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Report Highlights:
Turkey is projected to produce about 13.9 MMT of sugar beets on 320,000 hectares and 1.9 MMT (raw value) centrifugal sugar in MY 2008. After postponing implementation two years in a row, the privatization program for the three state-owned refineries was finally cancelled in November 2006. Industry sources expect the privatization tenders to take place after the general elections of November 2007. Turkey's sugar production quota for MY 2008 is 2,342,000 MT (refined value) remaining unchanged since the first marketing year of the production quota system. The Council of Ministers (COM) once again increased the starch based sugar (SBS) production quota by 50 percent even though the Council of State has stayed the execution of last years COM decision to increase the SBS quota. The tariff on sugar imports were unchanged and remain at 135 percent for all origins.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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Ankara [TU1]
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Executive Summary

Sugar beet production is a hot topic on Turkey's agriculture agenda. Social considerations such as the building of state-owned sugar refineries in places with highly unemployment and government supported procurement prices dominate the decision making process of sugar production. Recently, however, IMF programs and the EU are forcing the sector to adopt a more market oriented approach. The Government of Turkey (GOT) is trying to accomodate IMF programs and EU regulations without drawing too much attention from the media and the opposing parties since this is an election year.

Since the Sugar Law entered into force in 2001, Turkey's sugar beet production has been limited by quotas. The production quota was first implemented in MY 2003 and remained the same since then. During this period, however, Turkey's annual GDP rose from US $184.5 billion to US $400 billion, the population increased, and the annual per capita consumption of sugar rose from around 30 kg to 35 kg. Moreover, three new sugar refineries were built (Bogazliyan, Cumra, MB Seker Plants), privatized refineries were modernized and reached higher capacities, and Adapazari refinery finally restarted production in MY 2007, seven years after the 1999 earthquake.

Turkey's sugar beet production for MY 2007 is 14 MMT on 324,000 hectares. Total centrifugal sugar production was 1.98 MMT (raw value). Turkey's MY 2008 sugar beet production is estimated to be very similar to last year's. Post estimates that the total sugar beet production contracted between the 33 sugar refineries and the farmers will be approximately 16 MMT, which is very close to that of MY 2007. By the beginning of MY 2008 (September 2007), approximately 13.9 MMT of sugar beet will be processed in the sugar refineries. Some industry sources expect the sugar beet production to be significantly lower this year due to the expectation of a very dry summer after this year's warm winter. However Post only expects a negligible decline in production since the farmer's lack better production varieties. Farmers are not well informed on how to produce other agricultural products. They know sugar beet production well and they are able to sell their commodity before the harvest through the procurement contract signed with the refineries. As the legislative infrastructure of bioethanol production becomes clearer, the farmers are likely to diversify their production with commodities like safflower and canola. This shift in production may become dramatic, since sugar beet procurement prices for MY 2008 are at YTL 89.90, same as MY 2007 prices, and 10 percent lower than the MY 2006 price of YTL 98.909 per MT. Taking the inflation rate into consideration, Post expects that real sugar beet procurement prices will be 25 percent lower than MY 2006 prices by the beginning of MY 2008. This decrease is in line with new EU sugar law which aims to reduce prices by 36 percent during a four-year period. The EU target for MY 2008 is a price reduction of 25 percent.

It is estimated than in MY 2008, the farmers contracted by the Turkish Sugar Corporation (TSC) will produce 6.1 MMT out of the 13.9 MMT total sugar beet production. The three other state owned refineries currently controlled by the privatization committee are estimated to produce 1.7 MMT of sugar beets. In MY 2008, the total estimated area of production for these 25 refineries is 170,000 hectares. PANKOBIRLIK and other private refineries are expected to produce a total of 6.1 MMT of sugar beet on 160,000 hectares.

