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Sugar

Annual

2000

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Report Highlights:

Sugar beet and sugar production, which reached record levels in MY1999, are expected to decrease as a result of GOT efforts to apply production quotas and lower real producer prices for sugar beets. To decrease stocks, the state sugar company increased exports, and is incurring huge losses which need to be subsidized by the government. Sugar imports are restricted through application of high duties

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Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Ankara [TU1], TU

Executive Summary

Sugar beet production is expected to decrease from about 22 million metric tons in MY 2000 (September 1999-August 2000) to 16 million metric tons in MY 2001 (September 2000- August 2001) in response to changes in the Turkish Sugar Corporation (TSC) policies which include application of production quotas and lower prices in real terms for sugar beets. The TSC, which has developed huge stocks over the past few years, is also trying to reduce stocks through increased exports, forecast at 700,000 MT in MY 2000. With high costs of production and continued efforts to support farmer incomes, the Turkish Sugar Corporation (TSC) can only export sugar at a net loss with Treasury compensating the difference. GOT subsidies for producers (sugar, grain, etc.) have become a large burden for the Treasury, increase consumer costs and fuel inflation. The Government signed a letter of intent with the IMF and will carry through a program designed to reduce budget deficits and inflation..

A HFCS processing facility with capacity for over 200,000 MT per annum was constructed near Bursa and started trial operations. Despite ongoing permit problems, production should reach optimum levels this summer.

The 2000 tariff schedule includes a 112.8 percent duty for the CIF value of sugar imports from the European Union and 141 percent for all other origins, a marginal decrease from the previous year. The TSC issues is responsible for export licenses, while the Foreign Trade Undersecretariat issues import licenses, based on the supply and demand outlook.

(Note: MY 1999 beet production and some other estimates in the accompanying tables were actually revised by post in TU9041 dated 10/99 and were not been revised again in this report. Our MY 1999 centrifugal sugar production and MY 2000 both sugar beet and centrifugal sugar production estimates were revised to reflect new information.)

Production

Turkey is forecast to produce lower 16,000,000 MT of sugar beets on about 400,000 hectares in MY2001, in response to enforcement of a production quota system which was announced in MY1998. The Turkish Sugar Corporation (TSC) is expected to purchase about 12.5 million tons while the privately owned Central Union of Sugar Beet Producers Cooperatives (PANKOBIRLIK) plants, will buy the 3.5 million ton balance. Centrifugal sugar production, at about 2,065,000 MT (raw value) in MY2001. Out of this total TSC is forecast to produce about 1,630,000 MT and privately owned plants are forecast to produce 435,000 MT. Data in this report, is aggregate data and include both TSC's and PANKOBIRLIK's production.

After a long dry fall and December, there was good snow coverage in most of MY 2001sugar beet producing areas after the new year. Precipitation continued through mid March causing delays in plantings, but the MY2001 sugar beet yield will largely depend on rains received during this spring and summer. We are currently forecast yields at about 40.500 kg/hectare, a bit lower than last year, but still slightly higher than normal.

Official data is not yet available for MY 2000 (Sep. 1999 - Aug. 2000), but production appears to be higher than our previous estimate, with yields averaging 41.616 kilograms per hectare and an average sugar content of 16.52 percent (refined basis). Centrifugal sugar production for MY1999 was revised according to the official data, due to higher sugar yields.

The government is expected to announce MY 2001 sugar beet prices at harvest time. MY2001 sugar beet price is expected to be significantly lower in real terms than in MY2000, as the GOT applies more strict economic policies. The MY 2000 support price was TL 27,000/kg. beets (16 percent polar sugar basis), which was 63.6 percent higher than it was a year ago, but still below Turkey's annual rate of inflation for the same period.

Sugar beets are produced throughout Turkey. Almost all beets are grown under contracts with state-owned or state-regulated refineries. As part of the contract, the refineries prescribe optimal crop rotations for the region. Beets generally are grown in three or four year rotations which also include cereals, pulses, fodder crops, and sunflower. Planting begins as early as February and continues through May with harvest from late July to November. MY2001 plantings, however, started late in March due to heavy snow and cold weather which could delay the harvest by about a month. According to recent statistics, approximately 380,000 farms are engaged in sugar beet production. The TSC and PANKOBIRLIK factories guarantee purchases of all beets produced under contract, providing an incentive for beet production, even if prices are not be as high as they would like.

Farmers contracting to the TSC are obliged to use TSC provided seeds. Although they are permitted to purchase fertilizers from other sources, they generally prefer to use TSC fertilizers because payment is deducted after the harvest, when the farmer receives his sales proceeds. However, this advantage is countered 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 total return, the opportunity cost of the farmers' capital is significant, particularly with inflation running at about 65 percent.

TSC also provides harvesting equipment or custom harvest services, as needed. Farmers are responsible for other inputs, including land, labor, irrigation, and transportation of the beets from the farm to the factory or other central collection points.

Consumption

There are 29 sugar factories in Turkey. Each factory is assigned a geographical region and farmers within a region may contract with the factory to produce sugar beets. Of the 29 factories, 24 are totally owned by the Turkish Sugar Corporation. The other five factories are jointly owned by the TSC in partnership with other entities.

