

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Required Report - public distribution

Date: 4/20/2011

GAIN Report Number: UP1111

Ukraine

Sugar Annual

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Report Highlights:

For the past two growing seasons sugar beets have increased in acreage. In the current MY beet production is expected to go up by 23% by volume over last year. Large land holdings have continued consolidating land for beet production and reopening old facilities for refining sugar. Ukraine imports sugar under TRQs; the licensing and distribution of permits to import are handled by the Ministry of Economic Development and Trade. Ukraine can import duty free sugar from Belarus, but the price is controlled to protect Ukraine's domestic production.

Executive Summary:

In Marketing Year (MY) 2011 sugar beet and sugar production increased in Ukraine by 37% and 22% respectively, compared to the previous year. There is a trend of increased sugar beet and sugar production observed in the country in the last few years that is caused by supportive world market conditions and a good domestic demand for refined sugar. Sugar production in MY 2010 was not sufficient to fully satisfy the domestic market demand. Thus, some raw cane sugar was imported to Ukraine to balance out the shortage and smooth out the increasing domestic market prices.

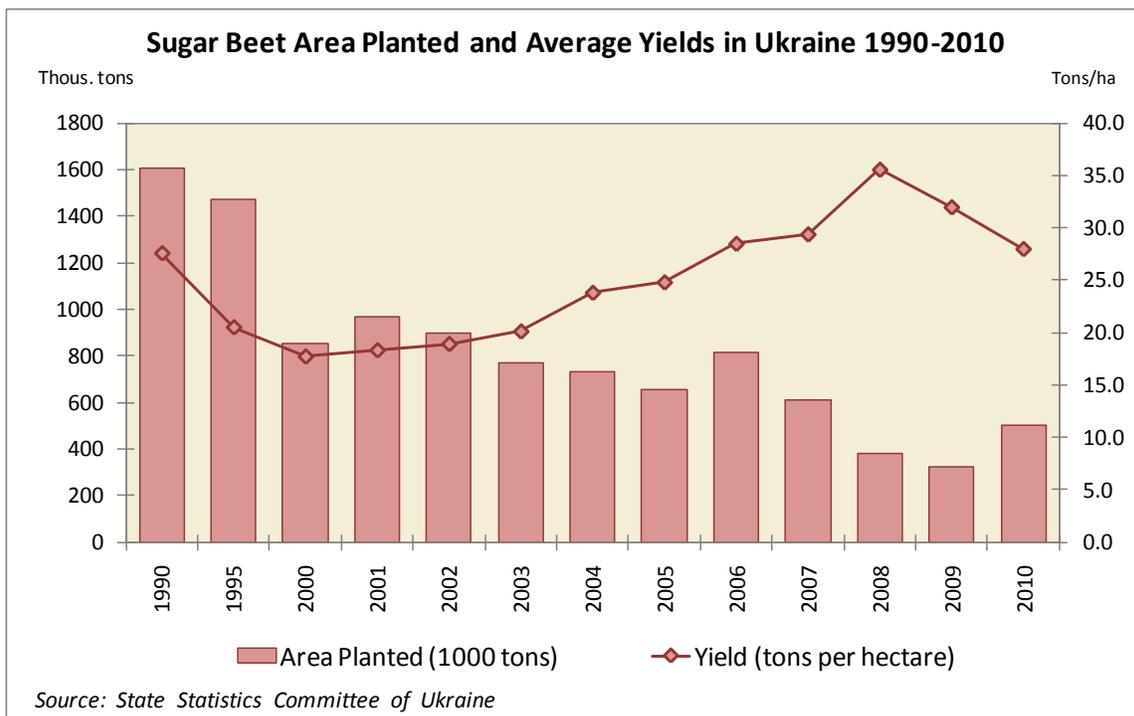
Such factors like relative profitability of sugar beet production, high domestic market prices for refined sugar, uncertainty in policy for some other agricultural crop production and exports made sugar beet production as well as sugar refining in the country attractive again. Both sugar beet and sugar production in Ukraine in MY 2012 are expected to increase once again. Sugar production in the country continues to be closely monitored and regulated by the Government of Ukraine (GOU).

