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Regarding recommendations of German experts  
on restructuring of the sugar sector in Ukraine

Having examined recommendations proposed in “Working Paper. Restructuring of the sugar sector in Ukraine”, and worked out by experts of the German federal ministry for food, agriculture and consumer protection within the framework of “German-Ukrainian policy dialogue in agriculture” project upon the request of the 1<sup>st</sup> Vice Minister Ivan Demchak, we consider it necessary to inform of the following.

The abovementioned document that was prepared by German experts has in principal right statements about the present situation in the sugar-beet sector of Ukraine and confirms the existence of certain potential for increasing its efficiency.

On the contrary, the proposed conclusions and policy options have absolutely no ground and biased.

1. Recommending reduction of domestic production but at the same time saying about significant potential for increasing its efficiency have no reasonable explanations and could be considered as a political order, that is directed to liquidate national production, establishment of food industry’s dependence from foreign sugar supply, loss of state’s food security.

Over the last several years Ukraine has produced enough its own sugar from sugar beet to satisfy the need of domestic market and has three times higher potential than country needs.

Prices for beet sugar in Ukraine, as in Germany and other counties are really higher than world market prices, but we find this comparison incorrect at least. There is an objective reason for this – production of sugar from sugar beets at international prices is impossible. International price is formed by the cane sugar, determined on the oversaturated market sector, where only 20% of produced sugar is traded. That is why it doesn’t reflect the real production costs. At so called world price one can produce only a small part of world’s demand covering the sugar production costs in such countries as Brazil, where the structure of costs is determined by the monoculture plant growing practice, low ecological and social standards, excessive use of natural resources, real and cross subsidies from state alcoholic programs.

Still Europe has different conditions and standards thus all comparisons based on the word price are wrong and deceitful.

Moreover, national production provides social services in the rural area, budget incomes, and independence from the price policy of cane sugar producers.

2. Recommendations for Ukraine to agree on the sugar production for domestic market only and to decrease import duty from 300 euro/ton to 50% from the contract price would also lead to phasing out domestic production via weakening customs protection, absence of the perspective for sector development and resumption of its export potential, that contradicts national interests.

References to the WTO requirements, as if they prohibit Ukraine to export sugar are illegal and actually discriminating against our country. WTO rules do not prohibit export, but only foresee protection procedures from export subsidies in order to give equal possibilities to each side to protect its economic interests.

Concerning custom duties reduction, EU members, including Germany, by introduction in the current year the sugar market reform, left unchangeable the level of protection from sugar imports, that are two times higher, than in Ukraine - more then 400 euro/ton basic duty and more than 100 euro additional duty. Without such protection European market would be totally filled with cane sugar.

Ukraine is proposed to weaken its custom regime like for achievement of competitiveness of domestic sugar sector, which is a policy of double standards. It would inevitably lead to the expansion of the imported sugar into Ukrainian market and strike national sugar beet sector and cause its liquidation. At the same time sugar prices in the domestic market of Ukraine

would not decrease, but on the contrary grow to the European level, because with the destruction of domestic production there would be no alternative for the imported sugar.

3. Research of the experience of Poland, East Germany, Moldova and EU, as lessons for Ukraine, doesn't contain basic information on custom protection of sugar markets of those countries before and after reforms, volumes of sugar beet production and sugar from them, its dynamics, comparison of domestic market prices of those countries with world prices, that could be an evidence of the deliberate evasion from the objective characteristics of the abovementioned figures.

4. Recommendations of the German experts concerning restructuring of the sugar sector of Ukraine contradict Laws of Ukraine "On the state regulation of sugar production and selling", "On state support of agriculture of Ukraine", Verkhovna Rada Decree "On Recommendations of parliamentarian hearing "On legislative provision of sugar-beet complex development in Ukraine and means of its improvement" and Cabinet of Ministers Decree "On approval of the Complex state program conception of restructuring and development of the sugar-beet sector till 2010".

The abovementioned legislative acts of Ukraine foresee the provision of development of the domestic production and in no case its limitation.

5. Sugar-beet production is a strategic branch for the national economy. Till 1991 it was one of the key economic sectors of the country and ensured 13% budget income of the country, took leading place in the world sugar production (above 5 mln. t) and was one of the six leading sugar-exporting counties.

Natural, climate and soil conditions of Ukraine contribute to growing of high harvests of sugar beets, that together with geographic, transport and social factors cause optimal allocation and development of sugar industry enterprises.

By comparing real costs of sugar beet production in Ukraine and Germany, taking into account state financing (costs of green and blue box) existing in the abovementioned counties, one can come to a conclusion, that in Ukraine almost without any state budget support on 50% of cultivation area sugar beet was grown at 45-55 t/ha yields and at cost about 25/t USD in 2005-2006. It can be a ground for a serious competition of Ukrainian sugar beets and sugar in the European markets.

Taking into account the importance of the sugar-beet complex for the development of national economy and necessity for urgent steps in the complex solution of problems of its functioning and development, supplying population with sugar, that is produced from domestic raw materials, also for carrying out the Cabinet of Ministers Decree from December 24, 2005 No. 566, Ministry of agricultural policy worked out and sent around to interested ministries a Complex state program on restructuring and development of sugar-beet sector of Ukraine till 2010.

One of the main developers of this Program were Ukrainian research institute for sugar industry, Institute for sugar beets, and Institute of agricultural economics UAAS.

This program foresees main steps for market enlargement of sugar and sugar production via increasing the domestic market capacity through ethanol fuel production and return of Ukrainian sugar onto traditional markets in CIS counties.

Nowadays capacities of sugar and alcohol plants are loaded only by 30%. By using their equipment and human capital one can decrease the state dependence in energy supply, keep working places, renew the social infrastructure of plants' villages.

Taking into account the experts forecasts that oil and gas deposits are limited and will be depleted in this century already and the fact of existing Ukrainian fertile soils, technologies, qualified personnel, we are obliged to solve energy problem this way.

We also consider important:

1. Make a political decision and continue corresponding bilateral negotiations with Russian Federation and other CIS countries on the access to the traditional sugar markets and to activate the work on elaboration and adoption of interstate program "CIS sugar market".
2. According to WTO requirements and in order to fulfill Verkhovna Rada regulation as of March 03, 2005, review bilateral agreements with member-countries of the working group of Ukraine's WTO accession in the part of denouncing agreement on opening of quotas for import to Ukraine raw cane sugar.

These measures would ensure the background for the sugar sector development, that is one of the strategic branches of Ukrainians economy, protection of national interests, food security of the country.

With this document we consider important to deliver to the officials, public and business of Ukraine information about our flat disagreement with recommendations of German experts, worked out upon the request of the Ministry for agricultural policy of Ukraine on the restructuring of the sugar sector of Ukraine and express a warning about the consequences of such recommendations would they have a practical implementation, contradicting the position of the sugar people of Ukraine.

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