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Report Highlights:

In MY 2004, a 2.3 MMT (2.5 MMT raw value) production quota for centrifugal sugar was announced which included a 234,100 MT quota for cornstarch-based sweeteners. The centrifugal sugar quota was later reduced to 1.8 MMT (1.9 MMT raw value) . In MY 2004, 14.1 MMT of sugar beets are expected to be produced on 330,000 hectares. Weather conditions have been favorable for beet production this year, however, rains in late spring and summer are very important for yields. Turkey's sugar exports have decreased in recent years. Turkey is expected to export 220,000 MT of sugar in MY 2003, but none in MY 2004 because exports will not longer be subsidized.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

This is the first year the Turkish sugar sector is operating under the new Sugar Law adopted in April 2001. As required by law, government procurement prices will not be announced and a Sugar Board (composed of public and private sector representatives) will oversee the sector. In 2004, Turkey is expected to produce 14.1 MMT of sugar beets on 330,000 hectares.

The MY 2004 (September 2003 - August 2004) a 2,342,000 MT (refined value) production quota was announced. This is similar to the level announced the previous year. Of this total, 234,100 MT is set aside for cornstarch-based sweetener producers. The centrifugal sugar quota was later reduced to 1.8 MMT (1.9 MMT raw value) due to carryover stocks.

The centrifugal sugar portion will be distributed between two entities, the Turkish Sugar Corporation (TSC) and PANKOBIRLIK. TSC's initial quota was reduced from 1.6 MMT to 1.3 MMT because it had 328,000 MT (refined value) in carryover stocks. TSC, a government entity which owns 25 of the total 30 refineries in Turkey signed contracts with farmers to purchase 10.3 MMT of sugar beets this year. PANKOBIRLIK, the Central Union of Sugar Beet producers Cooperatives, has three refineries and has contracted with farmers to purchase 3.8 MMT of sugar beets.

The quota for the cornstarch-based sweetener sector is 234,100 MT for MY 2004 which is substantially below industry capacity. This quota was the same at the beginning of MY 2003, but was increased by 50 percent to 351,150 MT later in the year by the Council of Ministers at the request of the industry. The industry which has five facilities, three of which are large internationally-owned, is hoping that the Council of Ministers will again agree to raise the quota, otherwise the sector will have severe financial difficulties.

Honey production is not significant in Turkey. According to the most recent official data available, Turkey produced 60,190 MT in 2001. That same year it exported 4,328 MT (primarily to Germany and Saudi Arabia) and imported 325 MT of honey.

TSC has been the sole exporter of sugar in Turkey relying on government subsidies to meet world prices. In the past, TSC maintained significant carryover stocks of sugar which proved very costly. In recent years, TSC reduced the majority of its stocks by exporting the sugar with the help of government subsidies. Exports were mainly to neighboring and Middle Eastern countries. TSC's current stocks are maintained for strategic purposes representing two - three months of consumption. In addition to these strategic stocks, TSC has an additional 250,000 MT of sugar in storage. TSC is not expected to export any sugar in MY 2004 unless the GOT again provides subsidies. PS&D export data for MY2002 was revised downward to reflect official trade data. PANKOBIRLIK-owned refineries does not maintain carryover stocks. Nor does it export any sugar.

The 2003 tariff schedule includes a 109.2 percent duty of the CIF value of sugar imports from the European Union and 136.5 percent duty from all other countries, a small decrease from the previous year. The TSC is responsible for issuing export licenses, while the Foreign Trade Undersecretariat issues import licenses, based on the supply and demand outlook.

Production

The Turkish sugar industry continues to undergo major changes as a result of the new Sugar Law adopted in April 2001. As required by the Law, a Sugar Board was established composed of seven members, including three members from the government, three members from beet-sugar industry and one member from the cornstarch-based industry. The Sugar Board announced beet sugar and cornstarch-based sweetener production quotas at the beginning of 2003. The total quota for MY 2004 (September 2003 - August 2004) was 2,342,000 MT (refined value) which is similar to the quota in MY 2003. This includes a quota of 234,100 MT for cornstarch-based sweetener, again the same as last marketing year. In MY 2003, the Council of Ministers, at the request of industry, raised the cornstarch-based sweetener quota by 50 percent to 351,150 MT. The industry has again requested an increase this year. To date, however, the government has not complied with this request. The entire beet-sugar production quota is allocated between the Turkish Sugar Corporation (TSC) and PANKOBIRLIK. At the beginning of MY 2004 the Sugar Board initially assigned TSC 1,628,000 MT (1,770,000 MT raw value) in quota but decreased the quota by 328,000 MT (357,000 MT raw value) to 1,300,000 MT (1,413,000 MT raw value) because of TSC carryover stocks. PANKOBIRLIK was assigned a production quota of 480,000 MT (522,000 MT raw value) which was slightly larger than it was in MY 2003 because of an increase in the production capacity in one of the refineries (Kayseri).

