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Ukraine

Sugar

Annual

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Report Highlights:

Ukraine will increase sugar production in 2001 as a result of increased area under sugar beet cultivation and governments support prices which will encourage production. Imports of raw cane sugar will decrease while no increase in exports will be seen in MY 2001/2002.

Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

Warsaw [PL1], UP

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Executive Summary

Ukraine will increase beet sugar production in 2001 and decrease raw cane sugar imports in MY 2001/2002. The Government of Ukraine (GOU) will continue to fix minimum wholesale prices for sugar in order to maintain high retail prices. The costs of the inefficiencies of farmers and refineries will be borne by Ukrainian consumers. Sugar consumption will slightly decline in 2001 due to high prices. Ukraine will continue to export insignificant quantities of sugar in MY 2002/2003 under government-to-government agreements with the countries of the Former Soviet Union (FSU). It will be difficult for Ukraine to resume commercial sugar exports due to high prices compared with other suppliers.

Section I. Situation and Outlook

Sugar production in 2001 is expected to increase following the projected increase in the areas under sugar beet cultivation. Farmers will likely increase area planted with sugar beets in 2001 because of the minimum sugar beets procurement prices fixed by the Government of Ukraine which should encourage higher production. The number of sugar refineries operating will continue to decline because of competition and the lack of raw materials for refining. In 2000, 23% of Ukrainian refineries did not operate.

The GOU set the minimum wholesale prices for sugar beets at UAH 165 per MT (US\$30/MT @ UAH /US\$1) and at UAH 2370 per ton of refined sugar (US\$ 427/MT) from September 1, 2001 through September 1, 2002. This is a 19 % increase compared to the current minimum prices. Sugar factories are not allowed to sell sugar for less than the minimum price or procure beets at less than the price fixed by the GOU.

Sugar production will more meet domestic demand in MY 2001/2002. The quota for sugar produced during Sept. 1, 2001 - Sept. 1 2002 for the domestic consumption was set at 2 MMT and is expected to be fulfilled entirely. Imports of raw cane sugar in MY 2001/2002 will decline significantly compared with the current marketing year due to expected increase in domestic beet sugar production. It is still expected that Ukraine, however, may need to import raw cane sugar to satisfy the demand for lower priced sugar from the confectionary industry.

Ukraine has not exported sugar to its traditional market in the FSU because of the high beet sugar prices compared with lower priced cane sugar. Exports of Ukrainian sugar in MY 2001/2002 will remain unchanged from MY 2000/2001. Ukraine does not subsidize sugar exports. Moreover, there are no funds in the CY 2001 agricultural budget to subsidize or support exports of sugar or other agricultural commodities. It is anticipated that Ukraine will decrease sugar confectionary exports in MY 2001/2002 due to high domestic sugar prices and possible introduction of import duties on the Ukrainian confectionary imported into Russian Federation.

On the policy side, Ukraine will have to decide how to export excess sugar in the near future because the minimum fixed prices will stimulate increased production of beet sugar while domestic demand will continue to be limited. According to current legislation, Ukraine may introduce production quotas for both the domestic consumption and for exports only. While it is expected that there will be no overproduction of sugar in 2001, no sugar exports quotas have been introduced for MY 2001/2002.

Section II. Statistical Tables

PSD Table, Sugar Beets, (1,000 HA; 1,000 MT)

	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		09/1999		09/2000		09/2001
Area Planted	1035	1035	880	880	0	1000
Area Harvested	897	897	800	854	0	950
Production	13900	13900	13600	13300	0	16000
TOTAL SUPPLY	13900	13900	13600	13300	0	16000
Utilization for Sugar	13900	13900	13600	13300	0	16000
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	13900	13900	13600	13300	0	16000

PSD Table, Centrifugal Sugar, 1,000 MT

	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		09/1999		09/2000		09/2001
Beginning Stocks	295	295	296	252	227	202
Beet Sugar Production	1720	1720	1650	1620	0	2000
Cane Sugar Production	0	0	0	0	0	0
TOTAL Sugar Production	1720	1720	1650	1620	0	2000
Raw Imports	350	300	400	400	0	50
Refined Imp.(Raw Val)	1	10	1	10	0	5
TOTAL Imports	351	310	401	410	0	55
TOTAL SUPPLY	2366	2325	2347	2282	227	2257
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	10	13	20	10	0	10
TOTAL EXPORTS	10	13	20	10	0	10
Human Dom. Consumption	2060	2060	2100	2070	0	2050
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	2060	2060	2100	2070	0	2050
Ending Stocks	296	252	227	202	0	197
TOTAL DISTRIBUTION	2366	2325	2347	2282	0	2257

