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## Ukraine

## Sugar

## Annual

## 2005

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**Report Highlights:**

After an insignificant increase in sugar beet production in MY 2004/2005 due to favorable weather, domestic sugar production is forecasted to continue its downward trend for MY 2005/2006. Lower production will result in increased sugar imports when compared with revised estimates of the current marketing year. Sugar exports, however, are forecasted to decrease as a result of tighter import and processing control procedures aimed at protecting the domestic market.

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Includes PSD Changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
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[UP]

## Table of Contents

<b>Executive Summary</b> .....	<b>3</b>
<b>Sugar Beet Production</b> .....	<b>3</b>
Areas Planted and Rate of Return on Investment in Grain, Sugar Beet and Sunflowerseed	
Production in Ukraine in 1990-2004 .....	3
Sugar Beets PSD Table .....	3
<b>Sugar Production</b> .....	<b>4</b>
Centrifugal Sugar PSD Table .....	4
<b>Consumption</b> .....	<b>5</b>
<b>Other Disappearance</b> .....	<b>5</b>
<b>Imports</b> .....	<b>5</b>
<b>Exports</b> .....	<b>5</b>
Stocks .....	6
<b>Trade Policy</b> .....	<b>6</b>
Suggested Import Tariff Reductions and Possible Impact.....	6
<b>Statistical Tables</b> .....	<b>7</b>
Households consumption of sugar and products containing sugar in Ukraine in 2002 and	
2003.....	7
Imports of Raw Cane Sugar Into Ukraine .....	7
Monthly Raw Cane Sugar Imports into Ukraine.....	7
Imports of refined sugar into Ukraine .....	8
Exports of refined Sugar From Ukraine .....	8
Monthly Sugar Exports from Ukraine .....	8
Exports of Other Types of Sugar from Ukraine.....	9
Centrifugal Sugar Price Table .....	9

## Executive Summary

Ukrainian farmers, who respond well to crop profitability in making planting decisions, will likely continue to reduce the area planted with sugar beets in 2005. Lower forecasted sugar beet production in MY 2005/2006 when compared with the estimate for the current marketing year will result in reduced beet sugar output. Government of Ukraine's (GOU) ineffective price fixing policies designed to increase domestic sugar beet production will likely result in imports of 0.5 million tons of raw cane sugar, a slight increase from the new MY 2004/2005 import estimate. Tight control procedures, the ban on tolling imports and processing will prevent trade in raw cane sugar from reaching the record level achieved in MY 2002/2003 and will be reflected in diminishing exports of refined sugar to Former Soviet Union (FSU) countries in MY 2005/2006.

## Sugar Beet Production

Sugar beet production in 2005 is forecast to decrease from the revised 2004 level due to lower than expected area and yields. Despite GOU intentions to increase the minimum purchase price for sugar beets from UAH 165 per ton (\$31/MT) in MY 2004/2005 to UAH 170 (\$32/MT) in MY 2005/2006 and the desire to plant 800,000 hectares with sugar beets this year, farmers will likely reduce crop acreage when compared with 2004. Sugar beet profitability remains well below that of sunflower seed and grains (see the table below).

## Areas Planted and Rate of Return on Investment in Grain, Sugar Beet and Sunflower Seed Production in Ukraine from 1990-2004

	1990	1995	2000	2001	2002	2003*	2004**
Area planted with grains and pulses, 1,000 hectares	14,583	14,152	13,646	15,586	15,448	12,495	15,517
<b>Rate of return for Grains, %</b>	<b>275%</b>	<b>86%</b>	<b>65%</b>	<b>43%</b>	<b>19%</b>	<b>46%</b>	<b>23%</b>
Area planted with sunflowerseed, 1,000 hectares	1,636	2,020	2,943	2,502	2,834	4,001	3,459
<b>Rate of return for Sunseed, %</b>	<b>237%</b>	<b>171%</b>	<b>52%</b>	<b>69%</b>	<b>78%</b>	<b>64%</b>	<b>46%</b>
Area planted with sugar beets, 1,000 hectares	1,607	1,475	856	970	897	773	754
<b>Rate of return for Sugar beets, %</b>	<b>30%</b>	<b>31%</b>	<b>6%</b>	<b>2%</b>	<b>-9%</b>	<b>6%</b>	<b>-1%</b>

Data source: State Statistics Committee of Ukraine.

