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## Turkey

### SUGAR SEMI-ANNUAL

### Sugar and Sweeteners Semi- Annual 2009

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**Report Highlights:**

Turkey's sugar beet production for MY 2008 was 12.5 MMT as drought reduced yields. Post estimates that total sugar beet production for MY 2009 will be 14.8 MMT and the forecast for MY 2010 is 15.0 MMT. Total centrifugal sugar production for MY 2008 was only 1.7 MMT, but is forecast to reach the quota of 2.1 MMT in MY 2009 and MY 2010. During the year C quota sugar prices steadily increased from USD 371/MT in January 2009 to USD 625 /MT in September 2009.

## **Executive Summary:**

Sugar beet production in Turkey is a politically charged issue. When it comes to sugar policy social considerations dominate the decision-making process. The recent increases in world sugar prices also affected the C quota sugar. During the year the Turkish Sugar Corporation (TSC) announced prices steadily increased from USD 371/MT in January 2009 to USD 625 /MT in September 2009

In MY 2009 the A quota rose for the first time since 2003 to 2,400,000 MT. The starch-based sweetener (SBS) quota was also increased to 266,700 MT from 234,100 MT of previous years.

It is forecast that in MY 2010, farmers contracted by the state-owned refineries and private factories (excluding PANKOBIRLIK) will produce approximately 9.0 MMT of sugar beets on 210,000 hectares. PANKOBIRLIK is expected to produce approximately 6.0 MMT of sugar beets on 120,000 hectares.

There are 33 sugar beet refineries in Turkey and five starch based sugar (SBS) producers. The state owned Turkish Sugar Corporation (TSC) owns 25 of the sugar beet refineries. The Ministry of Industry and Trade oversees TSC. Total centrifugal sugar production is projected to be 2.1 MMT in MY 2009 and MY 2010. Of this total, the 25 state owned refineries are projected to produce 1.2 MMT and the 8 private refineries are projected to produce 0.9 MMT.

In response to pressure from the IMF and EU, the government has been trying to make the sector more market-oriented without attracting negative attention from the media and opposition parties. The industry expects the sugar sector in Turkey to become more efficient once privatization is completed.

The Turkish government also plans to bring its sugar policies more in line with the new sugar policies of the EU, which foresees a 36 percent drop in sugar beet procurement prices in the next four years.

The price of A sugar in Turkey had remained at YTL 1.696/kg from 2004 to 2007. In 2008 the price was increase to YTL 1.868/kg. In July 2009 the price was increased to YTL 1.196/kg.

## **Commodities:**

Sugar, Centrifugal

Sugar Beets

## **Production:**

The Sugar Board's 2008 official count of sugar-beet-producing farms is 209,000. This is a radical decrease from 459,571 farms in 2003. Unfortunately, both figures are distorted –and in opposite directions. Post believes that there are approximately 350,000 farms growing sugar beets in Turkey.

In MY 2008, due to drought, sugar beet production decreased to 12.5 MMT on 300,000 hectares of harvested land. In MY 2009 with favorable weather conditions post expects 14.8 MMT of sugar beet production on 320,000 hectares of harvested land. In MY 2010 post forecasts 15.0 MMT of sugar beet production on 325,000 hectares of harvested land.

According to the Sugar Beet Producers' Cooperative, PANKOBIRLIK, in the past five years sugar beet yields in Turkey (based on processed sugar beets) have varied between 38 and 52 MT per hectare depending on the region and weather conditions. However, in Konya yields are between 55 and 60 MT per hectare. 2008 MY overall yields are calculated at 41.6 MT per hectare. Given favorable weather conditions, post expects yields between 46-47 MT per hectare for the fall 2009 harvest.

Sugar beets are generally grown in three- or four-year rotations with cereals, pulses, fodder crops and sunflowers. Beet production is usually coordinated among farmers of the same village. All the fields in the village are divided into four groups and a different group is planted every year. Planting begins as early as February and continues through May. Harvest is from late July to November.

