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Sugar Situation Update

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Report Highlights:

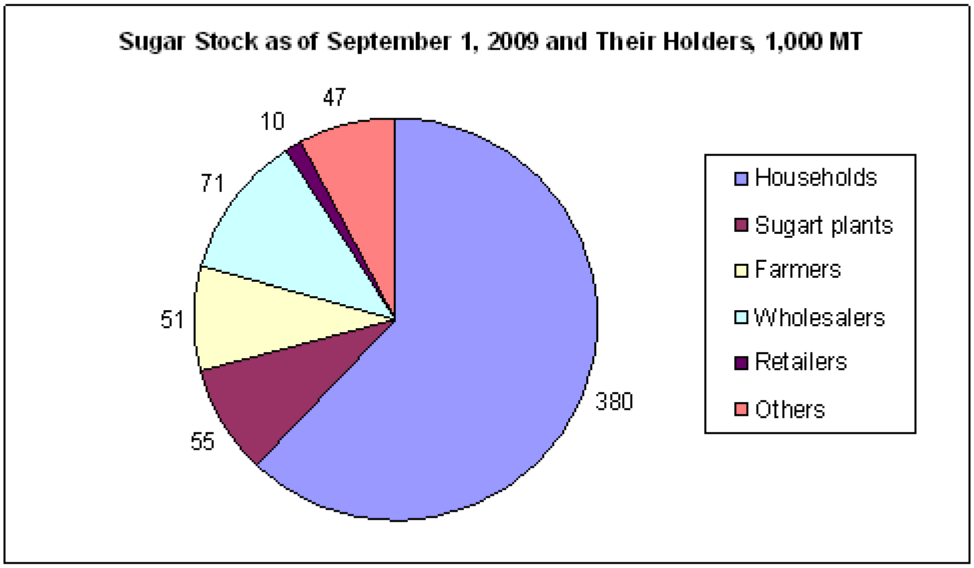
Among other reasons for discontent in an election period, Ukrainian consumers are dismayed at growing prices for sugar, a staple regulated by the government. This report details the supply consequences of lower yields and lower acreage. A description of government actions including quota administration and pending legislation is provided. The GOU is slowing the approval process for exports. Imports and the administration of the TRQ are detailed. Budget shortfalls this year have affected support payments to producers.

General Information:

The harvest of sugar beets is almost completed in Ukraine. Based on preliminary estimates of the Ministry of Agrarian Policy of Ukraine (MAPU), farmers and agricultural enterprises harvested over 10.3 million tons of sugar beet this year (compared to 13.7 million tons in 2008) from 324.2 thousand ha (386.9 thousand ha in 2008) which implies an average yield of about 31.8 tons per ha (35.5 tons per ha in 2008). Ukrainian farmers decreased area planted with sugar beets, because they considered that growing sugar beets would be less profitable than growing major grains and oilseeds, especially in the absence of state subsidies. The reduction in average sugar beet yield was caused by worse weather conditions (61% of sugar beet crops faced drought this year) and decreased input application by some companies due to lower credit availability.

The processing of sugar beets is coming to completion. As of December 10, Ukrainian sugar plants had already produced 1.23 million tons of beet sugar, which is 18.3% less compared to beet sugar production by this date a year ago. Beets are currently processed by 6 sugar plants, as the other 49 sugar plants that were in operation this season have already completed beet sugar production. The national association of sugar producers UkrSugar estimates beet sugar production at 1.37 million tons this year due to the lower supply of sugar beets, compared to 1.57 million tons of beet sugar produced in MY 2008/09 when 70 sugar plants were processing sugar beets. It should be noted that some other analysts and private companies estimate total beet sugar production as low as 1.2 million tons in MY 2009/10.

There is no definite information on sugar carry-over stocks. Our best estimates are based on the surveys conducted by the State Statistics Committee (SSC), while some sugar market analysts estimate beginning stocks of sugar held close to zero in MY 2009/10. Based on statistical data, estimates of sugar stocks held by households were about 0.4 million tons, while over 200 thousand tons were held by retailers and confectionary industry (the SSC estimates total beginning stocks at 613 thousand tons in MY 2009/10), but it should be noted that most of this sugar was not marketable.