\*final data, \*\*-preliminary estimate

FAS Kiev also expects slightly lower sugar beet yields in 2005, compared to 2004 due to expected normal weather conditions. Sugar beet yields in 2004 were the highest in ten years and were facilitated by favorable weather, and to a lesser extent by improved seed quality and plant protection.

## Sugar Beets PSD Table

PSD Table	Ukraine						
Sugar Beets							
	2004 Revised		2005 Estimate				UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		09/2003		09/2004		09/2005	MM/YYYY
Area Planted	0	773	0	754	0	740	(1000 HA)
Area Harvested	0	665	0	700	0	680	(1000 HA)
Production	0	13391	0	16500	0	15500	(1000 MT)
TOTAL SUPPLY	0	13391	0	16500	0	15500	(1000 MT)
Utilization for Sugar	0	13391	0	16500	0	15500	(1000 MT)
Utilization for Alcohol	0	0	0	0	0	0	(1000 MT)
TOTAL UTILIZATION	0	13391	0	16500	0	15500	(1000 MT)

**MY 2004/2005.** Losses in the area planted due to unfavorable weather and other economic reasons (low yields, fuel and machinery shortages, etc.) are typical in Ukraine and range between 15-20% per year. In 2004, farmers abandoned only 7% of the area planted as unusually warm weather allowed sugar beet harvesting to continue until the end of November – two weeks beyond the average harvesting time.

For more information on sugar beet production in 2004, please refer to November 2004 Sugar Update (GAIN Report Number UP4019 dated: 10/27/2004).

### Sugar Production

The forecast for **MY 2005/2006** beet sugar production reflects lower than expected sugar beet production compared with the current marketing year. Once a prosperous industry, Ukraine's sugar processing plants have rapidly lost their ability to attract investment. Approximately 10 processing plants out of 140 that exist in Ukraine changed owners last marketing year. It is anticipated that the number of sugar beet processing plants will continue to shrink and will fall below 120 in MY 2005/2006 as profitability in beet sugar production continues to be close to negative. A preliminary assessment by the National Association of Sugar Producers of Ukraine indicated that the rate of return for beet sugar production during the 2004/2005 processing season was minus 4%. Ukraine's sugar beet processing industry will likely continue to be constrained by conflicting interests of sugar beet and raw cane sugar refineries.

**MY 2004/2005.** FAS Kiev updated the previous sugar production estimate for MY 2004/2005 to reflect higher sugar beet production and processing. According to the Ukrainian Sugar Producers Association, the processing season was nearly complete by mid December 2004. 120 factories processed beets in MY 2004/2005, compared with 121 in MY 2003/2004 and 126 in MY 2002/2003. Approximately 20 factories were idle in MY 2004/2005.

For more information on sugar beet production in 2004, please refer to the November 2004 Sugar Update (GAIN Report Number UP4019 dated 10/27/2004).

### Centrifugal Sugar PSD Table

PSD Table	Ukraine							
	Sugar, Centrifugal							
	2004	Revised	2005	Estimate	2006	Forecast	UOM	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]		
Market Year Begin		10/2003		10/2004		10/2005	MM/YYYY	
Beginning Stocks	496	496	426	181	426	181	(1000 MT)	
Beet Sugar Production	1580	1580	1400	1900	0	1750	(1000 MT)	
Cane Sugar Production	0	0	0	0	0	0	(1000 MT)	
TOTAL Sugar Production	1580	1580	1400	1900	0	1750	(1000 MT)	
Raw Imports	900	495	1300	350	0	500	(1000 MT)	
Refined Imp. (Raw Val)	100	70	100	100	0	100	(1000 MT)	
TOTAL Imports	1000	565	1400	450	0	600	(1000 MT)	
TOTAL SUPPLY	3076	2641	3226	2531	426	2531	(1000 MT)	
Raw Exports	0	0	0	0	0	0	(1000 MT)	
Refined Exp. (Raw Val)	400	310	500	200	0	150	(1000 MT)	
TOTAL EXPORTS	400	310	500	200	0	150	(1000 MT)	
Human Dom. Consumption	2200	2100	2300	2150	0	2200	(1000 MT)	
Other Disappearance	50	50	0	0	0	0	(1000 MT)	
Total Disappearance	2250	2150	2300	2150	0	2200	(1000 MT)	
Ending Stocks	426	181	426	181	0	181	(1000 MT)	
TOTAL DISTRIBUTION	3076	2641	3226	2531	0	2531	(1000 MT)	