Turkey's centrifugal sugar production is limited by quotas. The total production quota for MY 2008 is 2,342,000 MT (refined value), unchanged from previous years. This is the A production quota which is annually determined by the Sugar Board, according to the local sugar consumption. The B quota is a small amount which is produced as a margin. Finally the C sugar is the sugar produced out of quota which cannot be marketed domestically. C quota sugar is sold at world prices only for utilization in products which will be exported.

Total centrifugal sugar production is projected to be 1.9 MMT (raw value) in MY 2008. Of this total, all TSC refineries (25) are projected to produce 1.1 MMT and all private refineries (8) are projected to produce 0.8 MMT. There is also a production quota of 234,100 MT for starch-based sweeteners (SBS), again unchanged since the beginning of the production quota system. However, the Council of Ministers, during the previous five marketing years, raised the SBS quota by 50 percent to 351,150 MT.

GOT has previously privatized three government-owned sugar refineries; Kutahya, Adapazari and Aksaray. Three other refineries (Ilgin, Bor, Eregli) were turned over to the Privatization Administration, but have not yet been privatized. The privatization of these refineries postponed in May and in June 2006, and it was finally cancelled in November 2006.

Annual per capita sugar and sweetener consumption is estimated to be around 35 kilograms (raw basis) taking into account the smuggled sugar from eastern and southeastern borders and the unregistered starch based production made over the production quota.

Currently an eight percent tax is included in the sugar price in Turkey which is YTL 1.69/kg (1 USD=1.4 YTL). TSC refineries sell sugar at this price in eight months-deferred payment terms to buyers. Depending on the stocks and the refinery, the discount rate on sight payment reaches 15 percent. Sugar selling prices have not changed in Turkey in YTL terms since June 25, 2004. However the price is still well above market prices.

Production - Beets

Sugar beet production is calculated in three different ways in Turkey: the amount of sugar beet delivered to the sugar refineries by the farmers; the amount accepted by the refineries; and the amount processed in the refineries. Last year, the sugar beet taken to the refineries by the farmers was around 16 MMT. Out of this volume, 14.8 MMT were purchased by the refineries and 14 MMT of sugar beet was processed. The volume for this year's harvest is expected to be close to last year's volume. However, the yield will depend on the weather conditions during the summer time. Beet yields in MY 2007 were about 43 MT per hectare for TSC compared to about 45 MT per hectare a year before. Beets are generally grown in three or four-year rotations with cereals, pulses, fodder crops and sunflower. Planting begins as early as February and continues through May with harvest from late July through November. Approximately 350,000 farms grow sugar beets in Turkey.

Sugar beets are produced throughout Turkey and as per the Sugar Law of Turkey, they are sold under contract with refineries. Every year, the Sugar Board allocates a production quota for each sugar producing company, depending on their past three year performance. Following the production quota announcements, the refineries sign contracts with the farmers for the amount of sugar beet to be procured and the procurement price. The price set forth in these contracts can either be an "advance" price, which may be subject to change, or it can be a "final" price. For the last three years, the Sugar Board (a body formed within the Sugar Law) announced the "final" sugar beet procurement prices on which the industry had reached a consensus. The Sugar Law mandates the sugar beet procurement prices to be set annually by every producing company and their farmers. Therefore, the Sugar Board's announcement of the sugar beet prices was not in compliance with the Sugar Law. When the TSC announced its "advance" procurement price as YTL 89.90/MT in October 2006, the same price as the final procurement price of MY 2007, there were objections from the private refineries. Saying that the price was too low, most of them declared their procurement price as YTL 95/MT. These procurement prices are for 16 percent polar sugar content, so it may increase or decrease depending on the sugar content of the beet crop.

Some industry sources estimate that TSC will raise its final procurement price to YTL 95/MT in October 2007, the latest date to fix final procurement prices to satisfy the sugar beet producers and their cooperation, PANKOBIRLIK. Post however, does not expect TSC to increase its procurement price since the reduction in the prices for the last two years is a result of GOT's target to harmonize Turkey's sugar policies with the new Sugar Law of the EU. The Minister for Industry and Trade had declared that Turkey will "inevitably" adopt changes to comply with EU sugar regulations.