Centrifugal Sugar Export Trade Matrix

Time period	Jan-De c.	Units:	1 MT
Exports for:	1999		2000
U.S.	0	U.S.	5
Others		Others	
Russian Federation	44306	Turkmenistan	10833
Turkmenistan	12981	Moldova	1914
Azerbaijan	5397	Estonia	75
Belarus	2306	Germany	9
Georgia, Republic of	1024	Yugoslavia	2
Latvia	626		
Uzbekistan	513		
Kazakhstan	320		
Estonia	285		
Tajikistan	198		
Total for Others	67956	Total for Others	12833
Others not Listed	120	Others not Listed	0
Grand Total	68076	Grand Total	12838

Sep	336.55	426.63	26.77%
Oct	277.16	459.81	65.90%
Nov	286.02		
Dec	317.80		

Note: Domestic wholesale prices.

Centrifugal Sugar Import Matrix

Time period	Jan.-De c.	Units:	1 MT
Imports for:	1999		2000
U.S.	4	U.S.	6034
Others		Others	
Brazil	169119	Brazil	171844
Cuba	102400	Belarus	59021
Salvador	25089	Guatemala	25534
Guatemala	13999	Cuba	20801
Belarus	5250	France	14307
Moldova	4164	Cyprus	12466
Hungary	79	Czech Republic	4000
Russian Federation	33	Poland	3106
Poland	31	Switzerland	375
Germany	29	Russian Federation	238
Total for Others	320193	Total for Others	311692
Others not Listed	79	Others not Listed	363
Grand Total	320276	Grand Total	318089

Prices Table, Centrifugal Sugar

Prices in	USD	per uom	1 MT
Year	1999	2000	% Change
Jan	283.05	310.58	9.73%
Feb	303.47	316.27	4.22%
Mar	316.40	301.98	-4.56%
Apr	323.48	300.16	-7.21%
May	407.54	388.89	-4.58%
Jun	430.38	461.51	7.23%
Jul	363.17	441.34	21.52%
Aug	374.88	439.50	17.24%

Section III. Narrative on Supply, Demand, Marketing and Policy

Production

It is expected that sugar production in 2001 will increase following the projected increase in sugar beet output. The GOU will encourage sugar beet cultivation in 2001 through minimum guaranteed procurement prices for sugar beets. The minimum price for sugar beets in MY 2001/2002 was set at UAH 165 per MT of sugar beets (16% sucrose content, ex-field) or US\$ 30/MT. This price is 19% higher than the minimum price for the beets harvested in 2000. The introduction of the regulations for sugar production and merchandising was defined by the Law of Ukraine "On State Regulation of Sugar Production and Sales" dated June 17, 1999. According to the legislation, the minimum prices for sugar beets and sugar fixed by the GOU must cover the average costs for sugar beet production and sugar refining. Sugar refineries are not allowed to decrease their procurement prices for beets from the minimum fixed price, or to sell sugar at prices lower than the minimum fixed prices for sugar. The fulfillment of the legislation has been monitored by the State Tax Administration which has the authority to fine sugar market operators that violate the legislation.

The situation with agricultural inputs' supply has slightly improved in 2001 compared with the previous year due to improved financing of the farmers by the commercial banks. In 2000, Ukrainian sugar beet farmers made a profit for the first time since 1996. The farmers will experience problems purchasing foreign sugar beet seeds, because of high import duties (70%); although, this will not have a major negative impact because the supply of sugar beet seeds from domestic producers is expected to cover local demand. The average sugar beet yields in 2001 are also expected higher than in 2000 and 1999 in anticipation of normal weather conditions.

The GOU announced on March 1, 2001 that beet sugar production shall not exceed 2 MMT (refined basis) during September 1, 2001 - September 1, 2002. Beet sugar production in 2001 should reach the maximum production levels set by this quota. The minimum price of sugar that will become effective September 1, 2001 was increased up to UAH 2370 (US\$ 431) from the existing minimum price of UAH 2000 per one MT.

According to official sources, Ukraine produced 1.78 MMT of sugar (refined basis, including 230 TMT of sugar from imported raw cane sugar) in CY 2000. Since sugar refining year usually stops by the end of a year, this number includes only the sugar produced from 2000 harvest. Sugar refineries processed a total of 13 MMT of sugar beets in 2000. The average sucrose content in beets in 2000 was 15.7% compared with 16.4% in 1999. The sugar recovery rate in 2000 slightly decreased to 12.12% from 12.29% in 1999.

According to the State Department of Foodstuffs, only 147 sugar refineries out of 192 were operational in MY 2000/2001 due to shortages of sugar beets and or fuel and decreased from 176 factories that processed beets in 1999. The unutilized refining capacity equaled 101 TMT of sugar beets per day in 2000. Among the 147 refineries only 42 were able to produce sugar for more than 50 days. The national sugar producers association "Ukrtsukor" estimates that the minimum profitable time of operation can be achieved only if a factory works 50-60 days. According to Ukrtsukor, sugar production costs increased from UAH 1180 per 1 MT in 1998 to UAH 1360 in 1999.

