



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Scheduled Report - public distribution

Date: 10/1/99

GAIN Report #TU9041

Turkey

Sugar

Semi Annual Sugar Update

1999

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Report Highlights:

Sugar production is expected to decrease by about 25% in MY 2000 due to last year's change in sugar beet production policies. With sugar price increases lagging substantially behind increases in beet prices, PANKOBIRLIK, which owns Turkey's three private sugar plants, is running into financial problems and is negotiating the sale of one of its factories to the Turkish Sugar Corporation. Large carry-over stocks of sugar will continue to be exported through subsidized sales.

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

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Executive Summary

Sugar beet and centrifugal sugar production are expected to decrease significantly in MY 2000 (September 1999 - August 2000) as a result of GOT policy changes which put stricter controls on production levels. Last year, the Turkish Sugar Corporation (TSC) began signing contracts with farmers based on sugar beet production level quotas, which is a shift from previous policy which established quotas on the basis of area planted. The policy was not fully implemented last year, and producers eventually sold to TSC up to 50% more than their original quota allowances. However, most observers expect that, with election campaigns finished, the new regulations will be more closely adhered to this year. Consequently, sugar beet area for MY 2000 is estimated at 425,000 hectares, sugar beet production at 16,300,000 MT, and centrifugal sugar production at 2,030,000 MT.

After an initial purchase price announcement, ex-factory sugar prices in 1999 were increased by only thirty percent above their MY 1998 levels, compared to an inflation rate of about 65 percent. MY2000 prices have yet to be officially notified in the Official Gazette. However, the GOT has announced an initial purchase price of TL 27,000 (US \$.058) per kg. for MY2000 beet production, which reflects an annual increase slightly below the inflation rate. With beet prices increasing at a rate which is about twice as fast as ex-factory prices, sugar factories are finding it impossible to remain economically viable. TSC officials have been negotiating with Co-op owned Amasya plant officials to take over the facility, which is experiencing serious financial problems. Two other private plants could face a similar fate next year.

In order to draw down large stocks, Turkey continues to export large quantities of sugar through subsidized sales. The import duty for sugar imports of all origins is 142.5 percent of the CIF value, with the exception of sugar from EU countries which are assessed 114 percent CIF.

Production

After reaching record production levels in three consecutive marketing years, primarily due to an expansion in area resulting from high support prices, MY 2000 (Sep. 1999 - Aug. 2000) sugar beet and centrifugal sugar production are expected to decline significantly. Previously the Turkish Sugar Corporation (TSC) signed contracts with farmers based on area in sugar beets, which was very difficult to control. In MY 1999 the policy was changed and TSC started to sign contracts with farmers based on production targets. With election year politics coming into play last year, the GOT relaxed the conditions of the new policy in 1999 and eventually increased the production quotas by 50 percent. So far in MY 2000, the GOT has strictly applied its policy, and as a result, the acreage and production both were reduced. If this policy continues, sugar beet and sugar production will be controlled and maintained at desired levels which are closer to domestic consumption. This would also avoid the problem of large sugar stocks.

Sugar beet area and production and centrifugal sugar production estimates for MY 2000 all have been lowered based on new information received from the TSC and PANKOBIRLIK. MY 1999 sugar beet and sugar production both were also slightly revised according to final production information received from those two sources.

The sugar beet harvest, which started in late August, will continue through November. Last year's processing campaign, which also started in late August but normally continues through March, continued through April at PANKOBIRLIK's Konya plant, due to higher than expected beet production. Longer campaigns' result in losses and quality deterioration of the end product and the government is hoping that the new production quota policy will bring more discipline to the system.