Three of these five jointly-owned factories, located in Konya, Kayseri and Amasya, are owned by the Central Union of Sugar Beet Producers (PANKOBIRLIK). Except for beet support (procurement) prices and ex-factory sugar prices, which are set by the GOT, PANKOBIRLIK's factories function independently of the Turkish Sugar Corporation and are supervised by their own board of directors.

Amasya sugar plant, which was totally owned by PANKOBIRLIK, had severe financial problems last year. Plant board of directors decided to return the plant to the TSC. The TSC is studying the case but has not yet decided to accept the plant, which has already signed contracts with farmers for the MY 2001 campaign, with all its debts.

In general, Turkey's sugar industry is aging and has limited capacity. To reduce losses and improve efficiency, the TSC is in the process of modernizing some old factories and developing projects for two new ones. Construction of the Kirsehir factory is almost completed and may start production in MY2001, but there are no new developments in the Sivas project. There are no developments on PANKOBIRLIK’s Bogazliyan sugar plant, although a contract was signed which transferred 90% ownership to a local company last year.
Similarly, there is no new development on another plant with private sector involvement in Aksaray.

According to unpublished data for MY2000, the TSC bought 13,722,000 MT of beets and paid (or will pay since all payments have not been completed yet) a total of TL 390 trillion (about USD 750 million). Since part of this was paid as advance payments or inputs in kind, TSC has a debt of about TL 210 trillion to farmers. If TSC wants to avoid interest payments, all debts must be paid by the end of April. Similarly, if PANKOBIRLIK cannot pay its debt to farmers by the end of April, it will have to pay them penalties. Support prices for the MY 2001 beets are expected to be announced at harvest and are likely to decline slightly in real terms due to the anti-inflationary economic policies of the GOT.

In the past, the Turkish Sugar Corporation sold sugar at subsidized prices to prevent inflationary pricing in domestic markets. Consumption increased six to eight percent annually in response to the relatively low, subsidized prices. For the last several years, however, the consumer subsidy on sugar has been gradually reduced and prices have increased according to production costs. As a result, the annual increase in total consumption declined to about two percent, closer to Turkey’s population growth rate. Annual per capita sugar consumption is unofficially estimated to be about 30 kilograms (refined basis).

The GOT sets ex-factory prices of sugar in accordance with production costs, which are well above world levels. The following table summarizes the current ex-factory price (TL per kilogram) which has not been increased since last December, value-added tax (VAT) included.

Type of Sugar	September 9, 1999	December 8, 1999
Crystal Sugar:		
In 50 kilogram bags	307,800	360,720
Cube Sugar:		
In 50 kilogram bags	334,800	392,040
In 1 kilogram box (25 boxes)	354,240	414,720

(As of 4/7/00, USD 1.00 is around TL 592,000)

Retail prices are determined by market forces. The Confederation of Grocers and Supermarkets (a retailers' association) currently sells sugar in Ankara at the following prices:

Type of Sugar	TL per Kilogram (VAT included)
Crystal Sugar:	
In 50 kilogram bags	475,000
Cube Sugar:	
In 50 kilogram bags	515,000
In 1 kilogram box	545,000

Consumption of sugar substitutes, including artificial sweeteners (glucose and HFCS) is limited, but expected to increase, considering Turkey's growing demand and the economics of sweetener production. There are three companies currently producing around 100,000 MT of glucose and HFCS. A new corn processing plant, the construction of which has just been completed and started trial production, has a capacity for another 200,000 MT HFCS, to be mostly used by the beverage industry.

Trade

To minimize the cost of maintaining a large inventory, the TSC began exporting large quantities of sugar a few years ago. TSC's export business generally incurs losses, which are supported by the Treasury. MY1999 exports were revised slightly to reflect official trade data. According to unofficial sources, Turkey exported about 400,000 MT of sugar during the first half of MY2000. The MY1999 trade matrix presents trade data for the entire marketing year beginning September 1998 while the MY2000 trade matrix only includes data for September through November 1999. In order 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 stock statistics are not available. PS&D estimates are based on information from both public and private sources.

Policy

Production Policy

Sugar refining has been a state monopoly in Turkey since the Turkish Sugar Corporation was established in 1935, when sugar was considered a strategic commodity. The government uses support prices to regulate production and high tariffs and import and export licensing to control trade. The current sugar production policy is to be self-sufficient. In the 1980's and early 1990's, attractive support prices and limited controls led to an expansion in area, which, when combined with excellent growing conditions, resulted in overproduction. Unstable political conditions, and high support prices, especially in MY1999, further exacerbated the situation and, when combined with good weather, led to record production levels. To minimize inventory costs, the GOT authorized the TSC to export its surplus supply, even at a loss.

Since the government generally does not want to fuel inflation, which was running at about seventy percent annually during the last several years, but is basing many of its support price decisions on domestic politics, it has been delaying the price announcements until harvest (rather than before planting). The recent pricing policies sent the wrong signals to sugar beet farmers, who continued to expand acreage, despite uneconomic costs of production. Given limited land and financial resources, the government will need to encourage the use of alternative sweeteners to meet Turkey's growing demand in the long term.