Commodities:

Sugar Beets

Production:

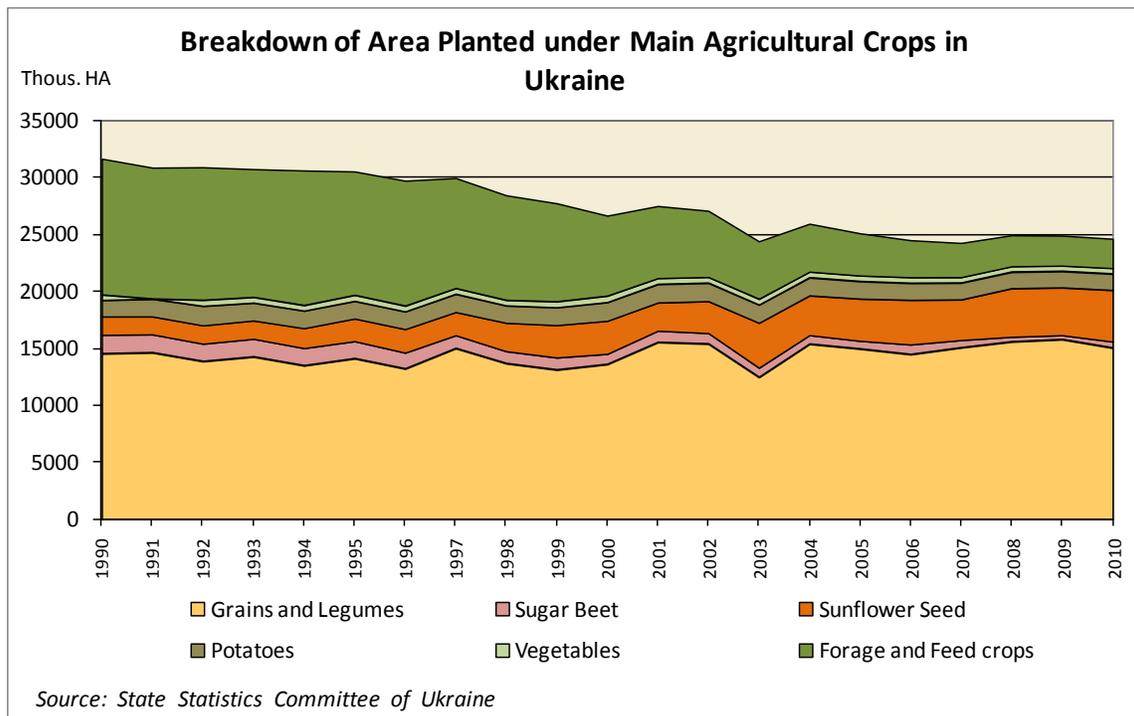
Sugar beet production in Marketing Year 2010/11 (MY 2011) increased by 37% on the year due to an increase in planted area to about 500,000 hectares (ha), up by 56% compared to 322,000 ha planted for the harvest of MY 2010. According to the State Statistics Committee of Ukraine, average yields of sugar beets in MY 2011 were lower, 28 tons /ha compared to 32 tons /ha a year prior.



Sugar beet planted area is expected to increase once again in spring 2011 for a 12% increase in area projected for MY 2012 bringing area up to 560,000 ha. Sugar beet production is forecasted by FAS-Kyiv to go up 23% and reach 16,900,000 tons. This forecast is based on the 5-year average yield of 30.7 tons/ha, above the average of 27.9 tons/ha yield of last season when the production was impacted by severe drought and generally unfavorable weather conditions. The chart above illustrates the trends in sugar beet production and yields in Ukraine in the last two decades according to the official State Statistics Committee of Ukraine data for calendar years 1990-2010.

The main factors that conditioned the forecast for expansion of sugar beet production in Ukraine in MY 2012 were good domestic market demand for both sugar beets and refined sugar and the relative profitability of sugar beet production. Growing world market prices underpinned this increase. However, overall production in MY 2012 may be affected by lower inputs and less favorable weather conditions at the time of sugar beet planting as well as the new GOU policy of zero subsidies for sugar beet production in the new marketing year. In addition, producers in Ukraine may be over-reporting area of sugar beet plantings to balance out the area they under-report in the most profitable crops like sunflower. Farmers are required to report acreage and supposed to observe agronomic guidelines on rotation, but enforcement is not known to be a factor in planting decisions.