Source: State Statistics Committee of Ukraine

Therefore, considering total domestic consumption estimated at about 2 million tons, Ukraine needs to import raw or refined sugar in MY 2009/10. It should be noted that Ukraine exported about 37 thousand tons of sugar in MY2008/09 (raw value), thanks to the devalued Ukrainian currency that made it profitable to sell Ukrainian refined sugar abroad.

Exports of Refined Sugar from Ukraine (HS 170199), 1,000 MT (in raw value)

Country	Oct 04 - Sep 05	Oct 05 - Sep 06	Oct 06 - Sep 07	Oct 07- Sep 08	Oct 08- Sep 09
Kyrgyzstan	0	0	5	0	19
Uzbekistan	3	0	0	0	4
Moldova	36	1	0	0	4
Russia	0	0	0	0	3
Tajikistan	0	0	0	0	3
Kazakhstan	0	15	1	0	1
Georgia	1	5	0	0	1
Lithuania	0	0	0	0	1
Other Not Listed	14	10	0	0	1
TOTAL	55	31	7	1	37

Source: State Customs Committee of Ukraine, FAS Kyiv calculations

Imports of refined and raw cane sugar totaled 64 thousand tons and 14 thousand tons in MY 2008/2009. We expect total imports of sugar (both raw and refined) to increase to 600-700 thousand tons in the 2009/2010 marketing year depending on the final domestic sugar production data. In spite of the sugar deficit on the domestic market, the GOU is considering an agreement for duty-free sugar export to Russia for 300,000 MT.

Imports of Refined Sugar into Ukraine (HS 170199), 1,000 MT (in raw value)

Country	Oct 04 - Sep 05	Oct 05 - Sep 06	Oct 06 - Sep 07	Oct 07- Sep 08	Oct 08- Sep 09
Belarus	0	0	5	71	63
Denmark	0	1	1	1	0
Poland	12	1	0	0	0
The USA	9	0	0	0	0
Kazakhstan	14	33	4	0	0
Lithuania	26	0	0	0	0
Other Not Listed	1	0	0	0	0
TOTAL	61	35	10	72	64

Source: State Customs Committee of Ukraine, FAS Kyiv calculations

Total imports will include raw cane sugar imported under a tariff rate quota (TRQ) opened upon Ukraine's accession to the WTO. Raw cane sugar imported outside the TRQ faces a 50% ad valorem import duty. Please refer to our GAIN Sugar Annual Report for the details of TRQ distribution and other trade policy issues: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Commodity%20Report_SUGAR%20ANNUAL_Kiev_Ukraine_4-24-2009.pdf

Imports of Raw Cane Sugar into Ukraine (HS 170111), 1,000 MT

Country	Oct 04 -Sep 05	Oct 05 -Sep 06	Oct 06 -Sep 07	Oct 07- Sep 08	Oct 08- Sep 09
Brazil	159	26	7	4	14
El Salvador	0	12	0	0	0
France	0	0	0	0	0
Germany	0	0	0	0	0
Guatemala	0	1	0	0	0
Mauritius	0	0	0	0	0
Netherlands	0	0	0	0	0
Russia	0	0	0	0	0
United Kingdom	0	0	0	0	0
TOTAL	159	39	7	4	14

