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Sugar

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Report Highlights:

Sugar beet production is projected to decrease to 16 MMT and centrifugal sugar production is projected to decrease to 2.3 MMT in MY 2002. The long discussed Sugar Law was adopted by Parliament. It will become effective after being approved by the President and published in the Official Gazette. The new Sugar Law introduces a quota system to both sugar and starch-based sweetener producers.

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

Sugar beet production is projected to decrease to 16 MMT and centrifugal sugar production is projected to decrease to 2.3 MMT (raw value) in MY 2002 (September 2001- August 2002) in response to changes in the Turkish Sugar Corporation (TSC) policies which include the 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; the forecast in MY 2002 is 400,000 MT. With high costs of production and continued efforts to support farmer incomes, TSC can only export sugar at a net loss with the Treasury compensating the difference. GOT subsidies for producers (sugar, grain, etc.) continue to be a large burden for the Treasury, increasing consumer costs and fueling inflation. The GOT is trying to reduce this burden to honor a letter of intent signed with the IMF, and plans to carry out a program designed to reduce budget deficits and inflation.

The Turkish Parliament adopted the long discussed Sugar Law, which pleased neither sugar producers nor the starch-based sweetener industry. According to the new Sugar Law, a Sugar Board will be established and this Board will study the demand and supply of sugar and sweetener in Turkey. With the principal idea of producing all of needs domestically, production quotas will be distributed to all producers. Ninety percent of the demand will be produced by the sugar industry and remaining ten percent will be produced by the sweetener industry, according to the Law. The Sugar Law will be effective after approval of the President and being published in the Official Gazette. However, it will be operational only after the establishment of the Sugar Board.

The 2001 tariff schedule includes a 111.6 percent duty for the CIF value of sugar imports from the European Union and 139.5 percent for all other origins, a marginal 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

Turkey is projected to produce less sugar beets than before, 16,000,000 MT on about 400,000 hectares in MY 2002 (Sep. 2001 - Aug. 2002), in response to enforcement of a production quota system which was announced in MY 1999. The Turkish Sugar Corporation (TSC) is expected to purchase slightly more than 12 MMT while the privately owned Central Union of Sugar Beet Producers Cooperatives (PANKOBIRLIK) plants, will buy the remainder of nearly 4 MMT. Centrifugal sugar production is projected at about 2.3 MT (raw value) in MY 2002. Out of this total TSC is projected to produce about 1,750,000 MT and privately owned plants are to produce 550,000 MT. Data in this report is the aggregate data and includes production from both TSC's and PANKOBIRLIK's plants.

Turkey had a dryer fall and winter. Snow coverage was not sufficient in most areas. Precipitation improved somewhat in March, but the MY 2002 sugar beet yields will largely depend on rains received during this spring and summer. We are currently forecast yields at about 40,000 kg/hectare, lower than last year.

Official data is not yet available for MY 2001 (Sep. 2000 - Aug. 2001), but production appears to be higher than our previous estimate, with yields averaging 42,632 kilograms per hectare and an average sugar content of 17.11 percent (refined basis). Centrifugal sugar production for MY 2000 was revised upward according to the official data, due to higher sugar yields.

The government is expected to announce the MY 2002 sugar beet prices, which is expected to be significantly lower in real terms than in MY 2001 as the GOT applies more strict economic policies at harvest time. The sugar beet support price in MY 2001 was TL 33,750 per kilogram of sugar beets (16 percent polar sugar basis), which was 25 percent higher than it was a year ago, but still significantly below Turkey's annual rate of inflation for the same period (65 percent).

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 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 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 as high as farmers would like.

Farmers contracting with 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 high inflation.

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

The total number of sugar factories is now 30 in Turkey, with the addition of the Kirsehir plant this year. The Kirsehir plant completed its trial run last January and is now ready for normal processing with MY 2002 season. Each factory is assigned a geographical region and farmers within a region may contract with the factory to produce sugar beets. Of the 30 factories, 25 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 Cooperatives (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.

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 has plans to develop projects for a new one. However, there has not been any new development in their Sivas plant project. Similarly, there are no developments on neither PANKOBIRLIK’s Bogazliyan sugar plant nor the private sector’s Aksaray plant.