Area planted under sugar beets has decreased dramatically in Ukraine over the last two decades following the general trend in Ukrainian agricultural production. Producers have been switching towards more profitable crops favoring sunflower seed and grains and legumes production (see chart below).



However, sugar beet production is expected to increase in Ukraine in the mid-term perspective. In recent years agricultural corporations have started accumulating large contracts of land under lease, known as land banks, for agricultural production and investing in sugar production capacities. Over 90% of all sugar beets in Ukraine in MY 2011 were produced by agricultural enterprises, the majority of which were large vertically integrated companies that owned sugar processing facilities. According to the official State Statistics Committee data, average yields of sugar beets produced in fall 2010 by agricultural enterprises was 28.2 tons/ha, about 9% over the 25.7 tons/ha yields that were obtained by private households for the same period.

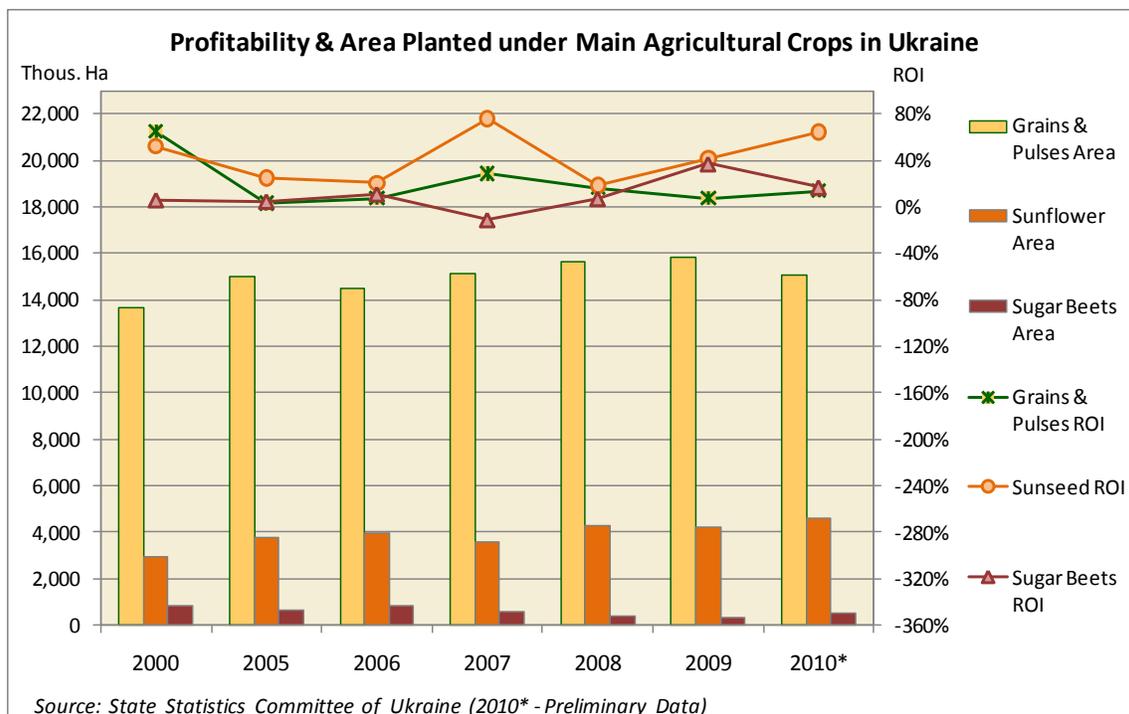
The trend for expansion in the industrial production of sugar, which was observed in Ukraine in the last couple of years, may be the driving force behind the recent improvement in yields and an increase in production area for sugar beets. In the last year a number of large agricultural corporations reported acquisitions of sugar processing plants in Ukraine and announced their plans for expansion of sugar production for the coming years. Table 1 shows returns on investment in certain years and for selected crops in Ukraine.