Turkey is expected to grow 14.1 MMT of sugar beets on 330,000 hectares in MY 2004. Of this total, about 10.3 MMT of sugar beets are expected to be produced on 241,000 hectares by TSC farmers and 3.8 MMT of sugar beets are expected to be produced on 89,000 hectares by PANKOBIRLIK farmers. Both TSC and PANKOBIRLIK contract with farmers each year to grow sugar beets.

This year, the weather was colder and there was more snow than normal in growing area. Sugar beet planting started on time in western regions but was delayed in the central and eastern regions. Delays in planting may adversely affect production, although beet yields largely depend on rains received during the late spring and summer.

Honey production, which had developed quickly in 1980's and reached a peak in 1995 has decreased somewhat in recent years. According to the most recent official data available, Turkey produced 60,190 MT of honey in 2001. Production was 68,620 MT in 1995.

Official beet production data is not yet available for MY 2003 (Sept. 2002 - Aug. 2003). However, area and beet production appear to be slightly lower than our previous estimates. Although yields averaged 44.6 MT per hectare (compared to 35.2 MT last year), sugar production was slightly higher than earlier estimates due to sugar content (13.7 percent).

As stipulated by the Sugar Law, the Government of Turkey (GOT) did not announce a procurement price for sugar beets at the beginning of MY 2004. Instead, TSC and PANKOBIRLIK representatives have been negotiating sugar beet procurement prices with farmers. The centrifugal sugar Quota is divided into three parts. Under Quota A, sugar can only be sold in Turkey. The sugar beet procurement price for Quota A for MY 2003 was announced late in October at TL 74,000 per kilogram (for 16 percent polar sugar content). This base price was 48 percent higher than last year (TL 50,000 per kilogram with no premiums). One sixteenth of this price (TL 4,625 per kilogram) was also used either as a premium or a deduction depending on the production amount. Farmers are penalized either for overproduction or underproduction. For Quota A production, TSC farmers received an average price of TL 77,530 per kilogram while PANKOBIRLIK farmers received an average price

of TL 79,560 per kilogram. Under Quota B, sugar is produced for emergency needs only and is limited to two percent of Quota A. Quota-C sugar can only be exported and beet procurement prices are paid only after the sugar is exported. Due to GOT accounting requirements, TSC had to announce the procurement price for Quota C at the same time as Quota A. In MY 2003, TSC announced a price of TL 16,500 per kilogram (for 16 percent polar sugar content) for sugar beets under Quota C.

Sugar beets are produced throughout Turkey and are generally grown under contract. As part of these contracts, refineries require specific crop cultivation techniques for the region. Beets generally are grown in three or four year rotations with cereals, pulses, fodder crops, and sunflowers. Planting begins as early as February and continues through May with harvest from late July to November. According to recent statistics, approximately 380,000 farms grow sugar beets in Turkey. The TSC and PANKOBIRLIK refineries guarantee purchases of all beets produced under contract.

Farmers contracting with the TSC are obliged to use TSC-supplied seeds. Although they are permitted to purchase fertilizers from other sources, they generally prefer to use TSC fertilizers because payment is deducted after a farmer receives his money from the harvest. However, this is offset by serious delays in TSC payments. Final payments may not be received until March or even later. Since the final payment represents a significant portion of his total return, the cost to a farmer's income can be significant, particularly with high inflation.

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 from farm to refinery or other central collection points.

Consumption

The total number of sugar refineries in Turkey is 30 of which 25 are fully owned by the Turkish Sugar Corporation (TSC). The other five factories are jointly owned by the TSC in conjunction with other entities. Three of these refineries, located in Konya, Kayseri and Amasya, are co-owned by the Central Union of Sugar Beet Producers Cooperatives (PANKOBIRLIK). Each refinery is assigned a geographic region and farmers within that region may contract with the factory to produce sugar beets. PANKOBIRLIK's refineries function independently and are supervised by their own executive boards.

In general, Turkey's sugar industry is aging. To reduce losses and improve efficiency, TSC has modernized some older refineries and had plans to built new ones. Given the end of government support prices and export subsidies, many new projects have been canceled or delayed. As a result, a new refinery project in Sivas by the TSC was canceled. Similarly, plans to modernize PANKOBIRLIK's Bogazliyan sugar plant and the private sector's Aksaray plant have also been put on hold.