The MY 2000 sugar beet support price has not yet been officially announced in the Official Gazette. The Minister of Industry and Commerce, however, stated on September 10 that the new sugar beet support price will be TL 27,000 per kilogram (16 percent polar sugar bases). Furthermore, he stated that there will be an increase of TL 688 per kilogram of sugar beets for every one percent increase in the polar sugar content and a decrease of TL 688 for every one percent decrease in the polar sugar content. Farmers delivering their sugar beets to the Eastern Anatolia sugar plants (Agri, Erzurum, Kars, and Mus) will be paid an additional TL 1,250 per kilogram of sugar beets as an incentive.

The price, although still not official, represents a 63.6 percent increase from MY 1999 in nominal terms and reflects the GOT's tightened-budgetary policies. Turkey's annual inflation rate was slightly higher than 65 percent during the previous 12 months. The total payment to sugar beet farmers, including PANKOBIRLIK, is projected to be about TL 500 trillion (about USD \$1 billion), with about 80 percent of this by TSC.

Consumption

Annual sugar consumption is assumed to be increasing parallel to the population growth rate.

Prices

The GOT sets ex-factory prices of sugar in accordance with local production costs, which are well above world levels. The following table summarizes recent ex-factory price increases per kilogram of sugar (value-added tax included).

Type of Sugar	August 10, 1998	June 29, 1999	September 9, 1999
Crystal Sugar:			
In 50 kilogram bags	232,308	267,840	307,800
Cube Sugar:			
In 50 kilogram bags	253,422	291,600	334,800
In 1 Kilogram boxes	267,192	307,800	354,240

(As of September 29, USD 1.00 is about TL 463,000)

The TSC increased ex-factory sugar prices twice in MY 1999 for total increases of about thirty percent. This is significantly below the inflation rate during the same 12-month period. However, GOT officials recognize that domestic Turkish sugar prices are already well above the world prices. There is also concern that further price increases would encouraged smugglers (duties range between 114 and 142 percent).

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	405,000
Cube Sugar:	
In 50 kilogram bags	440,000
In 1 kilogram boxes	465,000

Trade

Although MY 2000 production should be closer to or below consumption levels, Turkey is expected to continue to export large quantities of sugar this year in order to dispose of carryover stocks. Turkey's import and export data for MY 1998 were increased slightly to reflect the official GOT trade data. The trade matrix presents official trade data for the entire marketing year for 1998 (September 1997- August 1998) but only for the first nine months (September 1998 - May 1999) for MY 1999, on a raw value basis.

Stocks

Official stock statistics are not available. PS&D estimates are based on information received from both public and private sources.

Policy

Production policy

The Turkish Sugar Corporation (TSC) announced a new policy in MY 1999 and started contracting farmers and allocating quotas based on quantity of sugar beet production, instead of beet producing area. According to the new policy, farmers only receive the full support price if they achieve their targeted production levels. The TSC also announced that during the first year of the new policy's implementation, it would allow a 25 percent deviation (plus/minus) from assigned quota levels. Farmers who sold their sugar beet crops within this margin would be eligible for the full support price, but farmers who delivered a quantity above or below the margins would be assessed a 25 percent penalty and only receive 75 percent of the full support price. However, the Prime Minister later announced an increase in the production quota margin from 25 percent to 50 percent, ostensibly to allow producers and the system to adjust to the new program, but more probably as a political gesture in light of an upcoming election. In other words, the policy was not fully implemented in its first year.

TSC started the MY2000 season by again implementing a production quota system with a margin of 25 percent (plus/minus). Ex quota penalties will be 25 percent for TSC and 20 percent for PANKOBIRLIK. Both TSC and PANKOBIRLIK officials are in favor of maintaining these margins, although producers are hoping that they will be expanded again later in the year. Industry sources indicate that the policy is less likely to be changed in the future if the Sugar Law, which has been under discussion for three years, is finally passed by Parliament.