Sugar Beet PSD Table

Turkey Sugar Beets							
	2006	Revised	2007	Estimate	2008	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		09/2005		09/2006		09/2007	MM/YYYY
Area Planted	320	320	330	327	0	325	1000 HA
Area Harvested	327	320	327	324	0	325	1000 HA
Production	14700	14500	14700	14045	0	13900	1000 MT
TOTAL SUPPLY	14700	14500	14700	14045	0	13900	1000 MT
Utilization for Sugar	14700	14500	14700	14045	0	13900	1000 MT
Utilization for Alcohol	0	0	0	0	0	0	1000 MT
TOTAL UTILIZATION	14700	14500	14700	14045	0	13900	1000 MT

Farmers contracting with the TSC are obliged to use TSC-supplied seeds. Although they are free to purchase fertilizer from anywhere they wish, they generally prefer to use TSC fertilizers because payment is due after the harvest. Final payments may not be received until at least March of the following year. The final payment represents a significant portion of a farmer's total return. TSC and PANKOBIRLIK also provide harvesting equipment or harvest services, as needed. Farmers are responsible for other inputs including land, labor, irrigation, and transportation of the beets.

Production – Centrifugal Sugar

There are 33 sugar beet refineries, and five starch based sugar producers in Turkey. The state owned TSC owns 25 of the sugar beet refineries. TSC acts under the Ministry of Industry and Trade. Three TSC refineries are currently under the control of the Privatization Committee. PANKOBIRLIK owns more than 88 percent of five private sugar refineries; Amasya, Konya, Kayseri, Cumra and Bogazliyan. It also has some shares in Adapazari and Kutahya refineries. MB Sugar, located in Aksaray, is the only private refinery with no PANKOBIRLIK shares. While TSC refineries function as different plants of the same company, PANKOBIRLIK refineries function independently from each other and they are supervised by individual executive boards.

Turkey first implemented a production quota system in MY 2003. Since then, the annual production quota has remained at 2,342,000 MT (refined value). Out of this total, 234,000 (10 percent) MT is the production quota of the starch based sugar (SBS) producing industry. The Sugar Board is authorized to set the production quota. For MY 2008, the total centrifugal sugar production is projected to be at 1.9 MMT (raw value). The production quota of 22 TSC refineries is 1,047,000 MT (raw value), and the three other state owned refineries under the privatization committee have a production quota of 274,000 MT. These 25 refineries are projected to produce 1.1 MMT (raw value) and the private factories, including PANKOBIRLIK refineries, are projected to produce 800,000 MT (raw value).

The Sugar Law allows the Council of Ministers to increase or decrease the SBS production quota by 50 percent regardless of the quota allocated to the sugar beet industry. There are five companies in this business whose total annual production capacity is around 900,000 MT. Two of these companies are foreign investments, and one company has 50 percent foreign capital. Recently the applications of five other companies to enter this business were rejected by the Ministry on Industry and Trade, arguing that there is already excess capacity in the business. Since the beginning of the quota system, the Council of Ministers had increased the SBS quota every year. Last year, COM's decision to increase SBS quota by 50 percent was taken to the Council of State by the Sugar workers union and the decision to increase the quota was stopped by the Council on July 2006. However, the legal procedures regarding to the implementation of this ruling are not yet finalized.

After the Council's ruling, the sugar industry did not expect an increase in the production quota of the SBS industry for MY 2007. However, the COM once again used its power to increase the SBS production quota by 50 percent for MY 2007 with a decree published in the Official Gazette on January 27, 2007. Several representatives from the sugar beet industry have also taken this decision to the Council of State and it is currently being reviewed.

