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## Ukraine

## Sugar

## November Update

## 2004

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**Report Highlights:**

Ukraine will likely decrease imports of raw cane sugar in MY 2004/2005 as a result of reduced export opportunities for products that contain sugar and sugar confectionary.

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

## Executive Summary

Beet sugar production in MY 2004/2005 is forecast to increase over the previous marketing year level. As in the past two years, the amount of sugar imports will depend significantly on export opportunities for refined sugar, sugar confectionary and other products containing sugar. Presently, export opportunities are not expected to improve considerably until January 1, 2007, the date when the Russian Federation intends to lift import duties on Ukrainian sugar.

## Production

Sugar beet production in 2004 is expected to be higher than in 2003 due to higher yields. As anticipated earlier (please refer to GAIN Report 4009), former collective farms continued to decrease the area sown to sugar beets in 2004, because of low profitability compared to cereal grains and sunflower seeds. In contrast with former collective farms, smaller private household plots increased the area of sugar beet production in 2004. In 2004, private household plots accounted for 24% of the total area planted with sugar beets according to official Ukrainian statistics. The share of households in sugar beet production increased from only 3% in 1995 to 23% in 2003, reflecting a limited number of alternatives for private household farms that primarily utilize hand labor and almost no machinery.

According to *Ukrtsukor*, the Ukrainian Sugar Producers Association, major factors that contributed to higher sugar beet yields in 2004 were higher plant density and higher root weight. The crop survey conducted by the association at the end of August 2004 indicated that the density of plants per hectare increased to 82,000 plants in 2004, compared with 73,000 plants per hectare in 2003. The average root weight increased to 0.299 kilograms from 0.282 kilograms. Improved soil moisture this year is believed to be the primary factor contributing to higher yields.

Beet sugar production in MY 2004/2005 will likely be higher than expected due to increased sugar beet production and despite lower sucrose content. The average sucrose content in August 2004 was 12.6%, lower than the 13.1% recorded in August 2003. The sucrose level increased to 14.8% in early October 2004 but was still lower than the 15.7% recorded around the same time last year. Year-to-year comparisons of sugar beet harvesting and processing are outlined in the table below.

### Ukrainian Refined Beet Sugar Production: Year-to-Year Comparisons

	October 12, 2003	October 12, 2004	Change, %
Area Harvested, 1,000 Ha	578	429	-26%
Yield, MT/ha	20.60	23.10	12%
Sugar beet production, MMT	11.90	9.90	-17%
Sugar beets delivered to processing factories, MMT	8.99	7.45	-17%
Sugar beets already processed, MMT	5.27	4.5	-15%
Remaining unprocessed stocks of sugar beets, MMT	3.72	2.95	-21%
Beet sugar production, TMT	596	510	-14%
Sugar recovery rate, %	11.31%	11.33%	0%

Data source: APN ([www.ukrsugar.kiev.ua](http://www.ukrsugar.kiev.ua)) and APK-Inform ([www.apk-inform.com](http://www.apk-inform.com)) citing Ukrtsukor, State Statistics Committee of Ukraine and Ministry of Agricultural Policy of Ukraine

Note: The data in the Centrifugal Sugar PSD table below is in raw value basis. For beet sugar, is it necessary to multiply by 1.087 to convert to raw value basis.