## Consumption

Sugar consumption will continue to increase in **MY 2005/2006** due to higher anticipated sugar utilization by the food processing and confectionary industries. This increased use will offset lower than expected direct human consumption. Per capita consumption of sugar, however, will remain well below 50 kilograms, the record level achieved in early 1990s.

FAS Kiev provided consumption information for sugar and products containing sugar in the Statistical Tables Section. Ukrainian consumers mostly consume refined sugar and often do home canning which is very popular. Consumption of sugar substitutes has been negligible so far. According to calculations by the State Statistics Committee of Ukraine, per capita sugar consumption in CY 2003 was 36.4 kilograms.

## Other Disappearance

Other disappearance category was zeroed for MY 2004/2005 and MY 2005/2006 due to low imports of raw cane sugar and consequent low re-exports of products containing sugar (HS 1702) compared with MY 2003/2004. Existing free trade agreements (FTA) among FSU countries generally exclude sugar, but allow for some trade in sugar-based products. Sugar syrup accounted for most of the "other disappearance" exports. However, the Russian Federation restricted syrup imports from Ukraine in MY 2003/2004. Information on exports of products containing sugar is provided in the Statistical Tables Section. Currently, trade in products containing sugar is mostly limited to caramel and other confectionary products.

## Imports

Raw cane sugar imports will likely increase in **MY 2005/2006** from the revised level of the current marketing year as forecasted beet sugar production will not be sufficient to meet domestic demand. The GOU has not yet announced a sugar tariff-rate-quota (TRQs) for MY 2004/2005. Usually, TRQs are announced in May when it is clear how much sugar Ukraine will need before the end of a marketing year. FAS Kiev believes that the government will announce and then auction off a 250,000-300,000 ton TRQ to allow for imports prior to September 1, 2005 (MY 2004/2005).

The import estimate for **MY 2004/2005** was revised downwards to reflect higher domestic production and reduced exports. Ukraine's sugar importers largely depend on export markets in the FSU. Increased competition with Russian and Kazakh raw cane sugar refineries in FSU markets, restrictions on sugar imports, refining and re-exports have significantly reduced export market opportunities. In order to prevent smuggling in sugar, the previous government banned imports of sugar and sugar syrup under tolling contracts for the purpose of further refining. Information on sugar imports is provided in the Statistical Tables Section.

## Exports

Exports of refined sugar are expected to continue to decline in **MY 2005/2006** assuming no new changes to existing import regulations. Ukraine will continue to supply sugar to FSU countries within the existing free-trade agreements. However, it is expected that competition from Russia and Kazakhstan who also supply refined cane sugar to Kyrgystan, Uzbekistan, Turkmenistan, Azerbaijan and other FSU countries will increase.

Sugar exports in **MY 2004/2005** are currently assessed lower due to reduced imports of raw cane sugar for the purposes of refining and re-export.

## Stocks

Due to the insignificant increase in domestic consumption forecasted for MY 2005/2006, ending stocks are not expected to change from the revised MY 2003/2004 and 2004/2005 levels. FAS Kiev reduced the carry over estimate for MY 2003/2004 to reflect low imports in August-September 2004 (see monthly trade matrix). There is still no information available on sugar stored by refineries, farmers, traders and the Government in Ukraine; therefore, the stock level was derived as a residual from more reliable estimates of production, consumption and trade.