TSC adopted a new policy to limit sugar beet production in MY1999 and began basing its contracts with farmers on the quantity of sugar beets they would produce, instead of area planted in sugar beets. The purpose of the policy change was to reduce excess production by both authorized and unauthorized growers. The original plan was to pay the farmers the full support price if they produced the quantity contracted (with an allowance of +/- 25 percent) If farmers had deficit/surplus production, they would be paid 20 percent less than the announced price. However, the GOT bowed to election year pressures during the program's initial year, and increased the allowable surplus from 25 percent to 50 percent.

TSC's policies changed again in MY2000. TSC factories signed contracts with farmers on the basis of production quantity, but lowered the acceptable variation to (+/-) 15 percent. Also, the support price was reduced by 50 percent for the quantity of beets sold to the TSC factories below or above the defined range. TSC is maintaining these levels in MY2001. Although PANKOBIRLIK, announced that it would allow a margin of up to (+/-) 25 percent (compared to the TSC's 15%), officials have stated that they may not be able to allow the lower deviation to conform to TSC's rate, due to political pressures.

The Turkish Sugar Law has been in effect since 1956. During the last three years, the GOT began to develop new legislation since the old law was considered out of date and did not cover important sugar issues, such as, non-sugar sweeteners. The new law, which has a number of controversial clauses which would regulate both fructose and sugar production, was expected to be adopted in MY1999, but was delayed with most other legislation when last year's elections diverted Parliament's attention. It is uncertain at this point if and when the new Sugar Law will be adopted.

The GOT targeted the privatization of State Economic Enterprises (SEE) a few years ago, including sugar plants, but overall progress has been very slow. There have been very limited discussions on privatizing TSC plants, making it unlikely to occur in the next few years.

Trade Policy

The 2000 Import Regime imposes a duty of 112.8 percent on the CIF value on sugar imports from the EU countries and 141 percent from all other origins. TSC issues export licenses and the Foreign Trade Undersecretariat issues import licenses, both based on the supply and demand outlook.

Statistical Tables

Sugar Beet PS&D Table

PSD Table						
Country	Turkey					
Commodity	Sugar Beets				(1000 HA)(1000 MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		09/1998		09/1999		09/2000
Area Planted	505	504	425	425	0	400
Area Harvested	500	501	424	417	0	395
Production	18800	22060	16300	17354	0	16000
TOTAL SUPPLY	18800	22060	16300	17354	0	16000
Utilization for Sugar	18800	22060	16300	17354	0	16000
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	18800	22060	16300	17354	0	16000

Centrifugal Sugar PS&D Table

PSD Table						
Country	Turkey					
Commodity	Centrifugal Sugar				(1000 MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		09/1998		09/1999		09/2000
Beginning Stocks	659	659	900	1098	430	457
Beet Sugar Production	2711	2947	2030	2159	0	2065
Cane Sugar Production	0	0	0	0	0	0
TOTAL Sugar Production	2711	2947	2030	2159	0	2065
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	10	5	10	10	0	0
TOTAL Imports	10	5	10	10	0	0
TOTAL SUPPLY	3380	3611	2940	3267	430	2522
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	400	433	400	700	0	200
TOTAL EXPORTS	400	433	400	700	0	200
Human Dom. Consumption	2080	2080	2110	2110	0	2145
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	2080	2080	2110	2110	0	2145
Ending Stocks	900	1098	430	457	0	177
TOTAL DISTRIBUTION	3380	3611	2940	3267	0	2522

Export Matrix

Export Trade Matrix			
Country	Turkey		
Commodity	Centrifugal Sugar		
Time period	Sep. - Aug.	Units:	Metric Tons
Exports for:	1999		2000
U.S.	1	U.S.	1088
Others		Others	
Syria	132143	Azerbaijan	41533
Georgia	113242	Syria	32126
Azerbaijan	113047	Georgia	28342
Albania	10272	Iran	7821
Northern Cyprus	3494	Albenia	7500
Iran	2884	Turkmenistan	2935
United Arab Emi.	2707	Northern Cyprus	2353
Serbia	2194	Lebanon	1631
Greece	2173	Romania	1196
Turkmenistan	1157	Bulgaria	1087
Total for Others	383313		126524
Others not Listed	49339		16023
Grand Total	432653		143635

Import Matrix

Import Trade Matrix			
Country	Turkey		
Commodity	Centrifugal Sugar		
Time period	Sep. - Aug.	Units:	Metric Tons
Imports for:	1999		2000
U.S.	17	U.S.	
Others		Others	
Belgium	1630	United Kingdom	267
Brazil	1250	Italy	11
Bulgaria	954	Switzerland	4
France	652	Spain	1
United Kingdom	263		
Italy	82		
Germany	47		
Russia	43		
Spain	2		
Kazakistan	1		
Total for Others	4924		283
Others not Listed			
Grand Total	4941		283