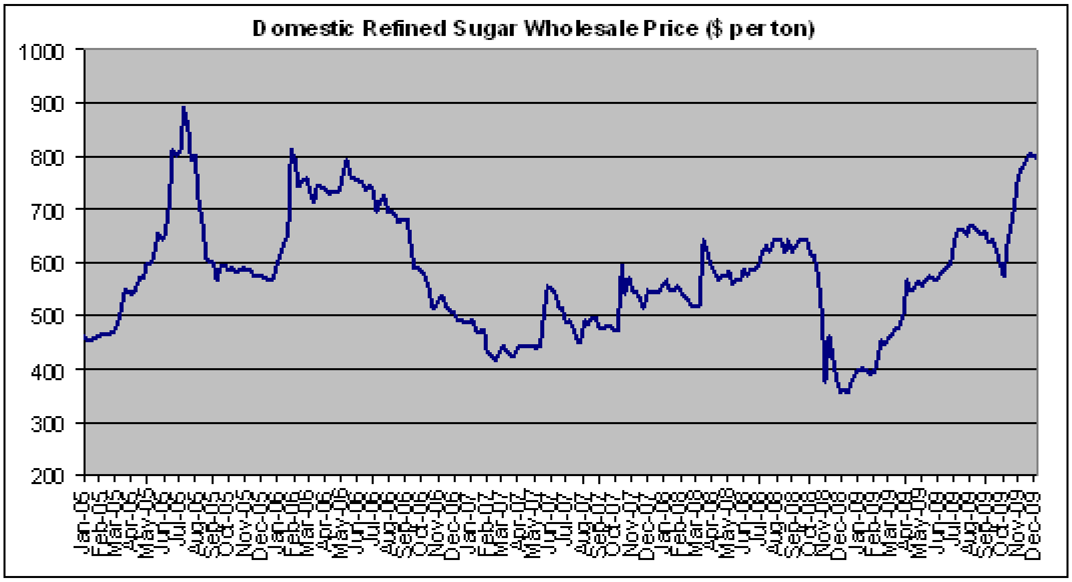
Source: State Customs Committee of Ukraine

On December 7, the Ministry of Economy of Ukraine started the registration of applications for apportioning the 2009 cane sugar TRQ for the amount not yet distributed (69,651 tons). It was said that this previously unutilized amount of TRQ would be redistributed irrespective of the country of origin. In October, the Ministry of Economy of Ukraine distributed 73.5% of cane sugar TRQ among counties that previously supplied cane sugar to Ukraine based on Ukraine's WTO accession arrangements. Most of the raw cane sugar TRQ was allocated to Brazil (193.9 thousand tons), as this country was the main supplier of cane sugar in previous years. The distribution of TRQ among countries based on trade data was the following: Brazil – 73.6%, Cuba – 7.8%, Thailand – 4.2%, Guatemala – 3.9%, Colombia – 3%, El Salvador – 2.7%, Latvia – 1.1%, South Africa – 1%, and Peru – 1%.

Based on information from media, a large portion of the quota was distributed among a handful of leading Ukrainian beet sugar producers. According to the Resolution of the Government of Ukraine #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 distributes quota for production of sugar from imported raw cane sugar among sugar plants in proportion to their share in total production of beet sugar under production quota "A". Based on information from the site of the Ministry of Economy referring to the consultations with experts from the European Commission under the WTO, the procedure for distributing TRQ in Ukraine "makes it impossible to import raw cane sugar into the Ukrainian territory without approval from the Ministry of Agrarian Policy, UkrSugar, or sugar producers and subjects of foreign economic activities that are related to them on the basis of contractual arrangements".

Domestic prices of refined sugar dropped in the beginning of the 2008/09 marketing year, mostly due to a rapid devaluation of the Ukrainian currency. However, sugar prices started growing before long, as the market became aware of the need to import raw or refined sugar in MY 2008/09 and MY 2009/10 due to lower sugar beet planted area and expected crop.

Sugar is considered a staple product in Ukraine, and the Government of Ukraine usually closely monitors retail sugar prices trying to intervene when it considers them to be too high. Considering the upcoming presidential elections in Ukraine (January 17, 2010), the management of the sugar market has currently been under intense scrutiny.