TSC bought 12.1 MMT of beets for TL 936 trillion (or about USD 535 million) in MY 2003, compared to TL 482 trillion (or about USD 360 million) the year before. Since part of this was paid in advance, TSC still owes about half of this amount (TL 488 trillion) to farmers. In order to avoid interest payments, all debts must be paid by the end of April. Similarly, PANKOBIRLIK refineries procured 4.4 MMT of sugar beets worth TL 350 trillion (or about USD 200 million) and have paid nearly 40 percent (TL 140 trillion) so far this year. PANKOBIRLIK procured 2.8 MMT of beets and paid TL 151 trillion (or about USD 110 million) in MY 2002.

In the past, the TSC sold sugar domestically at subsidized prices which led to increased consumption. For the last several years, however, the consumer subsidy on sugar has been gradually reduced and prices have

increased. As a result, the annual increase in total consumption declined to around two percent. Annual per capita sugar consumption is estimated to be 30 kilograms (refined basis).

Starting in MY 2003, each refinery was required to set ex-factory prices for sugar based on their production costs. TSC and PANKOBIRLIK are setting ex-factory prices independently. PANKOBIRLIK, may offer slightly reduced prices and/or deferred payments to their customers. The following table summarizes the changes in ex-factory prices [TL per kilogram, 8 percent value-added tax (VAT) included] since our last Semi Annual Report (TU2041) dated September 30, 2002.

Type of Sugar	August 7, 2002	November 15, 2002	April 1, 2003
Crystal Sugar:			
- In 50 kilogram bags	1,181,844	1,359,126	1,512,000
Cube Sugar:			
- In 50 kilogram bags	1,283,580	1,476,144	1,642,680
- In 1 kilogram box (25 boxes)	1,356,912	1,560,492	1,736,640

(As of 4/1/2003, USD 1.00 is approximately TL 1,720,000)

Retail prices are not regulated. Consumption of sugar substitutes, including glucose, HFCS, and artificial sweeteners, is limited but is expected to increase due to growing demand, the need for a variety of sweetener products, and the economics of sweetener production. There are three international and two local companies currently producing starch-based sweeteners, with annual capacity of 900,000 MT. Turkey applies high duties on corn imports to its farmers which results in higher production costs for fructose and glucose.

The starch-based sweetener producers have again asked the GOT to raise the quota for corn-based sweeteners by 50 percent. Currently, the corn-based sweeteners receive 10 percent of the total sugar quota. According to industry sources the 10 percent quota is significantly below the industry's production capacity. The industry has also argued that its quota should be adjusted to reflect dry solid content of the products, and that glucose production should be excluded from the overall quota since it is not included under the EU system.

Trade

TSC began exporting large quantities of sugar a few years ago in order to reduce its large inventories. The exports were subsidized by the government in order to meet world market prices. These subsidies (and subsidized exports) are ending, in accordance with Turkey's economic reform program and IMF agreement.

According to unofficial sources, the GOT agreed to subsidize 220,000 MT (raw value) sugar from TSC stocks for exports in MY 2003. These subsidies will end this marketing year. Of this total, TSC exported about 130,000 MT (raw value) of sugar (primarily to Georgia and United Arab Emirates) during the first half of MY 2003. TSC is not expected to export any sugar in MY 2004 in the absence of export subsidies. PS&D export data for MY2002 was revised downward to reflect official trade data.

MY 2002 trade matrixes present trade data for the entire marketing year (September 2001 - August 2002) while

MY 2003 includes data only for the first three months (September through November 2002). To eliminate sugar imports through other entry points, in March 1999 the GOT declared Istanbul as the sole “specialized” customs entry point for sugar.

Stocks

Official statistics for stocks are not available. PS&D stock estimates are based on information received from both public and private sources. According to industry sources, TSC had about 1,250,000 MT and PANKOBIRLIK had about 250,000 MT (both raw values) of sugar in stock at the end of March 2003. By the end of MY 2003, TSC stocks are expected to decrease and PANKOBIRLIK is expected to dispose of all of its stocks.

Policy

Production Policy

Many of the Government’s decisions on price supports have been influenced by domestic politics. There was an attempt to discourage production (and control inflation which averaged about forty to ninety percent annually during the last several years) by delaying price announcements until harvest time (rather than before planting). The overall pricing policies, however, encouraged beet farmers to expand acreage, despite the high costs of production. Given limited land and financial resources for sugar beet production, use of alternative sweeteners may need to increase in order to meet Turkey’s growing demand in the future.

The current Sugar Law presumes that domestic demand will be met by through domestic production. The law will be in effect for five years after which time the industry is supposed to be totally deregulated, in accordance with Turkey’s WTO obligations. At that time, sugar beet procurement and ex-factory sugar prices will no longer be announced. The government will allow existing sugar refineries to be privatized and new refineries (after receiving a portion of the quota) to operate.