#### Sugar Beet PSD Table

Sugar Beets Turkey	2008			2009			2010		
	2007/2008			2008/2009			2009/2010		
	Market Year Begins Sep 2007			Market Year Begins Sep 2008			Market Year Begins Sep 2009		
	USDA Official Data	Old Post		USDA Official Data	Old Post		USDA Official Data	Jan	
			Data			Data			Data
Area Planted	330	330	0	350	350	0		350	0
Area Harvested	330	300	0	350	320	0		325	0
Production	13,200	12,500	0	15,000	14,800	0		15,000	0
Total Supply	13,200	12,500	0	15,000	14,800	0		15,000	0
Utilization for Sugar	13,200	12,500	0	15,000	14,800	0		15,000	0
Utilization for Alcohol	0	0	0	0	0	0		0	0
Total Distribution	13,200	12,500	0	15,000	14,800	0		15,000	0

The MY 2007 advance price was announced as YTL 95 /MT and the final price announced at YTL 103/MT. The MY 2008 advance price was announced as YTL 101 /MT and the final price is announced at YTL 108/MT. MY 2009 advance price is also announced at YTL 108/MT.

The MY 2007 decrease was an attempt to bring Turkey's policy in line with the new policies of the EU, which are expected to cause a 36 percent drop in sugar beet procurement prices in the EU in the next four years. However, due to overall economic slowdown and public pressure, post does not expect any radical price decrease in the near future.

#### Centrifugal Sugar

There are 33 sugar beet refineries and five starch based sweetener producers in Turkey. The state-owned Turkish Sugar Corporation (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. The cooperative PANKOBIRLIK owns more than 88 percent of five private sugar refineries.

Although 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. In 2005 the Cumra Plant of Konya Seker (owned by Pankobirlik) started production of "liquid sugar" as an alternative to starch-based sweetener. In Calendar year 2007 their liquid sugar production reached 72,592 MT.

## Centrifugal Sugar PSD Table

Sugar, Centrifugal Turkey	2008			2009			2010			
	2007/2008			2008/2009			2009/2010			
	Market Year Begin: Sep 2007			Market Year Begin: Sep 2008			Market Year Begin: Sep 2009			
	USDA Official Data		Old Post	USDA Official Data		Old Post	USDA Official Data		Jan	
			Data			Data			Data	
Beginning Stocks	710	710	710	410	405	0	475	505	0	(1000 MT)
Beet Sugar Production	1,700	1,700		2,100	2,100		2,100	2,100		(1000 MT)
Cane Sugar Production	0	0		0	0		0	0		(1000 MT)
Total Sugar Production	1,700	1,700	0	2,100	2,100	0	2,100	2,100	0	(1000 MT)
Raw Imports	0	0		0	0		0	0		(1000 MT)
Refined Imp.(Raw Val)	5	5		5	5		5	5		(1000 MT)
Total Imports	5	5		5	5		5	5		(1000 MT)
Total Supply	2,415	2,415	710	2,515	2,510	0	2,580	2,610	0	(1000 MT)
Raw Exports	0	0		0	0		0	0		(1000 MT)
Refined Exp.(Raw Val)	5	10		40	5		40	10		(1000 MT)
Total Exports	5	10	0	40	5	0	40	10	0	(1000 MT)
Human Dom. Consumption	2,000	2,000		2,000	2,000		2,000	2,000		(1000 MT)
Other Disappearance	0	0		0	0		0	0		(1000 MT)
Total Use	2,000	2,000	0	2,000	2,000	0	2,000	2,000	0	(1000 MT)
Ending Stocks	410	405		475	505		540	600		(1000 MT)
Total Distribution	2,415	2,415	0	2,515	2,510	0	2,580	2,610	0	(1000 MT)

## Consumption:

Total sugar consumption in Turkey is around 2.7 MMT per year, well above the amount of sugar produced according to official quotas. Therefore, in order to meet domestic demand, out-of-quota sugar is typically sourced illegally.

A huge quantity of sugar is smuggled into Turkey across the southern border. Although the industry does not agree on the volume of this trade, it is estimated that every year around 200,000 MT of sugar enters Turkey “together with a passenger” and another 100,000 MT are smuggled through other means.

Of the 2.7 MMT of annual sugar and sweetener consumption, SBS accounts for approximately 350,000 MT, unregistered and smuggled sugar accounts for around 300,000 MT, and beet sugar accounts for the remainder.