Production Policy

The Sugar Law of 2001 formed a Sugar Board which operates under the Ministry of Industry and Trade. The Sugar Board constitutes seven members, four government officials and one representative each from TSC, PANKOBIRLIK, and the SBS producers. The representatives of PANKOBIRLIK and SBS producers are sent to the board from companies with the highest production in the last three years. The main responsibility of the Board is to distribute production quotas for sugar and sweetener producing companies based on their performance of the last three years. For the newly established refineries, the quota is determined by the capacity reports of each refinery. The Sugar Authority, also created by the Sugar Law, was setup to monitor the activities of companies and to make sure their production complies with the quota system. However, with an amendment to the Sugar Law in 2004, the Sugar Authority was abolished, arguing that it was no longer useful. This decision created uncertainties in the sector, causing some companies to produce centrifugal sugar over their quota and get penalized for this.

Distribution of the production quotas creates problems from time to time for both sugar and SBS producers. There is a significant opposition to this system from PANKOBIRLIK refineries, which are not represented on the Board. They argue that their production capacity is deliberately misinterpreted in favor of the refineries represented in the Board. Finally in March 2006, three opposing private refineries established an alternative association called The Beet Sugar and Sugar Producers' Association (PANDER).

The Minister of Industry announced in December 2005 that Turkey will bring its sugar policies in line with the changing sugar policies of the EU. The decrease in sugar beet procurement prices can be attributed to this policy. Although the law stipulates that each company negotiate the procurement prices with their farmer groups, a committee formed by some of the Sugar Board members announced the procurement price in February 2006 as 10 percent lower than the previous year's price. Moreover, the state owned TSC, taking 60 percent of the beet producing sugar quotas, announced its procurement price the same as the previous year.

Turkey has tried a few times to make some changes to the Sugar Law but has been unsuccessful each time. There have been speculations in the media that the Ministry of Industry will draft a new Sugar Law giving the COM rather than the Sugar Board authority to decide on the production quotas. However, the Ministry has denied these rumors.

Three sugar plants, Ilgir, Bor, and Eregli were transferred to the privatization committee from the TSC, and the privatization tender for all three of them was initially scheduled to take place on May 2006. Without any justification, the GOT postponed the tender to June, then to November, and finally cancelled the privatization program in November 2006. However, until now, the control of the three plants has not yet been re-transferred to TSC and they still run under the privatization committee. Industry sources expect the privatization to take place in 2008.

Centrifugal Sugar PSD Table

Turkey Sugar, Centrifugal							
	2006	Revised	2007	Estimate	2008	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		09/2005		09/2006		09/2007	MM/YYYY
Beginning Stocks	610	610	760	760	860	910	1000 MT
Beet Sugar Production	2175	2175	2200	1980	0	1900	1000 MT
Cane Sugar Production	0	0	0	0	0	0	1000 MT
TOTAL Sugar Production	2175	2175	2200	1980	0	1900	1000 MT
Raw Imports	0	0	0	0	0	0	1000 MT
Refined Imp.(Raw Val)	0	0	0	0	0	0	1000 MT
TOTAL Imports	0	0	0	0	0	0	1000 MT
TOTAL SUPPLY	2785	2785	2960	2740	860	2810	1000 MT
Raw Exports	0	0	0	0	0	0	1000 MT
Refined Exp.(Raw Val)	25	25	20	27	0	40	1000 MT
TOTAL EXPORTS	25	25	20	27	0	40	1000 MT
Human Dom. Consumption	2000	2000	2080	1800	0	1800	1000 MT
Other Disappearance	0	0	0	0	0	0	1000 MT
Total Disappearance	2000	2000	2080	1800	0	1800	1000 MT
Ending Stocks	760	760	860	910	0	970	1000 MT
TOTAL DISTRIBUTION	2785	2785	2960	2740	0	2810	1000 MT

Consumption

Industry sources agree that the total sugar consumption of Turkey is above the amount of sugar produced by the quotas. Therefore, in order to meet domestic demand, out-of-quota sugar is typically sourced illegally.