Table 1. Profitability and Area Planted under Main Agricultural Crops in Ukraine (Hectares, %, Calendar Years)

	1990	1995	2000	2005	2006	2007	2008	2009	2010*
Grains & Pulses Area, ha	14,583	14,152	13,646	15,005	14,515	15,115	15,636	15837	15090
Grains & Pulses ROI	275%	86%	65%	3%	7%	29%	16%	7%	14%
Sunflower Area, ha	1,636	2,020	2,943	3,743	3,964	3,604	4,306	4232	4572
Sunseed ROI	237%	171%	52%	25%	21%	76%	18%	41%	65%
Sugar Beets Area, ha	1,607	1,475	856	652	815	610	380	322	501
Sugar Beets ROI	30%	31%	6%	5%	11%	-11%	7%	37%	17%

Source: State Statistics Committee of Ukraine

In the last two years sugar beet production has once again become quite profitable in Ukraine with return on investment estimates at 37% and 17% in 2009 and 2010 calendar years respectively. This factor is expected to play a role in the producers' decisions to expand area under sugar beets for the MY 2011/12 crop. Table 1 and a chart below show comparative return on investment for grains and pulses, sunflower seed, and sugar beet production in Ukraine.



Consumption:

Sugar beets in Ukraine were not used for alcohol production which is reflected in the PSD table below. Sugar beets produced in the country were fully utilized for sugar production less transportation and storage losses and occasional minor exports.

Trade:

There were no imports of sugar beets (HS 121291) to Ukraine in the recent years due to an increase in domestic production. However, since the supply of sugar beets in Ukraine could not completely satisfy the demand on the domestic market, Ukraine has been importing cane sugar as a substitute. There were some minor exports of sugar beets from Ukraine in MY 2009 to Russia and Georgia (see Table 2).

Table 2. Sugar Beet Exports from Ukraine by Destination, MY, 1000 MT (HS121291)

Destination	October 07- September 08	October 08- September 09	October 09- September 10	% Change MY 2010 to MY 2009
World	0.0	1311.0	0.0	-100.0
Georgia	0.0	78.0	0.0	-100.0
Russia	0.0	1233.0	0.0	-100.0

Source: State Customs Committee of Ukraine

For MY 2012, FAS-Kyiv expects some sugar beet (or refined sugar) exports from Ukraine due to the increase in sugar beet production in the country, which is expected to create a positive surplus of sugar beets for Ukraine in the new marketing year. Depending on Ukraine's ability to find external markets for its refined sugar, such as the Russian Federation or other CIS countries, in MY 2012 the country may export either refined sugar or raw sugar beets.

Production, Supply and Demand Data Statistics:

Table 3. USDA Official and FAS-Kyiv Forecast Production Supply and Demand Statistics

Sugar Beets Ukraine	2010			2011			2012		
	Market Year Begin: Oct 2009			Market Year Begin: Oct 2010			Market Year Begin: Oct 2011		
	Revised			Estimate			Forecast		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Area Planted (1000 HA)		330	322			501			560
Area Harvested (1000 HA)		320	322			492			550
Production (1000 MT)		10,021	10,068			13,749			16,900
Total Supply (1000 MT)		10,021	10,068			13,749			16,900
Utilization for Sugar (1000 MT)		10,021	10,068			13,255			16,400
Utilizatr for Alcohol (1000 MT)		0	0			0			0
Total Distribution (1000 MT)		10,021	10,068			13,255			16,400