## Trade:

The average sugar production cost in Turkey is well above world prices. Because there are no export subsidies, consequently Turkey’s sugar exports are negligible. Manufacturing companies that use sugar in their exported products, however, are eligible to buy and import “C” quota sugar at world prices. The current “C” quota selling price is US \$625/MT; while the current “A” quota sugar selling price is YTL 1,9656 /KG , approximately US \$1,328/MT. These exporters can also import sugar for inward processing and do not pay any duty on the amount of sugar used in their exported products.

## Export Trade matrix

Turkey: Sugar, Centrifugal			
Time Period	Sep – Aug	Units:	Metric Tons
Exports for:	MY 2008		MY 2009
U.S.	39	U.S.	27
Others		Others	
Azerbaijan	4437	Azerbaijan	3638
Romania	3160	Palestine	393
Turk. Rep. Of N. Cyprus	775	Turk. Rep. Of N. Cyprus	366
Russia	700	Lebanon	162
Lebanon	90	Saudi Arabia	94
Israel	80	Iraq	74
Iraq	70	United Arab Emirates	59
Tajikistan	37	Israel	40
United Arab Emirates	35	Kuwait	28
Iran	3	Syria	21
Total for Others	8387		4875
Others not Listed	567		59
Grand Total	8993		4961

#### Import Trade Matrix

Turkey: Sugar, Centrifugal			
Time Period	Sep – Aug	Units:	Metric Tons
Imports for:	MY 2008		MY 2009
U.S.	13	U.S.	0
Others		Others	
United Kingdom	3860	United Kingdom	3653
France	160	Germany	140
United Arab Emirates	179	France	134
Germany	191	United Arab Emirates	66
Belgium	0	Belgium	6
Total for Others	4390		3999
Others not Listed	2		47
Grand Total	4405		4046

The tariff rate on sugar imports remained at 135 percent on the CIF value in 2009. Turkey 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, and chocolates are high and can vary between 8.3 percent and 15.4 percent, plus an additional tax called “agricultural contribution” that can go as high as 300 Euro (about US \$400) per one hundred kilograms depending upon the starch/glucose ratio and milk fat percentage. This is adopted directly from the EU system.

#### Stocks:

There are no official data on stocks, and industry estimates vary greatly. Post estimates MY 2008 beginning stocks were 710,000 MT, MY 2009 beginning stocks were 410,000 MT, and MY 2010 beginning stocks at 475,000 MT.

## Policy:

The Sugar Law of 2001 formed a Sugar Board which operates under the Ministry of Industry and Trade. The Sugar Board has seven members: four government officials and one representative each from TSC, PANKOBIRLIK, and the starch-based sweeteners sector. The representatives from PANKOBIRLIK and SBS sector which are sent to the board are from the companies with the highest production. The main responsibility of the Board is to distribute production quotas to all the sugar-and sweetener-producing companies based on their performance over the previous three years.

## Quotas:

<b>Turkey: MY 2009 Sugar Production Quotas (MT)</b>	
<b>A Quota</b>	2,400,00
<b>B Quota</b>	120,000
<b>SBS Quota</b>	266,700 (360,045 with 35% COM increase)

Turkey's centrifugal sugar production is limited by quotas and under this system the Sugar Board sets the quota. Between MY 2003 and MY 2008, the annual production quota was 2,342,000 MT. In MY 2009 the total production quota rose slightly to 2,400,000 MT. This was the first increase since the production quota system began.

## Marketing:

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

## Prices:

As per the Sugar Law, TSC and PANKOBIRLIK have been setting prices for processed sugar independently since the beginning of MY 2003. The following table provides the prices paid by TSC (8 percent value-added tax included) between 2004 and 2009.

### Price Paid by TSC for Sugar 2004-2009

<b>Price Paid by Turkish Sugar Corporation 2004-2009</b>			
<b>Type of Sugar</b>	<b>2004-2007 (YTL/Kg)</b>	<b>2008 (TL/Kg)</b>	<b>2009 (YTL/Kg)</b>
Crystal Sugar:			
- In 50 kilogram bags	1.696	1.868	1.9656
Cube Sugar:			
- In 50 kilogram bags	1.841	2.322	2.4408

(As of October 01, 2009, USD 1.00 is approximately YTL 1.48)

Prices were fairly stable from 2004 to 2007 and increased 10 percent by the end of 2008. In July 2009 the prices further increased by 5.2 percent.