## Trade Policy

**While preparing the import forecast for MY 2005/2006, FAS Kiev assumes the GOU will introduce a TRQ rather than reduce overall sugar import tariffs.** With an ambitious goal of joining the World Trade Organization by the end of CY 2005, the new Ukrainian Government unexpectedly proposed to legislators a substantial reduction in tariffs. The tariffs were previously used to protect the domestic food market, including the sugar market and products containing sugar. According to the draft legislation that is pending review by the Ukrainian Parliament, all import duties are to be reduced, or at least be replaced with *ad valorem* tariffs. Currently, the import duty on all commodities under HS 1701 code is set at 50%, but it should be not less than EUR 300 per ton. If approved as suggested, the new 50% *ad valorem* import duty would not protect domestic beet sugar producers from import competition. According to Post's calculations, imported sugar would have a \$42-\$65/MT price advantage compared to domestically produced product after import duty and VAT payments (see the table below).

### Suggested Import Tariff Reductions and Possible Impact.

HS Code	Description	Current Preferential Import Tariff, % and Applicable Limitations	Average CIF price in MY 2003/2004, \$/MT	Ad valorem equiv. of MY 2003/2004 price, % *	Suggested Import Tariff (ad valorem only), %	Estimated reduction as compared with the current tariff, %	Ukrainian minimum sugar prices, US\$ equiv/MT **	Estimated imported sugar price inclusive of the suggested import tariff, \$/MT***	Price difference between custom cleared imported sugar and current minimum prices
170111	Cane Sugar	50% ,but not less than EUR 300 per ton	\$212	184%	50%	-73%	\$447	\$382	-\$65
170112	Beet Sugar	50% ,but not less than EUR 300 per ton	\$225	173%	50%	-71%	\$447	\$405	-\$42

\* Post estimate based on EUR1.00/US\$1.30 exchange rate

\*\* By regulations, no legal entity in Ukraine is allowed to sell product domestically below that price (VAT inclusive)

\*\*\* Assuming MY 2003/2004 import prices, increased by 50% ad valorem import duty and then by 20% VAT

Considering the fact that no funds are available in the Ukrainian budget for direct subsidies to beet sugar producers, a vocal agricultural lobby in Parliament and the high degree of political sensitivity, it is unlikely that current import tariffs for sugar will be changed. Therefore, no consideration was made in the PSD table for the proposed tariff reductions.

## Statistical Tables

## Household Consumption of Sugar and Products Containing Sugar in Ukraine in 2002 and 2003, kg per 100 households

Products	2002		2003		Change in quantity, %	Change in price, %
	Quantity, kg	Price UAH/kg	Quantity, kg	Price UAH/kg		
Sugar	8,857	2.49	8,404	2.78	-5%	12%
Other types of sugar and sugar substitutes	6	7.18	5	10.09	-20%	41%
Jam	46	5.01	41	4.74	-11%	-5%
Natural Honey	272	9.16	190	12.66	-30%	38%
Artificial Honey	8	4.28	5	4.34	-46%	1%
Chocolate	na	na	92	22.51		
Caramel	626	6.57	592	6.88	-5%	5%
Marmalade ?????	99	6.23	135	6.13	36%	-2%
Other Sweets	24	12.43	34	11.19	39%	-10%
Chocolate candies	na	na	388	13.18		
Ice cream	185	9.22	360	9.43	95%	2%

Data source: State Statistics Committee of Ukraine's Sample Survey of Households' Incomes and Expenditures.

Note: there were 17,975,774 households in Ukraine in 2002

## Imports of Raw Cane Sugar into Ukraine, 1,000 MT

Suppliers	Oct 02- Sep 03	Oct 03- Sep 04	Oct 03- Jan 04	Oct 04- Jan 05
Brazil	1,007	269	124	21
Cuba	72	45	0	0
Guatemala	36	39	0	0
United States	13	22	10	0
Belarus	30	21	21	0
El Salvador	10	20	0	0
Peru	6	14	14	0
Antigua	3	10	10	0
Colombia	60	2	2	0
Others not Listed	154	53	52	0
<b>Total</b>	<b>1,392</b>	<b>495</b>	<b>233</b>	<b>21</b>

Data source: State Customs Service of Ukraine (HS 170111)