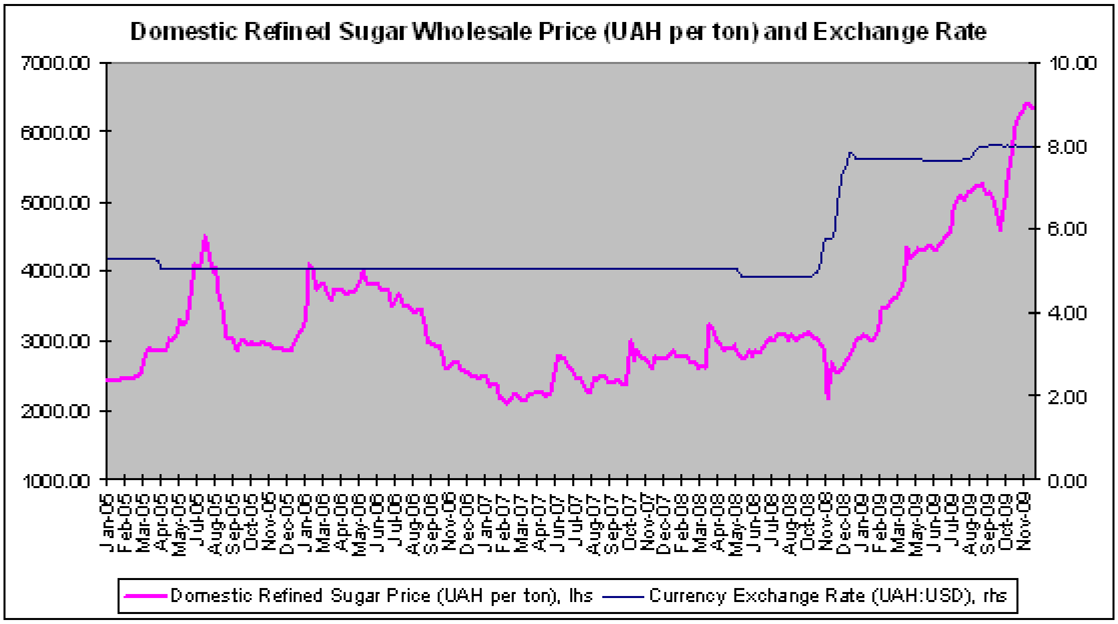


Source: National Association “UkrSugar”

The current wholesale price of beet sugar in Ukraine is UAH 6,350-6,400 per ton (USD 800 per ton), which is very close to the prime cost of its production (UAH 6,200-6,300 per ton). As world raw cane sugar prices increased this year, the prime cost of refined sugar produced from raw cane sugar is estimated at about UAH 6,200 per ton now, which implies that even with large imports of raw cane sugar domestic prices of sugar are not likely to drop significantly in the near future.

The Ministry of Economy of Ukraine drafted legislation changes to introduce export quotas for sugar beet and sugar. According to the draft resolution of the Government of Ukraine, the Ministry proposes to set annual export quotas for sugar and sugar beet at 3.27 thousand tons and 103 tons, respectively. According to media, some market participants have already faced an unofficial ban on sugar exports through long delays in processing permits that are needed for sugar exports. We also expect the Government of Ukraine to continue an active dialogue with sugar producers to keep prices stable at least until the elections.

According to the draft Resolution of the GOU published on December 11, 2009, the Ministry of Agrarian Policy of Ukraine proposes to set production quota “A” for refined sugar to be sold on the domestic market at 1.89 million tons for MY 2009/10. The production quota will be established this year, as in past years, to ensure that domestic sugar beet production remains cost efficient.



Source: National Association "UkrSugar" for Price and the National Bank of Ukraine for Exchange Rate

The Ministry also announced possible changes in minimal prices of sugar beet and sugar in the marketing year 2009/10. Sugar processors are allowed to decide on the quantity of sugar beet they purchase, as long as their purchases are at prices which are not below the established minimum.

Date of GOU decree	MY	Minimal sugar beet price /MT	Minimal sugar price /MT	Quota A*	Quota B**
12/25/2001	2002/2003	UAH 165/ $33	UAH 2370/ $470	1800	
12/25/2002	2003/2004	UAH 165/ $33	UAH 2370/ $470	1800	
02/04/2004	2004/2005	UAH 165/ $33	UAH 2370/ $470	1800	
12/21/2005	2005/2006	UAH 142/ $28	UAH 2370/ $470	1790	
02/20/2006	2006/2007	UAH 163/ $32	UAH 2375/ $471	1840	185
03/07/2007	2007/2008	UAH 170/ $34	UAH 2500/ $495	2040	
03/03/2008	2008/2009	UAH 141/ $28	UAH 2083/ $417	2040	
02/04/2009	2009/2010	UAH 183/$24	UAH 2666/$346	1984	
Draft***	2010/2011	UAH 292/$37	UAH 4250/$536	1892	

*Quota "A" – the quota of sugar production earmarked for the domestic market by Ukrainian plants

– the quota of sugar production earmarked for export to international markets

ng to draft Resolution of the GOU published on December 11, 2009.

