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Ukraine

Post: Kiev

Sugar Update. Policy Liberalization for Domestic Sugar Producers

Report Categories:
Sugar

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Report Highlights:

The Government of Ukraine (GoU) abolished the existing sugar quota regime, which was coupled with price supports in the form of minimum prices for both refined sugar and sugar beets.

FAS Kyiv believes that this policy change will not influence Ukraine's production and trade estimates for MY2018/2019.

General Information:

At the end of September 2018, the Ukrainian Parliament adopted the law (in Ukrainian) abolishing the Law of Ukraine "On State Regulation of Sugar Production and Marketing" (Sugar Law). The Sugar Law had kept in place a sugar quota regime, coupled with price supports in the form of minimum prices for both refined sugar and sugar beets.

According to contacts from the local sugar industry, the existing quota regime had outlived its original purpose. The Sugar Law was adopted in 1999 to avoid a further decline in sugar production (see Sugar Production graph below for more information) that had occurred between 1990 and 1999.

Source: USDA

In order to stabilize production, the GoU intended to ensure predictable and stable conditions in the domestic market for sugar producers. It was done through the allocation of quotas, which were revised by the GoU on an annual bases:

- Quota A – sugar intended for sale on the domestic market only;
- Quota B – sugar intended to be exported under Ukraine's international contracts and (in some cases) could go into Quota A;
- Quota C – sugar produced over Quotas A + B and intended for export only.

Over the years, Quotas B and C were abolished, leaving only Quota A in place.

Legislators had also included the annual setting of minimum prices for sugar beets intended for production of Quota A sugar, as well as for Quota A sugar itself under the original Sugar Law. This was intended as a safeguard mechanism to avoid hikes and drops in domestic sugar prices.

The quota mechanism became obsolete due to consolidation within the sugar industry. This consolidation resulted in the stabilization of sugar production at the level of two million metric tons (MMT). The consolidation also encouraged domestic sugar producers to actively explore available export markets. For more information on the sugar market in Ukraine, please refer to FAS Kyiv's Sugar Annual Report.

According to industry contacts, the minimum price mechanism did not work well. Prices were set by the GoU one year before the sugar production season began. Factors, such as domestic and international sugar price inflation, made the price mechanism irrelevant. Additionally, over forty percent of sugar beets are grown by farmers that negotiate direct contracts with sugar processing facilities, making them exempt from minimum price requirements.

Since the abovementioned mechanisms (quotas and minimum price) had a minimal impact on domestic sugar production and trade, FAS-Kyiv believes that this policy change will not influence Ukraine's production and trade estimates for MY2018/19.