## Monthly Raw Cane Sugar Imports into Ukraine, 1,000 MT

Month	1,000 MT	Month	1,000 MT	Month	1,000 MT
Oct-02	48	Oct-03	50	Oct-04	11
Nov-02	56	Nov-03	56	Nov-04	10
Dec-02	66	Dec-03	75	Dec-04	0
Jan-03	66	Jan-04	52	Jan-05	0
Feb-03	70	Feb-04	49		
Mar-03	70	Mar-04	27		
Apr-03	61	Apr-04	42		
May-03	54	May-04	19		
Jun-03	112	Jun-04	0		
Jul-03	252	Jul-04	114		
Aug-03	438	Aug-04	6		
Sep-03	98	Sep-04	5		
MY 02/03	1,392	MY 03/04	495	MY04/05 - to date	21

Data source: State Customs Service of Ukraine

**Imports of refined sugar into Ukraine, 1,000 MT**

Suppliers	Oct 02- Sep 03	Oct 03- Sep 04	Oct 03- Jan 04	Oct 04- Jan 05
Lithuania	4	15	0	18
Poland	23	13	6	0
Georgia	31	12	10	0
Russia	7	9	0	0
Kazakhstan	5	5	1	0
Estonia	0	2	2	0
United States	0	0	0	8
Germany	0	0	0	0
Netherlands	0	0	0	0
United Kingdom	2	0	0	0
Others Not Listed	3	0	0	0
<b>Total</b>	<b>75</b>	<b>57</b>	<b>19</b>	<b>26</b>

Data source: State Customs Service of Ukraine (HS 170199)

**Exports of refined Sugar From Ukraine, 1,000 MT**

	Oct 02- Sep 03	Oct 03- Sep 04	Oct 03- Jan 04	Oct 04- Jan 05
Moldova	97	99	40	14
Turkey	35	54	54	0
Azerbaijan	118	52	26	0
Georgia	52	40	24	1
Armenia	0	11	2	0
Kazakhstan	22	9	5	0
Slovakia	0	9	0	0
Afghanistan	7	3	2	0
Russia	0	3	1	0
Estonia	0	2	2	0
Others Not Listed	2	5	1	3
<b>Total</b>	<b>334</b>	<b>287</b>	<b>157</b>	<b>18</b>

Data source: State Customs Service of Ukraine (HS 170199)

**Monthly Sugar Exports from Ukraine**

Month	1,000 MT	Month	1,000 MT	Month	1,000 MT
Oct-02	27	Oct-03	46	Oct-04	0
Nov-02	24	Nov-03	33	Nov-04	11
Dec-02	10	Dec-03	65	Dec-04	5
Jan-03	10	Jan-04	12	Jan-05	2
Feb-03	10	Feb-04	5		
Mar-03	17	Mar-04	39		
Apr-03	18	Apr-04	25		
May-03	42	May-04	19		
Jun-03	36	Jun-04	14		
Jul-03	68	Jul-04	12		
Aug-03	44	Aug-04	15		
Sep-03	29	Sep-04	1		
<b>MY 02/03</b>	<b>334</b>	<b>MY 03/04</b>	<b>287</b>	<b>MY04/05 - to date</b>	<b>18</b>

Data source: State Customs Service of Ukraine (HS 1701)

**Exports of Other Types of Sugar from Ukraine, 1,000 MT**

Destinations	Oct 02- Sep 03	Oct 03- Sep 04	Oct 03- Jan 04	Oct 04- Jan 05
Russia	338	54	43	6
Belarus	23	22	6	3
Kazakhstan	8	8	3	3
Uzbekistan	0	0	0	0
Azerbaijan	0	0	0	0
Lithuania	0	0	0	0
Moldova	1	0	0	0
<b>Total</b>	<b>370</b>	<b>85</b>	<b>53</b>	<b>12</b>

Data source: State Customs Service of Ukraine (HS 1702)

**Centrifugal Sugar Price Table**

Prices in	US\$	per uom	1 MT
Year	2003	2004	% Change
Jan	425.66	414.55	-3%
Feb	449.9	413.7	-8%
Mar	498.64	430.64	-14%
Apr	511.83	444.76	-13%
May	506.28	482.63	-5%
Jun	600.06	462.31	-23%
Jul	538.28	464.64	-14%
Aug	388.26	458.4	18%
Sep	390.12	457.78	17%
Oct	408.86	442.85	8%
Nov	409.79	433.46	6%
Dec	401.39	448.6	12%

EXW Offer Price

Data source: APK-Inform ([www.apk-inform.com](http://www.apk-inform.com))