According to unpublished data for MY 2001, the TSC bought 14,676,793 MT of beets and paid (or will pay since all payments have not been completed yet) a total of TL 526 trillion. Since part of this was paid as advance payments or inputs in kind, TSC has a debt of about TL 361 trillion (or about USD 300 million) 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 (which is about TL 92 trillion–or about USD 75 million) by the end of April, it will have to pay them penalties. Support prices for the MY 2002 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 consumers’ 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 changes in ex-factory prices [TL per kilogram, value-added tax (VAT) included] since our last sugar voluntary report (TU0055) dated December 15, 2000.

Type of Sugar	March 2, 2001	April 6, 2001
Crystal Sugar:		
In 50 kilogram bags	450,360	562,950
Cube Sugar:		
In 50 kilogram bags	489,186	611,480
In 1 kilogram box (25 boxes)	517,104	646,380

(As of 4/10/01, USD 1.00 is approximately TL 1,200,000)

Retail prices are determined by market forces. The Confederation of Grocers and Supermarkets (a retailers' association), which used to suggest sugar selling prices to their members, is no longer making such suggestions.

Consumption of sugar substitutes, including artificial sweeteners (glucose and HFCS) is limited but is expected to increase, considering Turkey's growing demand and the economics of sweetener production. There are three companies currently producing, with installed capacity of 600,000 MT (450,000 MT fructose and 150,000 MT glucose).

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. MY 2000 exports were revised upward to reflect official trade data. According to unofficial sources, Turkey exported about 300,000 MT of sugar during the first half of MY 2001. The MY 2000 columns of the trade matrixes presents trade data for the entire marketing year (September 1999 - August 2000) while the MY 2001 columns only includes data for the first two months (September and October 2000). 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 stock estimates are based on information received 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 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 (averaging at about from fifty to seventy percent annually during the last several years) but bases many of its support price decisions on domestic politics, it has been delaying the price announcements until harvest (rather than before planting). 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 MY 1999 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 MY 2000. 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 has maintained these levels in MY 2001 and MY 2002. 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 four 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. Parallel to the commitment made by the GOT to the IMF (in their letter of intent), the new Sugar Law was adopted by the Parliament on April 4, 2001. In order to be effective, it must be approved first by the President and then published in the Official Gazette (which may take another couple of weeks).

The new Sugar Law is presuming that the domestic demand will be met by the domestic production and steers both sugar beet and starch (corn) based sweetener production by applying quotas. According to the new Sugar Law, the TSC will no longer be announcing the sugar beet procurement prices (except for MY 2002) and the ex-factory sugar prices. Existing sugar plants will be allowed to be privatized and/or new plants (after receiving the quota) may be operated without any government permission. This Law will be in effect for five years and will fade away at the end of this period to honor WTO commitments. Market forces will determine sugar and sweetener production after this period.

According to the new Sugar Law, a Sugar Board will be established. The Sugar Board will meet by June each year, study the demand and supply of sugar and sweetener in Turkey for the next five years, and establish quotas for sugar and sweetener productions according to the supply and demand for the following marketing year. Each plant will have their own quotas according to their production levels in the past three years. Unused quotas will be canceled. The Sugar Board will consist of seven members, three members from the government, three members from the sugar industry, and one member to represent the starch- based sweetener industry. Implementation of the Law will be delayed until establishment of the Sugar Board, which may take several months.

The Sugar Board will take its decisions by a simple majority vote of total members. Some of the duties and authority of the Sugar Board, according to the draft Law we received, are as follows:

a. Make decisions about determination, cancellation and transfers of quotas and their application.

b. Determine participation shares from operating companies, which will be used in expenditures and operations, storage premium, research and development activities, etc.

c. Notify related government agencies about its opinions on sugar prices, supply and demand balance, and speculative effects.

d. Determine and assess fines as established by the Law.

e. Provide organization to lead research and development activities and assigns sources.

f. Can demand all types of information from all agencies, individuals, or firms related to the industry and all these agencies, individuals, and firms are obliged to provide the requested information fully and correctly within the time period allowed.

g. Can conduct research and auditing of sugar and sweetener industry firms and their plants and, for this purpose, obtain assistance from related agencies, individuals, and firms.