Source: The Cabinet of Ministers of Ukraine, the Ministry of Agrarian Policy of Ukraine

A sugar owner could be fined for breaking the requirement to sell domestic refined beet sugar produced under the A quota below the minimum sale price. Imported refined sugar and refined sugar produced from raw sugar imported into Ukraine are sold domestically at market prices, and imported refined sugar is not subject to mandatory minimum price requirements applied to domestic sugar.

The Agrarian Fund, a state agency for agricultural commodity interventions, sold 74,000 tons of sugar in August-September 2009 to keep prices low. Current stocks of sugar in the Agrarian Fund are close to zero, and based on the Ukrainian legislation this agency should purchase 314,000 tons of sugar in 2009. This will be difficult to source domestically.

The national association of sugar producers UkrSugar also proposed some legislation changes “to minimize the consequences of the financial crisis for the sugar industry”. It argues for the cancellation of minimal prices for sugar beet purchased for beet sugar production under production quota “A”, the postponement of the TRQ distribution to 2012 in order to support domestic producers of sugar beets, as well as some other actions that we believe may have controversial impacts.

It should be noted that a decrease in sugar beet production is to some extent attributed to lower and less predictable state support of sugar beet growing in 2009. State subsidies that are usually paid to sugar beet growers were envisaged in the sate budget for 2009, but were not paid, because (according to Deputy Minister of Agrarian Policy) “there was no money in the budget”. On the other hand, the GOU subsidized the gas price for the operation of sugar plants. We expect the GOU will continue facing problems with financing programs aimed at encouraging farmers to grow sugar beets in 2010, which will keep sugar beet production at low levels implying a need to import raw or refined sugar to cover the sugar deficit on the domestic market.

Sugar Beet Harvested Area, Production and Average Yield by Region

Region of Ukraine	Harvested Area, 1000 ha		Production, 1000 MT		Average Yield, MT per ha	
	2009	2008	2009	2008	2009	2008
Crimea	0.00	0.00	0.00	0.00	0.00	0.00
Vinnytsya	48.50	62.10	1444.90	2236.50	29.70	36.04
Volyn	10.50	14.70	337.90	424.80	32.18	28.84
Dnipropetrovsk	1.00	1.70	36.80	43.10	36.80	24.76
Donetsk	1.00	1.30	14.30	25.40	14.30	19.9
Zhytomyr	10.60	11.20	197.00	343.40	18.58	30.77
Zakarpattya	0.00	0.00	0.00	0.00	0.00	0.00
Zaporizhzhya	0.00	0.40	0.00	7.70	0.00	18.97
Ivano-Frankivsk	0.70	2.00	21.00	52.30	29.97	25.98
Kyiv	25.00	29.80	846.40	997.40	33.86	33.45
Kirovohrad	11.80	14.10	370.60	505.80	31.41	35.77
Luhansk	0.00	0.40	0.00	5.00	0.00	13.47
Lviv	8.90	16.00	316.60	573.20	35.57	35.95
Mykolayiv	0.50	0.70	9.8	14.30	19.60	19.81
Odesa	0.00	1.30	0.00	25.00	0.00	18.47
Poltava	55.40	64.20	2116.90	2700.90	38.21	42.1
Rivne	23.00	22.50	731.40	846.80	31.80	37.72
Sumy	8.60	9.50	355.30	327.90	41.31	34.52
Ternopil	38.1	42.40	1072.60	1399.00	28.15	32.96
Kharkiv	24.20	27.90	523.00	823.90	21.61	29.55
Kherson	0.00	0.10	0.00	1.70	0.00	20.75
Khmelnytsk	30.00	25.30	1027.90	1040.10	34.26	41.06
Cherkasy	17.60	26.10	620.10	854.00	35.23	32.68
Chernivtsi	2.80	3.20	41.50	108.90	14.82	33.76
Chernigiv	6.00	10.00	229.30	367.60	38.22	36.71
TOTAL	**324.20**	**386.90**	**10,313.30**	**13,724.70**	**31.81**	**35.47**

Source: State Statistics Committee of Ukraine (2008), the Ministry of Agrarian Policy of Ukraine (2009, preliminary estimates based on operative data as of December 8, 2009)