default.asp>.

Internet sources:

News and analytical agencies

APK-Inform: <http://www.agrimarket.info/> (available in English)

Agroperspectiva: <http://www.agroperspectiva.com/en/> (available in English)

ProAgro: <http://www.proagro.com.ua/news/?t=3> (available in Russian only)

National Association of Sugar Producers

<http://www.ukrsugar.kiev.ua/index.html> (available in Russian only)

Ukrainian official customs statistics on Sugar and Sugar Containing Products (HS Heading 17)

http://www.customs.gov.ua/ukr/index.php?r_id=12&p_id=17&id=19&sn=2

Statistical Tables

Sugar Beets PSD Table

Ukraine							
Sugar Beets							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		09/2002		09/2003		09/2004	MM/YYYY
Area Planted	932	932	0	773	0	750	(1000 HA)
Area Harvested	860	860	0	665	0	650	(1000 HA)
Production	16500	16500	0	13391	0	11700	(1000 MT)
TOTAL SUPPLY	16500	16500	0	13391	0	11700	(1000 MT)
Utilization for Sugar	16500	16500	0	13391	0	11700	(1000 MT)
Utilization for Alcohol	0	0	0	0	0	0	(1000 MT)
TOTAL UTILIZATION	16500	16500	0	13391	0	11700	(1000 MT)

Sugar Beet Production in Ukraine

	1998	1999	2000	2001	2002	2003	6-year average
Areas Planted, 1,000 Ha	1017	1022	856	970	897	773	923
Area Harvested, 1,000 Ha	893	900	747	853	763	665	804
Unharvested Area, %	12%	12%	13%	12%	15%	14%	13%
Production	15523	14064	13199	15575	14453	13391	14368
Yield, MT/ha	17	16	18	18	19	20	18

Source: State Statistics Committee of Ukraine

Rate of Return on Investment in Grain, Sugar Beet and Sunflowerseed Production in Ukraine in 2000-2003, %

	2000	2001	2002	2003
Grains	65	44	20	19
Sugar Beets	7	1	-7	9
Sunflowerseed	57	70	78	81

Source: Publication of the Agricultural Policy for Human Development Project in Ukraine issued in March 2004 entitled "Agrarnyi Sektor Ekonomiky Ukrainy" v 2003, p. 6.

Centrifugal Sugar PSD Table

Ukraine							
Centrifugal Sugar							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		10/2002		10/2003		10/2004	MM/YYYY
Beginning Stocks	186	186	436	496	286	426	(1000 MT)
Beet Sugar Production	1550	1550	1400	1580	0	1400	(1000 MT)
Cane Sugar Production	0	0	0	0	0	0	(1000 MT)
TOTAL Sugar Production	1550	1550	1400	1580	0	1400	(1000 MT)
Raw Imports	1300	1390	1000	900	0	1300	(1000 MT)
Refined Imp.(Raw Val)	100	80	1000	100	0	100	(1000 MT)
TOTAL Imports	1400	1470	1050	1000	0	1400	(1000 MT)
TOTAL SUPPLY	3136	3206	2886	3076	286	3226	(1000 MT)
Raw Exports	0	0	0	0	0	0	(1000 MT)
Refined Exp.(Raw Val)	350	360	400	400	0	500	(1000 MT)
TOTAL EXPORTS	350	360	400	400	0	500	(1000 MT)
Human Dom. Consumption	2100	2100	2200	2200	0	2300	(1000 MT)
Other Disappearance	250	250	0	50	0	0	(1000 MT)
Total Disappearance	2350	2350	2200	2250	0	2300	(1000 MT)
Ending Stocks	436	496	286	426	0	426	(1000 MT)
TOTAL DISTRIBUTION	3136	3206	2886	3076	0	3226	(1000 MT)

**Raw Cane Sugar Import Trade Matrix
(HS 170111)**

Time Period	Jan.-Dec.	Units:	1 MT
Imports for:	2002		2003
U.S.	5,004	U.S.	17,907
Others		Others	
Brazil	322,830	Brazil	936,387
Cuba	25,791	Thailand	86,400
Guatemala	18,933	Cuba	71,803
Thailand	5,895	Colombia	61,391
		Belarus	51,516
		Guatemala	36,163
		Estonia	29,273
		Peru	19,875
		Georgia	16,942
		Nicaragua	16,854
Total for Others	373,449		1,326,604
Others not Listed			57,763
Grand Total	378,453		1,402,275

Source: State Statistics Committee of Ukraine

**Monthly Sugar Imports into Ukraine
(HS1701), 1,000 MT**

Oct-02	30	Oct-03	51
Nov-02	41	Nov-03	61
Dec-02	68	Dec-03	85
Jan-03	70	Jan-04	54
Feb-03	74	Feb-04	
Mar-03	73	Mar-04	
Apr-03	71	Apr-04	
May-03	63	May-04	
Jun-03	121	Jun-04	
Jul-03	264	Jul-04	
Aug-03	446	Aug-04	
Sep-03	101	Sep-04	
MY		MY	
02/03	1422	03/04	251

Data source: Ukragroconsult

Sugar Export Trade Matrix (HS 1701)

Time Period	Jan.-Dec.	Units:	1 MT
Exports for:	2002		2003
U.S.	0	U.S.	0
Others		Others	
Azerbaijan	100,167	Republic of Moldova	125,167
Georgia	37,568	Azerbaijan	107,545
Afghanistan	10,677	Turkey	89,296
Kazakhstan	6,537	Georgia	60,202
Tajikistan	5,875	Kazakhstan	25,897
Republic of Moldova	5,126	Afghanistan	3,156
Kyrgyzstan	2,528	Estonia	1,883
Turkmenistan	1,000	Belarus	1,453
Uzbekistan	761	Uzbekistan	1,009
Estonia	57	Russian Federation	895
Total for Others	170,295		416,503
Others not Listed	62		473
Grand Total	170,357		416,976

Source: State Statistics Committee of Ukraine

Monthly Sugar Exports from Ukraine
(HS1701), 1,000 MT

Oct-02	28	Oct-03	46
Nov-02	24	Nov-03	33
Dec-02	10	Dec-03	65
Jan-03	10	Jan-04	12
Feb-03	10	Feb-04	
Mar-03	17	Mar-04	
Apr-03	18	Apr-04	
May-03	42	May-04	
Jun-03	38	Jun-04	
Jul-03	68	Jul-04	
Aug-03	44	Aug-04	
Sep-03	29	Sep-04	
MY 02/03	338	MY 03/04	157

Data source: Ukragroconsult

Centrifugal Sugar Prices Table

Prices in	US\$	per uom	
Year	2002	2003	2004
Jan	385.29	425.66	414,55
Feb	385.22	449.9	413,7
Mar	383.31	498.64	430,64
Apr	446.75	511.83	
May	435.33	506.28	
Jun	433.49	600.06	
Jul	457.89	538.28	
Aug	472.86	388.26	
Sep	399.66	390.12	
Oct	394.01	408.86	
Nov	425.86	409.79	
Dec	406.95	401.39	