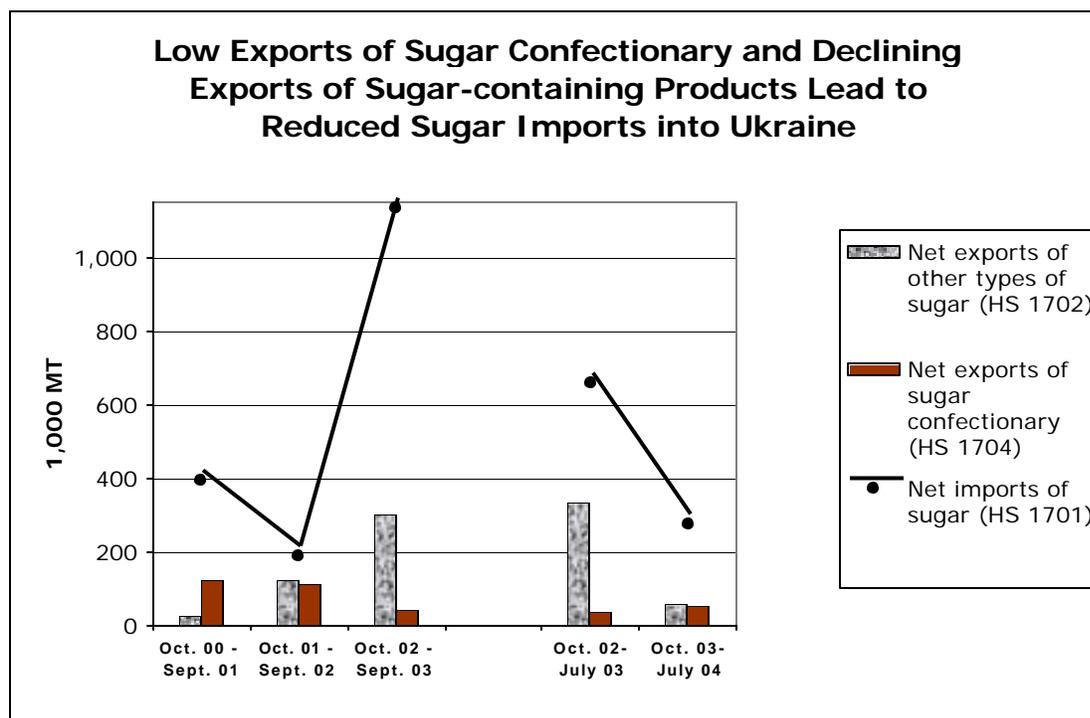
## Consumption

Sugar consumption estimates for MY 2003/2004 and the forecast for MY 2004/2005 were revised downward to reflect reduced imports. The latest available government of Ukraine (GOU) statistics suggests that per capita consumption of sugar stabilized at 36.4 kilograms in CY 2003 (36.1 kilograms in CY 2002).

### Imports

During MY 2004/2005, Post reduced the previous forecast of raw cane sugar imports due to uncertainty in the export market for refined sugar, products containing sugar and confectionary. With stable domestic consumption, the export market has played a crucial role in determining the level of Ukraine's imports of raw cane sugar for further processing and re-exports for the commodities mentioned above (see graph below).

Although domestic beet sugar production in MY 2004/2005 is forecast to increase, it is highly unlikely that it will reach 1.8 million MT, the target level established by the GOU in February 2004 as a domestic production quota. In fact, the sugar beet production quota has not been filled for the past three years. Ukraine will likely have to continue importing sugar to meet both domestic demand and export obligations. The GOU has not yet announced plans for the MY 2004/2005 tariff-rate quota (TRQ) for sugar imports.



Post calculations based on GOU official trade statistics

\*Net trade (exports) were derived by subtracting import quantity from export quantity for the appropriate HS Code.

Import estimates for both refined and raw cane sugar imports in MY 2003/2004 were decreased to reflect lower exports of sugar and processed products containing sugar. Additionally, the GOU implemented tighter controls over imports of sugar via prohibition of sugar imports under tolling contracts and the use of promissory notes by importers to pay import duties if processed products were not exported outside of Ukraine. All these efforts led to a sharp drop in sugar imports (HS 1701).

**Monthly Sugar (HS 1701) Imports into Ukraine**

<b>Oct 2002</b>	56,013	<b>Oct 2003</b>	50,995
<b>Nov 2002</b>	58,703	<b>Nov 2003</b>	61,143
<b>Dec 2002</b>	67,500	<b>Dec 2003</b>	84,838
<b>Jan 2003</b>	68,945	<b>Jan 2004</b>	54,389
<b>Feb 2003</b>	74,137	<b>Feb 2004</b>	51,729
<b>Mar 2003</b>	73,444	<b>Mar 2004</b>	47,395
<b>Apr 2003</b>	70,776	<b>Apr 2004</b>	49,996
<b>May 2003</b>	62,667	<b>May 2004</b>	21,961
<b>Jun 2003</b>	123,811	<b>Jun 2004</b>	5,076
<b>Jul 2003</b>	263,138	<b>Jul 2004</b>	117,383
<b>Aug 2003</b>	445,984	<b>Aug 2004*</b>	6300
<b>Sep 2003</b>	101,416	<b>Sep 2004*</b>	3000
MY 2003/2004	1,466,533	MY 2003/2004	554,204

\*Post estimates, On the "as is" basis

Data source: State statistics Committee of Ukraine

On June 22, 2004, the only official import quota of 125,000 tons for MY 2003/2004 (GAIN Report # UP 4009) was auctioned in 25 lots at a minimum price (EUR 30/MT). In addition to the import duty, the buyers also had to pay an additional auction fee of EUR 60/MT. All sugar imported into Ukraine under the quota had to be imported prior to September 15, 2004.