The Sugar Board is charged with studying the overall supply and demand for sugar and sweetener in Turkey during the next five years. It will also establish production quotas for sugar and sweeteners based on this information. Each refinery has its own quota based on production levels during the past three years (with some possible adjustments for new facilities). Unused quotas can be canceled.

Unfortunately, neither beet nor starch-based sweetener producers are satisfied with the quota system. Beet sugar producers will only be able to receive full procurement prices if they produce only the quantity agreed to. Farmers will be paid only for the quantity they contract to produce. Any surplus will be considered under Quota C which can only be used for exports. Payment for quota C sugar will be based on world market prices, which are considerably below domestic levels. In addition, if a farmer produces a significantly lower quantity than he is assigned to grow, his quota will be reduced the following year.

Cornstarch-based sweetener producers, who already have an established capacity of 900,000 MT, are also unhappy because the announced quota would force them to operate at about 25 percent of their existing capacity and threaten the viability of their investments. The Sugar Law allows the Council of Ministers to increase the quota, but this decision politically sensitive. The quota was increased last July for MY 2003 and cornstarch-based sweeteners were allowed to produce 351,150 MT. Although requested, a similar increase in the quota for MY 2004 has not yet been announced. While corn-based sweetener producers argue that their investments should be protected from this type of regulation, regulations, beet sugar producers argue that an increase in corn sweetener production quotas would result in lower prices for beet sugar.

Trade Policy

The 2003 Import Regime imposes a duty of 109.2 percent on the CIF value on sugar imports from the EU countries and 136.5 percent from all other origins, a marginal decrease from the previous year.

Statistical Tables

PS&D Table for Sugar Beets

PSD Table						
Country	Turkey					
Commodity	Sugar Beets				(1000 HA)(1000 MT)	
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		09/2001		09/2002		09/2003
Area Planted	359	359	379	372	0	330
Area Harvested	357	357	378	370	0	330
Production	12551	12633	16700	16396	0	14100
TOTAL SUPPLY	12551	12633	16700	16396	0	14100
Utilization for Sugar	12551	12633	16700	16396	0	14100
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	12551	12633	16700	16396	0	14100

PS&D Table for Centrifugal Sugar

PSD Table						
Country	Turkey					
Commodity	Centrifugal Sugar			(1000 MT)		
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		09/2001		09/2002		09/2003
Beginning Stocks	865	865	262	434	348	659
Beet Sugar Production	1796	1796	2336	2345	0	1950
Cane Sugar Production	0	0	0	0	0	0
TOTAL Sugar Production	1796	1796	2336	2345	0	1950
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	1	1	0	0	0	0
TOTAL Imports	1	1	0	0	0	0
TOTAL SUPPLY	2662	2662	2598	2779	348	2609
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	550	378	350	220	0	0
TOTAL EXPORTS	550	378	350	220	0	0
Human Dom. Consumption	1850	1850	1900	1900	0	1950
Other Disappearance	0	0	0	0	0	0
Total Disappearance	1850	1850	1900	1900	0	1950
Ending Stocks	262	434	348	659	0	659
TOTAL DISTRIBUTION	2662	2662	2598	2779	0	2609

Export Trade Matrix

Export Trade Matrix			
Country	Turkey		
Commodity	Centrifugal Sugar		
Time period	Sep. - Aug.	Units:	Metric Tons
Exports for:	2002	Sep. - Nov. 2002	2003
U.S.	22	U.S.	
Others		Others	
Georgia	70331	Georgia	16278
Azerbaijan	64253	United Arab Em.	1419
Syria	20544	Northern Cyprus	158
Iran	20024	France	86
Afghanistan	12042	Azerbaijan	80
Northern Cyprus	3631	Germany	76
Croatia	1304	Israel	43
Turkmenistan	1157	Saudi Arabia	34
United Arab Em.	1109	Lebanon	22
Egypt	1027	Bosnia-Herzeg.	4
Total for Others	195422		18200
Others not Listed	182511		24855
Grand Total	377955		43055

Import Trade Matrix

Import Trade Matrix			
Country	Turkey		
Commodity	Centrifugal Sugar		
Time period	Sep. - Aug.	Units:	Metric Tons
Imports for:	2002	Sep. - Nov. 2002	2003
U.S.	9	U.S.	4
Others		Others	
United Kingdom	611	United Kingdom	158
Germany	123	Germany	112
France	67	France	33
Italy	52	Italy	11
Spain	13	Spain	4
Total for Others	866		318
Others not Listed	132		52
Grand Total	1007		374