PANKOBIRLIK (Sugar Beet Producers Cooperatives' Union) owns three sugar plants in Konya, Kayseri, and Amasya. Since all privately owned plants have to follow the same policy as TSC-owned plants, the three plants pay the same support price to farmers and sell sugar at the same ex-factory prices as TSC. Because sugar beet support prices had increased faster than sugar prices in recent years, production became uneconomic and the plants began to lose money. Last year, TSC was able to borrow money from the GOT owned banks at relatively low interest rates, such as 50 percent. On the other hand, most of the time PANKOBIRLIK owned plants were borrowing from commercial banks at rates as high as 140 percent. Amasya plant is reported to have borrowed at 154 percent to meet emergency needs. As a result of the ensuing financial problems, Amasya plant has not yet began its MY2000 campaign and asked TSC to take over the facility's operations and negotiations are underway. If current conditions continue, PANKOBIRLIK officials expect the two other privately owned sugar plants (Konya and Kayseri) could also run into severe financial problems later this year and face the same fate.

Trade Policy

In order to eliminate its large stocks, Turkey exports sugar with high subsidies.

The duty for sugar imports from all origins is 142.5 percent of the CIF value, with the exception of sugar from EU countries which are assessed 114 percent CIF.

Tables

PS&D Sugar Beets

PSD Table						
Country	Turkey					
Commodity	Sugar Beets				(1000 HA)(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		09/1997		09/1998		09/1999
Area Planted	473	473	505	504	500	425
Area Harvested	467	467	500	501	495	424
Production	16850	16850	18800	22060	20000	16300
TOTAL SUPPLY	16850	16850	18800	22060	20000	16300
Utilization for Sugar	16850	16850	18800	22060	20000	16300
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	16850	16850	18800	22060	20000	16300

PS&D Centrifugal Sugar

PSD Table						
Country	Turkey					
Commodity	Centrifugal Sugar				(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		09/1997		09/1998		09/1999
Beginning Stocks	533	533	669	659	899	900
Beet Sugar Production	2372	2372	2700	2711	2500	2030
Cane Sugar Production	0	0	0	0	0	0
TOTAL Sugar Production	2372	2372	2700	2711	2500	2030
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	9	10	10	10	10	10
TOTAL Imports	9	10	10	10	10	10
TOTAL SUPPLY	2914	2915	3379	3380	3409	2940
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	225	236	400	400	400	400
TOTAL EXPORTS	225	236	400	400	400	400
Human Dom. Consumption	2020	2020	2080	2080	2110	2110
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	2020	2020	2080	2080	2110	2110
Ending Stocks	669	659	899	900	899	430
TOTAL DISTRIBUTION	2914	2915	3379	3380	3409	2940

Sugar Export Matrix

Export Trade Matrix			
Country	Turkey		
Commodity	Centrifugal Sugar		
Time period	Sep - Aug	Units:	Metric Tons
Exports for:	1998		1999
U.S.		U.S.	1
Others		Others	
Azerbaijan	78444	Syria	100405
Georgia	64683	Georgia	76371
Syria	15923	Azerbaijan	64936
Romania	6594	Albania	10137
Iraq	6521	United Arab Em.	2707
Russia	4309	Serbia	2182
Iran	3577	Northern Cyprus	2104
Northern Cyprus	1027	Iran	7877
Israel	152	Greece	1169
Italy	104	Macedonia	1132
Total for Others	181334		269020
Others not Listed	55018		18032
Grand Total	236352		287053

Sugar Import Matrix

Import Trade Matrix			
Country	Turkey		
Commodity	Centrifugal Sugar		
Time period	Sep - Aug	Units:	Metric Tons
Imports for:	1998		1999
U.S.	32	U.S.	17
Others		Others	
France	5283	Belgium	1631
Belgium	1876	Bulgaria	954
Ukraine	1021	France	652
Mexico	744	United Kingdom	229
United Kingdom	425	Italy	65
Spain	289	Russia	44
Germany	72	Spain	1
Brazil	71	Germany	1
Italy	49		
Russia	22		
Total for Others	9852		3577
Others not Listed	49		
Grand Total	9933		3594