**Exports**

The forecast for sugar exports for MY 2004/2005 has been reduced because earlier expectations of improved access to markets in the Commonwealth of Independent States (CIS) did not materialized. On July 2, 2004, the Government of the Russian Federation (GORF) approved draft terms for lifting exemptions from the free-trade agreement (FTA) with Ukraine for sugar and sugar confectionary products. Both countries agreed to remove the exemptions from the FTA on January 1, 2007, that have been applied to white sugar (HS 1701 99 1000) since 2001.

Post also revised downward the estimate for sugar exports in MY 2003/2004 due to the current slow pace of exports, mostly as a result of reduced sales to Azerbaijan. Ukraine exported approximately 280,000 MT of sugar from October 2003 through August 2004 compared to 308,000 MT during the same period in the previous marketing year.

**Stocks**

MY 2003/2004 and MY 2004/2005 stock estimates were decreased to reflect lower raw cane sugar imports. The timing of sugar imports in MY 2003/2004 also suggested that sugar was imported and processed before the end of the marketing year unlike in MY 2002/2003 when more than 50% of all imports occurred at the end of the marketing year, or between July-September. There continues to be no reliable information on stocks in Ukraine, especially those held by the Government. According to various estimates, the State Committee on the State Material Reserve of Ukraine had carry over stocks of 100,000 MT in 2003/2004.

**Policy**

In addition to domestic production, import quotas, and administrative price fixing (see GAIN Report UP 4009 for details), the GOU intends to introduce direct subsidies to sugar beet growers in 2005 that have not been utilized in the past. The government is currently considering introduction of a UAH 30/MT (\$5.7/MT) cash subsidy to sugar beet farmers starting with the 2005 crop in order to expand the crop sown area. On February 2, 2004, the GOU set the minimum price for sugar beets at UAH 165/MT (\$31/MT) for MY 2003/2004.

According to FAS Kiev's own calculations, if introduced, the subsidy could account for 18% of the sugar beet price level. It could boost the rate of return for sugar beet production from 6.2% (2003) to 21% and would require infusion of an estimated UAH 500 million as soon as 2005. It is highly unlikely that the GOU would be able to implement this program next year due to budget constraints.

### Statistical Tables

Ukraine							
Sugar Beets							
	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	754	(1000 HA)
Area Harvested	860	860	0	665	0	670	(1000 HA)
Production	16500	16500	0	13391	0	15500	(1000 MT)
TOTAL SUPPLY	16500	16500	0	13391	0	15500	(1000 MT)
Utilization for Sugar	16500	16500	0	13391	0	15500	(1000 MT)
Utilization for Alcohol	0	0	0	0	0	0	(1000 MT)
TOTAL UTILIZATION	16500	16500	0	13391	0	15500	(1000 MT)

Ukraine							
Sugar, Centrifugal							
	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]	
<b>Market Year Begin</b>		10/2002		10/2003		10/2004	MM/YYYY
Beginning Stocks	186	186	496	496	426	191	(1000 MT)
Beet Sugar Production	1550	1550	1580	1580	1400	1700	(1000 MT)
Cane Sugar Production	0	0	0	0	0	0	(1000 MT)
TOTAL Sugar Production	1550	1550	1580	1580	1400	1700	(1000 MT)
Raw Imports	1390	1390	900	500	1300	500	(1000 MT)
Refined Imp.(Raw Val)	80	80	100	75	100	100	(1000 MT)
TOTAL Imports	1470	1470	1000	575	1400	600	(1000 MT)
TOTAL SUPPLY	3206	3206	3076	2651	3226	2491	(1000 MT)
Raw Exports	0	0	0	0	0	0	(1000 MT)
Refined Exp.(Raw Val)	360	360	400	310	500	200	(1000 MT)
TOTAL EXPORTS	360	360	400	310	500	200	(1000 MT)
Human Dom. Consumption	2100	2100	2200	2100	2300	2100	(1000 MT)
Other Disappearance	250	250	50	50	0	0	(1000 MT)
Total Disappearance	2350	2350	2250	2150	2300	2100	(1000 MT)
Ending Stocks	496	496	426	191	426	191	(1000 MT)
TOTAL DISTRIBUTION	3206	3206	3076	2651	3226	2491	(1000 MT)

\*Raw value basis.