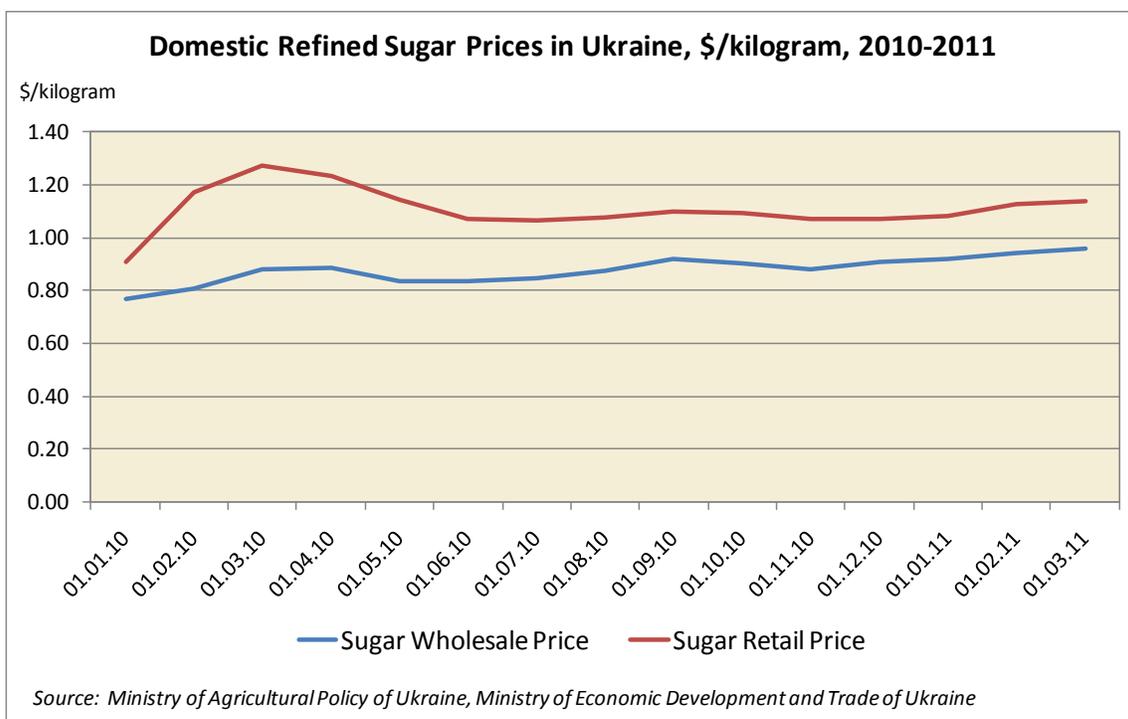
Commodities:

Sugar, Centrifugal

Production:

Overall beet sugar production in Ukraine in MY 2011 is expected increase by 22%, compared to MY 2010. Such an increase mainly resulted from the growth in sugar beet production in the fall 2010 in Ukraine. As of February 2011, sugar processing plants in the country processed over 95% sugar beets harvested last fall and produced about 1.5 MMT of refined sugar for marketing year 2011. The final sugar production in Ukraine in MY 2011 is expected to be close to 1.7 MMT in the raw sugar conversion value.

Sugar production is regulated by the Government of Ukraine. For MY 2012, the GOU once again announced distribution of the sugar production quota among the refineries setting Quota A at 1,860,000 MT, while in MY 2011 this quota was set at 1,892,000 MT. The minimal prices for sugar beets that will be delivered to processing plants in Ukraine for production under Quota A in the MY 2012 were set by the GOU to be \$42.6 per ton (this price does not include Value Added Tax (VAT)). The minimal price for refined sugar produced within sugar production Quota A in Ukraine in MY 2012 was set to be about \$618 per ton (no VAT included in this price).



Ukraine domestic refined sugar prices followed the world market trend in the past and are expected to stay relatively high in the new season. Domestic wholesale and especially retail prices for refined sugar in Ukraine had seen some fluctuations in the beginning of the calendar year 2010 but stayed steady in the second half of the year and remained on the same level since the beginning of MY 2011. However, increasing domestic sugar production is expected to have some negative effect on the domestic sugar prices lowering them to a certain extent in MY 2012, unless some external factors or a change in domestic policy influences the situation otherwise.

Consumption:

Consumption of sugar in Ukraine is expected to be unchanged both in MY 2011 and in MY 2012 because of slowing demand from the food processing industry due to economic slowdown in the country in the last few years.

Ukrainians continue to consume sugar, primarily refined sugar, and often use sugar for home canning. FAS-Kyiv does not expect an increase in domestic consumption of sugar in the new season due to relatively high domestic sugar prices in Ukraine.

Trade:

Imports

Raw cane sugar imports are expected on a marginal level in Ukraine in MY 2012 due to an increase in sugar beet production in the country and a consequent increase in sugar refining inside the country. In addition, high world cane sugar prices make imports of raw cane sugar unattractive to Ukraine's domestic refineries.

Imports of raw cane sugar to Ukraine, according to official Customs data, in MY 2010 were 254,895 MT, compared to only 13,695 MT a season prior. The largest supplier of raw cane sugar for Ukraine in MY 2010 was Brazil, followed by Argentina, Cuba, and Guatemala (see Table 4 below). Imports of raw cane sugar in MY 2011 were not available at the time this report was written. Although, in March 2011, the Ministry of Economic Development and Trade of Ukraine announced collection of applications for raw cane sugar imports licensing (please refer to Policy section of this report for details on policy for raw cane sugar import licensing in Ukraine).