Consumption

Sugar consumption in MY 2001/2002 is expected to decrease slightly than in the current marketing year. The purchasing power of Ukrainian consumers has continued to decline while sugar prices have increased.

Confectionary producers will continue to narrow their profit margins in order to maintain the same levels of production and sales in MY 2001/2002. According to the officially published statistics, per capita sugar consumption in CY 1999 was 32 kilograms. There is no yet officially published statistics on per capita sugar consumption in CY 2000; though it is estimated by the Post slightly higher than in 1999.

Imports

Imports of raw cane sugar will decrease in MY 2001/2002 due to expected increase in beet sugar production. The GOU may not allow any imports of raw cane sugar in MY 2001/2002; however, some raw cane sugar imports are still anticipated due to demand for lower priced sugar from confectionary producers.

In order to meet sugar shortages in the current marketing year, the Ukrainian parliament is expected to introduce a tariff rate quota (TRQ) for importation of 450 TMT of raw cane sugar before September 1, 2001. The import quota is to be approved and announced before May 2001. The import duty will be set at 1%, but not less than EURO 5 per 1 MT of raw cane sugar. The ordinary duty of 50%, but not less than EURO 300 per MT will remain applicable to all sugar imports that do not fall under the TRQ. Importers of raw cane sugar will receive import licenses through a procedure established by the Ministry of Agricultural Policy. Despite the fact that about 40 sugar refineries can process raw cane sugar, only eight factories were allowed to process imported raw cane sugar in 2000. Limited access to import licenses means that the quota will probably not be fully utilized.

Anywhere from 100 TMT to 300 TMT of refined sugar was smuggled into Ukraine in 2000 because of higher domestic prices in Ukraine compared with Russia and Belarus. Sugar smuggling from Belarus and the Russian Federation will likely continue in MY 2001/2002 and will require stricter border controls from the Ukrainian authorities.

Exports

It is expected that sugar exports in MY 2001/2002 will be limited to GOU sales of sugar to Turkmenistan to offset the Ukrainian debt for previously-received natural gas. Ukraine, which used to export about half its domestic production in 1992-1997, lost its historical sugar markets in the FSU, especially in the Russian Federation. High prices for the Ukrainian sugar made it uncompetitive with imported raw cane sugar in the Russian and Belorussian markets. GOU programs to support the domestic industry continue to make Ukrainian sugar uncompetitive on international markets.

Ukraine's exports of confectionary products containing sugar will decrease in MY 2001/2002 due to high domestic sugar prices. Ukraine has been successful in restoring its confectionary exports to Russia under its free trade agreement. Ukraine increased exports of sugar confectionary from 82 TMT worth \$57 million in CY 1999 to 136 TMT worth \$89 million in CY 2000 with near 95% of exports shipped to the Russian Federation. Most recent reports indicate, however, that Russian confectionary producers have requested the introduction of import duties on the Ukrainian confectionary.

Ukraine may continue to export some sugar molasses in MY 2001/2002, but export prospects are not clear. Exports of sugar molasses (HS 1703) decreased in CY 2000 to 100 TMT from 342 TMT in CY 1999 mostly due to decreased sales to the markets outside of the FSU countries.

Stocks

It is expected that MY 2001/2002 ending stocks will decrease slightly compared with the current marketing year due to lower projected raw cane sugar imports. Ukraine usually imports raw cane sugar from May - September when sugar beet sugar stocks are exhausted. It is expected that stocks will be distributed between the sugar factories, wholesalers, confectionary producers and the government. There is no published data on GOU-held sugar stocks.

Policy

In addition to fixing minimum prices and establishing a quota for domestic consumption, the GOU is reviewing a plan to facilitate sugar beet sugar production. Most details of the "Sugar 2001" which is awaiting for the approval from the GOU, have not been announced, except for plans for sugar beet area of 1.2 M hectares and beet yields of 20 MT per hectare in 2001. If the program succeeds, Ukraine may produce 2.88 MMT of sugar, which exceeds the 2 MMT production quota for MY 2001/2002. This may lead to subsidized exports in order to maintain the established quota for domestic consumption and maintain high domestic prices.

Marketing

It is expected that the number of companies operating on the wholesale market in MY 2001/2002 will decrease through consolidation and competition. The GOU will play a less important role in sugar marketing in MY 2001/2002 as refineries become more independent from the local authorities. In the past, the GOU has played a major role in sugar marketing by allowing refineries to pay debt with sugar rather than currency. The GOU agencies would then sell large quantities of sugar at the market significantly decreasing the market prices.