First of all, a huge quantity of sugar is smuggled from the southern borders to Turkey. Although the industry does not agree on the volume of this trade, it is estimated that around

200,000 MT of sugar annually enters Turkey "together with a passenger". According to Turkish law, passengers are allowed to bring specified quantities of some goods from foreign countries. The maximum amount of sugar one can bring to Turkey is 75 kg. However, some "passengers" cross the border several times a day and bringing in 75 kg of sugar each time. In addition to this "trade", there is also smuggling through the southern borders.

Another problem is the illegal sale of C Quota sugar in the domestic market. Some companies were identified and penalized by the Sugar Board for selling the C Quota sugar in the domestic market. This sugar is close to world prices and supposed to only be used in exported products. The Sugar Board also penalized some SBS producing companies for selling SBS that is not invoiced/under invoiced.

Recently, one local cola producing company was penalized for producing SBS for utilization in its cola production without obtaining prior approval from the Sugar Board. The company argued that the Sugar Law bans the sale and not the production of over quota SBS. Therefore, it did not get the approval of the Sugar Board before starting SBS production in its facilities. Two international cola producing companies who did seek prior approval from the Sugar Board to build the same SBS production facility in their plants did not receive permission to do so. The Sugar Board argued that such a production is "against the sprit of the Sugar Law." Following the Board's ruling, these two companies opened a legal case on the issue, and eventually the local company was penalized for producing SBS without a quota allocation. However, this case was taken to the Court of Appeal and is not yet finalized.

Industry sources estimate annual per capita sugar and sweetener consumption to be around 35 kilograms (refined basis); therefore, total consumption is close to 2.45 MMT. SBS accounts for 15 percent of this consumption and unregistered production and smuggled sugar takes up around 300,000 MT. According to this calculation, the total beet sugar consumption is close to 1.8 MMT.

For MY 2008, TSC has contracted farmers to plant 7.2 MMT of sugar beets for its 22 refineries, the maximum procurement amount allowed by the government. As per contract terms, TSC will pay all debts by the end of April 2008 in order to avoid interest payments. TSC does not have any remaining debts to farmers from previous years. The three other refineries controlled by the Privatization Committee are estimated to have contracted around 2 MMT of sugar beet. Finally the total sugar beet contracted by the eight private refineries is estimated to be 6.8 MMT.

As per the Sugar Law, TSC and PANKOBIRLIK have been setting ex-factory prices independently since the beginning of MY 2003. The following table provides the ex-factory prices of TSC (8 percent value-added tax [VAT] included) dated June 18, 2004, which remain the same today.

Type of Sugar	**Since June 25, 2004 (YTL/Kg)**
Crystal Sugar:	
- In 50 kilogram bags	1.6956
Cube Sugar:	
- In 50 kilogram bags	1.841

(As of April 10, 2007, USD 1.00 is approximately YTL 1.4)

The average crystal sugar price in Turkey between 1992 and 2002 was below US $700, and fell below US $500 during the 2001 economic crisis. However, prices increased to US $825 in 2002 and to US $1,163 in 2003, just before the privatization of the companies. The increase in sugar prices has turned the sector into a very profitable one and encouraged the private sector to acquire the refineries. However, prices have remained the same since June 2004 and the industry sources expect the prices to return to around US $700 in around four years.

Both TSC and the private companies have been selling sugar at discounted prices and/or deferred payments since November 2005. Depending on the market conditions or the particular refineries, TSC refineries are providing discounts to buyers from six to twenty percent for cash payments or eight to twelve months deferred payments.

Sugar beet producer cooperatives are trying to find new uses for beets. One of the areas that they are interested in is bio-ethanol production. One of the privately owned refineries, Cumra, is constructing a facility to produce ethanol. The capacity of this facility, which is projected to start trial production on July 2007, is 280,000 liters a day and 80 million liters (or 80,000 m3) annually. The Cumra plant will have the capacity to process 800,000 MT of sugar beets yearly if it utilizes the full capacity.