Table 4. Raw Cane Sugar Imports to Ukraine by Origin, MY, MT (HS 170111)

Origin	Oct 07- Sept 08	Oct 08- Sept 09	Oct 09- Sept 10	% Change MY 2010 to MY 2009
World	3,926.0	13,695.0	254,895.0	1,761.2
Brazil	3,913.0	13,695.0	196,215.0	1,332.7
Argentina	0.0	0.0	34,420.0	0.0
Cuba	0.0	0.0	15,977.0	0.0
Guatemala	0.0	0.0	8,269.0	0.0
Mauritius	8.0	0.0	13.0	0.0
United Kingdom	4.0	0.0	0.0	0.0
France	1.0	0.0	0.0	0.0

Source: State Customs Committee of Ukraine

Refined sugar imports to Ukraine were 91,057 MT in the marketing year ending September 2010. The largest importer of refined sugar to Ukraine was Belarus, which also increased its imports of refined sugar to Ukraine by about 56% since the previous marketing year. Among other refined sugar sources, imports countries included U.K., Denmark, and Colombia (see Table 5 for reference).

Belarus has a Free Trade-zone Agreement with Ukraine. Sugar imports to Ukraine from Belarus were covered under this trade agreement.

Table 5. Refined Sugar Imports to Ukraine by Origin, MY, MT (HS 170199)

Origin	Oct 07- Sept 08	Oct 08- Sept 09	Oct 09- Sept 10	% Change MY 2010 to MY 2009
World	66,067.0	58,751.0	91,057.0	55.0
Belarus	64,821.0	57,944.0	90,440.0	56.1
United Kingdom	7.0	407.0	223.0	-45.2
Denmark	822.0	278.0	180.0	-35.3
Colombia	50.0	75.0	149.0	99.3
Germany	75.0	13.0	38.0	182.6
Poland	12.0	0.0	14.0	0.0
Belgium	0.0	2.0	10.0	400.0
France	2.0	0.0	2.0	1,278.6
Italy	1.0	2.0	1.0	-69.0
Austria	1.0	0.0	0.0	0.0
Sweden	102.0	20.0	0.0	-100.0
Malawi	22.0	0.0	0.0	0.0
Netherlands	5.0	0.0	0.0	0.0
Paraguay	0.0	9.0	0.0	-100.0

Source: State Customs Committee of Ukraine

Refined sugar imports to Ukraine over the first three months of MY 2011 totaled 29,400 MT (see Table 6 for reference). The main suppliers for Ukraine at the beginning of this marketing year were Brazil and Belarus, with imports of 16,347 MT and 12,928 MT of refined sugar respectively.

**Table 6. Refined Sugar Import Statistics by Month and Origin
Ukraine, MY 2011, MT (HS1701)**

Origin	Oct.2010	Nov.2010	Dec.2010	Subtotal Oct 2010 - Dec2010
World	6,319.0	20,356.0	2,725.0	29,400.0
Brazil	0.0	16,347.0	0.0	16,347.0
Belarus	6,316.0	3,919.0	2,693.0	12,928.0
Denmark	0.0	60.0	20.0	80.0
Germany	0.0	18.0	1.0	19.0
Mauritius	1.0	9.0	1.0	11.0
Paraguay	0.0	0.0	5.0	5.0
France	0.0	3.0	0.0	3.0
Russia	0.0	1.0	2.0	3.0
Austria	1.0	0.0	1.0	2.0
Hungary	0.0	0.0	1.0	1.0
Mauritania	0.0	0.0	1.0	1.0

Source: State Customs Committee of Ukraine

Exports

Refined sugar exports from Ukraine declined significantly in MY 2010, totaling 1,164 MT, down 97% on the year, compared to 33,910 MT in the previous season (see Table 7). There were no raw sugar exports from Ukraine over this period.

In MY 2011, exports of refined sugar from Ukraine are expected to be slightly over 100,000 MT due to good production and supportive world market prices. At the time this report was written the GOU was looking to sign an agreement with Russia to export 100,000 MT of refined sugar to this neighboring country.