## Starch-Based Sweeteners (SBS):

There are five factories in Turkey producing starch-based sweeteners (SBS) under quota; they have a total capacity of around 932,000 MT. Two of these factories are one hundred percent owned by foreign companies; two are one hundred percent owned by domestic companies and one is a joint venture.

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. Since the beginning of the quota system, the Council had increased the SBS quota every year.

In MY 2009, “A” quota has been increased to 2,400,000 MT. In effect the SBS quota was increased to 266,667 MT. The Council increased the SBS quota further by 35 percent. However the total amount of SBS produced increased marginally (approximately 9,000 MT) due to increased SBS quota.

<b>Turkey: Starch-based Sweetener Quota</b>			
	<b>MY 2008</b>	<b>MY 2009</b>	<b>MY 2010</b>
<b>Initial SBS Quota (MT)</b>	234,100	266,677	266,677
<b>Council Of Ministers Increase (%)</b>	50%	35%	25%
<b>Final SBS Quota (MT)</b>	351,000	360,045	333.375

## Ethanol and Molasses:

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. The Konya Sugar Company of PANKOBIRLIK built an ethanol plant in Cumra. This is the first and only ethanol factory using sugar beets as a raw material in Turkey. Ethanol production in this plant started at the end of 2007. The plant has the capacity to process 800,000 MT of sugar beets annually, producing 80,000 m3 of ethanol.

Turkish molasses production is estimated to use around four percent of the total beet production. In MY 2009 it is estimated that about 590,000 MT of molasses will be produced. This molasses is used in animal feed and in the production of alcohol and yeast. A small quantity is also being sold to neighboring countries.

## Privatization:

Between 2004 and 2005 the Turkish government successfully privatized three government-owned sugar refineries; Kutahya, Adapazari and Aksaray. The government run Turkish Sugar Corporation (TSC) still operates 25 refineries of which 3 (Ilgin, Bor, Eregli) have been previously turned over to the Privatization Administration. The privatization of these refineries was postponed in May 2006, then again in June 2006, and finally cancelled in November 2006.

In December 2007 privatization efforts restarted and all the remaining government refineries were transferred to the Privatization Administration. However, privatization efforts were halted again in August 2008 when the Council of State Administrative Litigation Office stopped the progress of the Privatization Administrations efforts to privatize 3 sugar refineries (Ilgin, Bor, Eregli). The Council of State’s reason was that in principle privatization efforts were to be carried out in factory portfolios. Portfolios are arranged according their geographical proximity. (see below)

List of Sugar Factory Portfolios for Privatization:

Portfolio A: Kars, Erciş, Ağrı, Muş and Erzurum

Portfolio B: Elazığ, Malatya, Erzincan and Elbistan

Portfolio C: Kastamonu, Kırşehir, Turhal, Yozgat, Çorum and Çarşamba

Portfolio D: Bor, Ereğli and Ilgın

Portfolio E: Uşak, Alpullu, Burdur and Afyon

Portfolio F: Eskişehir and Ankara

#### Map of Turkey Showing Boundaries of Provinces



The privatization efforts included the condition that “future owners of the factories should procure beets from domestic sources for the next five years”. The bidding for the Portfolio A factories (i.e. in the Eastern part of Turkey) did not get any bids in the allotted period which ended in November 2008.

A new round of privatization was announced in September for portfolio C companies. The allotted bidding period ends in November 19, 2009. Procedures for the bidding process and information on portfolio C companies can be obtained from Privatization Administration for a fee of approximately USD 15,000. Bidding has to be done according to these procedures to the Privatization Administration. USD 10 Million needs to be deposited as guarantee in order to bid for portfolio C companies. The success of this round of privatization remains to be seen. Portfolio B and E companies are expected to put up for privatization in the last months of 2009 and Portfolio A, D, and F companies are expected to put up for privatization in 2010.

The Privatization Administration’s aim is completing privatization within 24 months. Lack of interest in Portfolio A companies suggests that the process might take longer than expected.