Trade

The average sugar production cost in Turkey is well above world sales prices. With the lack of export subsidies, Turkey's sugar exports are negligible. Only manufacturing companies that use sugar in their exported products are eligible to buy local production C quota sugar at world prices. The current C quota selling price is US $402; while the current A quota sugar selling price is YTL 1.696, approximately US $1,210. These exporters can also import sugar and do not pay any duty on the amount of sugar used in their exported products.

The Sugar Board has recently penalized companies for exploiting the C quota sugar used in their locally marketed products. The Sugar Board has amended the regulations on the usage of C quota sugar, and the new legislation entered into force on December 21, 2006. Previously, producers were able to buy C quota sugar, and use it in their production. With the new law, companies can only buy C quota sugar after they present export documents to the Sugar Board. In practice, exporting companies now get reimbursed after the actual export. Moreover, with this new legislation, fruit juice exporting companies will no longer be able to use C quota sugar. This industry uses starch based sugar rather than beet sugar, however beet sugar is preferred in nectar production so this decision endangers their competitiveness. In addition, with the new law, sales to Free Trade Zones are not accepted as exports.

The tariff rate on sugar imports remained unchanged in 2007, as 135 percent on the CIF value. Turkey only has a trade agreement with Bosnia Herzegovina which allows for duty free imports of sugar. The import duties on products containing sugar like candies, biscuits, chocolates are high and can vary between 8.3 percent and 15.4 percent plus an additional tax called "agricultural contribution" of that can go as high as 300 Euro (about US $390) per one hundred kilograms depending upon the starch/glucose ratio and milk fat percentage. This contribution is adopted directly from the EU system.

The only sugar related product on which the tariff rate has changed for CY 2007 is the chemically pure sucrose; the tariff rate for this product increased from 0 to 135 percent. The import of this product was very insignificant before the tariff rate change.

Export Trade Matrix

Turkey
Sugar, Centrifugal

Time Period	Sep. - Aug.	Units:	Metric Tons
Exports for:			
	2005	Jan. - Dec.	**2006**
U.S.	18	U.S.	10
Others		Others	
Iraq	14308	Iraq	28800
Azerbaijan	6183	Iran	8664
Germany	4327	Georgia	7200
France	646	Germany	2900
Northern Cyprus	569	Azerbaijan	2770
Romania	444	Pakistan	1500
Lebanon	109	Northern Cyprus	1000
Israel	67	France	660
Kuwait	66	Lebanon	170
Libya	57	Kuwait	120
Total for Others	26776		53784
Others not Listed	341		310
Grand Total	27135		54104

Import Trade Matrix

Turkey
Sugar, Centrifugal

Time Period	Sep. - Aug.	Units:	Metric Tons
Imports for:	2005	Jan. - Dec	**2006**
U.S.	37	U.S.	22
Others		Others	
United Kingdom	1572	Belgium	3250
Germany	1090	United Kingdom	3290
Belgium	1035	Germany	1407
France	92	France	120
Denmark	76	Italy	32
Spain	14		
Italy	13		
Total for Others	3892		8099
Others not Listed	356		183
Grand Total	4285		8304

Stocks

There is no official data available for stocks. As of April 2007, the government owned sugar refineries are estimated to have 850,000 MT stocks, and the private sector is estimated to have slightly less. TSC Officials say that these stocks will be depleted by the beginning of the new marketing year in September 2007, however Post expects the TSC sugar stocks to carry over to MY 2008. The high price of beet sugar, the routine starch based sugar quota increases, the unregistered sales of local starch based sugar production, and sugar smuggling from bordering countries remain obstacles in depleting the sugar stocks.

Marketing

The TSC and private producers, wholesalers, and retailers handle marketing of sugar. All SBS producers and distributors are private.