Table 7. Refined Sugar Exports from Ukraine by Destination, MY, MT (HS 170199)

Destination	Oct 07- Sept 08	Oct 08- Sept 09	Oct 09- Sept 10	% Change MY 2010 to MY 2009
World	1,218.0	33,910.0	1,164.0	-96.6
Moldova	151.0	3,438.0	1,015.0	-70.5
Kyrgyzstan	116.0	17,791.0	131.0	-99.3
Cambodia	2.0	0.0	4.0	100.0
St. Kitts & Nevis	0.0	0.0	2.0	100.0
Russia	25.0	2,959.0	1.0	-100.0
United States	6.0	4.0	1.0	-75.0
Panama	0.0	0.0	1.0	100.0
Canada	0.0	2.0	1.0	-50.0
Virgin Islands (British)	0.0	0.0	1.0	100.0
Unidentified Country	1.0	1.0	1.0	0.0
Germany	0.0	0.0	1.0	100.0
Turkey	1.0	0.0	1.0	100.0
Singapore	1.0	0.0	1.0	100.0
Malta	1.0	0.0	0.0	0.0
Azerbaijan	121.0	0.0	0.0	0.0
Belarus	0.0	22.0	0.0	-100.0
Georgia	0.0	997.0	0.0	-100.0
Croatia	0.0	207.0	0.0	-100.0
Kazakhstan	336.0	1,368.0	0.0	-100.0
Lithuania	0.0	830.0	0.0	-100.0
Tajikistan	0.0	2,387.0	0.0	-100.0
Turkmenistan	0.0	324.0	0.0	-100.0
Slovakia	0.0	22.0	0.0	-100.0
Uzbekistan	458.0	3,558.0	0.0	-100.0

Source: State Customs Committee of Ukraine

Stocks:

By the end of MY2011 Ukraine is expected to have about 116,000 MT of refined sugar left in stocks on the assumption that the country exports about 100,000 MT of refined sugar this season. A relatively good sugar beet production year allowed Ukraine to produce a surplus of refined sugar that is not expected to be consumed by the domestic market. According to the data from UkrSugar, stocks of refined sugar in Ukraine were at about 990,000 MT as of March 1, 2011.

Over the years the GOU attempted to create a strategic reserve for this commodity and worked on intervention mechanisms. However, insufficient funds in the State budget so far prevented the GOU from accumulating an effective reserve of refined sugar in Ukraine.

Carry-over stocks of refined sugar are expected to stay low in the next season despite increasing production levels.

Production, Supply and Demand Data Statistics:

Table 8. USDA Official and FAS-Kyiv Forecast Production Supply and Demand Statistics

Sugar, Centrifugal Ukraine	2010			2011			2012		
	Market Year Begin: Oct 2009			Market Year Begin: Oct 2010			Market Year Begin: Oct 2011		
	Revised			Estimated			Forecast		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Beginning Stocks (1000 MT)	231	250	231	136		80			116
Beet Sugar Production (1000 MT)	1,380	1,400	1,382	2,000		1,685			2,100
Cane Sugar Production (1000 MT)	0	0	0	0		0			0
Total Sugar Production (1000 MT)	1,380	1,400	1,382	2,000		1,685			2,100
Raw Imports (1000 MT)	230	250	255	220		250			0
Refined Imp.(Raw Val) (1000 MT)	250	140	91	120		120			0
Total Imports (1000 MT)	480	390	346	360		360			0
Total Supply (1000 MT)	2,091	2,040	1,959	2,496		2,125			2,216
Raw Exports (1000 MT)	0	0	0	0		0			0
Refined Exp.(Raw Val) (1000 MT)	5	10	1	5		109			217
Total Exports (1000 MT)	5	10	1	5		109			217
Human Dom. Consumption (1000 MT)	1,950	1,950	1,877	2,200		1,900			1,900
Other Disappearance (1000 MT)	0	0	0	0		0			0
Total Use (1000 MT)	1,950	1,950	1,877	2,200		1,900			1,900
Ending Stocks (1000 MT)	136	80	80	291		116			99
Total Distribution (1000 MT)	2,091	2,040	1,958	2,496		2,125			2,216

Commodities:

Sugar Beets

Sugar, Centrifugal

Policy:

Upon WTO accession, Ukraine opened a tariff quota on imports of raw cane sugar, which in 2010 was set at 267,800 MT. For 2011 this quantity may increase by 100,000 MT (according to the Ministry of Agricultural Policy and Food of Ukraine's petition). The tariff rate under the quota is 2 % of the Customs' value. Sugar imported outside the Tariff Rate Quota (TRQ) is assessed an import duty of 50% of its Customs' value. Import of raw sugar does not count against the TRQ if an enterprise imports raw sugar to Ukraine for refining with subsequent exporting of the product out of Ukraine.