The new law, which will regulate glucose, fructose, and sugar production, has a number of controversial clauses. Sugar beet and sweetener producers both are unhappy and have protested about the restrictions to be applied on production. Some producers have claimed that they will take the Law to the Constitutional Court to be canceled. Sugar beet producers claim the Law will weaken beet producers and, as a result, Turkey will become dependent on imported sugar in the near future. On the other hand, the starch-based sweetener industry claims they already have 600,000 MT of capacity installed. With the quota restriction of ten percent of the total sugar output of about 2.2 MMT, they will not be able to operate profitably and will have to close their facilities, which would make related industries (beverages, candies, etc.) noncompetitive in the global marketplace. Industry representatives lobbied vigorously, but unsuccessfully, for a production quota level that would reflect the existing installed capacity of 600,000 MT (450,000 MT fructose and 150,000 MT of glucose), i.e., thirty percent.

The Turkish Sugar Law is loosely based upon existing European Union policy. Since EU policy does not treat glucose the same as fructose, sweetener industry representatives also argued that Turkey should not do so. U.S. and other government officials had also contacted senior Turkish Government officials to express concerns about the negative effects which the Law would have on current and potential investors to discourage further investments in the agriculture and industrial sectors. Starch-based sweetener and related industry representatives will continue to press their case in the hopes that the Turkish Government will take their arguments into consideration and modify the Law and its proposed quota allowances.

Trade Policy
The 2001 Import Regime imposes a duty of 111.6 percent on the CIF value on sugar imports from the EU countries and 139.5 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

PS&D Table for Sugar Beets

PSD Table						
Country	Turkey					
Commodity	Sugar Beets				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		09/1999		09/2000		09/2001
Area Planted	425	425	450	450	0	400
Area Harvested	417	417	440	440	0	400
Production	16854	16854	18000	18758	0	16000
TOTAL SUPPLY	16854	16854	18000	18758	0	16000
Utilization for Sugar	16854	16854	18000	18758	0	16000
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	16854	16854	18000	18758	0	16000

PS&D Table for Centrifugal Sugar

PSD Table						
Country	Turkey					
Commodity	Centrifugal Sugar				(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		09/1999		09/2000		09/2001
Beginning Stocks	1098	1098	649	725	509	841
Beet Sugar Production	2160	2348	2500	2756	0	2300
Cane Sugar Production	0	0	0	0	0	0
TOTAL Sugar Production	2160	2348	2500	2756	0	2300
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	3259	3447	3149	3481	509	3141
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	500	612	500	500	0	400
TOTAL EXPORTS	500	612	500	500	0	400
Human Dom. Consumption	2110	2110	2140	2140	0	0
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	2110	2110	2140	2140	0	2170
Ending Stocks	649	725	509	841	0	571
TOTAL DISTRIBUTION	3259	3447	3149	3481	0	3141

Export Matrix

Export Trade Matrix			
Country	Turkey		
Commodity	Centrifugal Sugar		
Time period	Sep. - Aug.	Units:	Metric Tons
Exports for:	2000	Sep. - Oct.	2001
U.S.	1102	U.S.	15
Others		Others	
Azerbaijan	161818	Georgia	22699
Georgia	90597	Azerbaijan	12238
Syria	85166	Iran	9490
Iran	70035	Iraq	6614
Tunisia	15979	Russia	5000
Lebanon	11197	Ethiopia	3478
United Arab Emi.	10820	Jordan	2283
Albania	9946	Northern Cyprus	1534
Northern Cyprus	9466	Albania	1359
Egypt	8137	Lebanon	1304
Total for Others	473161		65999
Others not Listed	138223		19692
Grand Total	612486		85706

Import Matrix

Import Trade Matrix			
Country	Turkey		
Commodity	Centrifugal Sugar		
Time period	Sep. - Aug.	Units:	Metric Tons
Imports for:	2000	Sep. - Oct.	2001
U.S.	3	U.S.	
Others		Others	
United Kingdom	641	United Kingdom	100
Germany	125	France	23
Italy	38	Italy	11
France	13	Spain	3
Switzerland	5		
Spain	5		
Netherlands	3		
Total for Others	830		137
Others not Listed			1854
Grand Total	833		1991