The TRQ licenses for import of raw cane sugar are distributed by the Ministry of Economic Development and Trade of Ukraine annually and are supposed to be made public by October 1st for the following year. Between October 1st and December 1st the participants are obligated to disclose their intended quantities for import of raw cane sugar. If some reallocation of TRQ is needed it is done during this period. The final TRQ allocation is reported and made public by December 7th for the following year.

As per Resolution #204 February 28, 2011 by the Cabinet of Ministers of Ukraine, a new procedure for the TRQ for import of raw cane sugar is instituted in Ukraine as follows:

- 1) 260,000 MT raw cane sugar under the TRQ is allocated to Paraguay as per Ukraine's WTO obligations (this regulation will be in place until January 1, 2019)
- 2) The rest of the TRQ for import of raw cane sugar in Ukraine, starting January 1, 2011 is distributed among the other importing countries on a 'first come first served' basis

There is a Free Trade Agreement (FTA) between Ukraine and Belarus that allows duty free import of refined sugar to Ukraine. The two countries have recently reached an agreement that Belarus will sell its imported sugar in Ukraine at a level matching Ukrainian domestic market prices. The two governments agreed on a possible delivery of 100,000 tons of Belorussian beet sugar to Ukraine in 2011. The only licensed importer for this product is Belorussian Sugar Company that partnered with Belorussian Agricultural Company in Ukraine.

As per the GOU Resolution #1125 "On the Use of Sugar Produced from Raw Cane Sugar Imported to Ukraine under Tariff Rate Quota" (December 27, 2008), the Ministry of Agrarian Policy and Food has to approve a sugar production quota (for sugar made from imported raw cane sugar) distribution among sugar producing plants. Traditionally, the distribution of TRQ in Ukraine was done proportionately to producers' shares in the net production of beet sugar under production Quota "A". However, this year the procedure has not been finalized at the time this report was written. It is unknown how much raw cane sugar will be imported to Ukraine in MY 2011 and who will receive the quota under the TRQ agreement.

According to the Ministry of Economic Development and Trade of Ukraine in reference to the discussion held with EU Commission experts under the WTO agreement, the procedure for distributing TRQ in Ukraine "makes it impossible to import raw cane sugar to Ukraine without the approval from the Ministry of Agrarian Policy and Food, UkrSugar, State Reserve or sugar producers and subjects of foreign economic activities that are related to them on the basis of contractual arrangements."

In accordance with a Commonwealth of Independent States agreement, beet sugar originating from Ukraine will be not subject to import duties beginning January 2013. Nevertheless, by December 1, 2010, Ukraine was supposed to have decided how much refined sugar it can ship to Russia in 2011. The Ministry of Agricultural Policy and Food of Ukraine hopes that Russia will allow duty-free imports of Ukraine's refined sugar of at least 100,000 MT in 2011. In response to the issue, the United Association of Sugar Producers of the Customs Union (Russia, Belarus, and Kazakhstan) confirmed the current procedure of sugar imports to its territory.

An agreement on the conditions and mechanism for the TRQ application was reached by the Customs Union members on December 12, 2008, and was enforced starting January 1, 2010. According to this agreement, the Commission of the Customs Union shall make decisions on TRQ applications, while volumes for the TRQ are to be split proportionally among the three countries. However, there are factors like domestic market price controls that vary across the territory of the Customs Union. At the latest government negotiations, in April 2011, Ukraine still was not successful in convincing the Russian side to provide Ukraine with a sugar TRQ. However, the two sides stayed in agreement that Ukraine would provide economic reasons for such a quota, and Russia would inform the Customs Union members about a request to allow imports of 100,000 MT of sugar into the territory of the Customs Union.