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Report Highlights:

Turkey is expected to produce 14 MMT of sugar beets and nearly 2 MMT (raw value) of sugar in MY 2005. This is a significant increase over MY 2004 production of 12.5 MMT of beets and 1.9 MMT of raw sugar). The sugar beet procurement price for MY 2005 was announced for the first time prior to planting as TL 98,909 per kilogram (for 16 percent polar sugar content). One sugar factory was turned over to the Privatization Administration (PA) to be privatized last fall. Turkey is not expected to export any sugar in MY 2005 since the Treasury will not support these exports. Stocks are estimated to increase parallel to the projected increase in production.

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

Turkey is expected to produce 14 MMT of sugar beets on 330,000 hectares and 1.83 MMT (1.99 MMT raw value) of sugar in MY 2005, according to the production quotas announced by the Sugar Board. Out of this total, about 10.2 MMT of sugar beets are expected to be produced on about 240,000 hectares by Turkish Sugar Corporation (TSC) farmers and 3.8 about MMT of sugar beets are expected to be produced on about 90,000 hectares by the Central Union of Sugar Beet Producers Cooperatives (PANKOBIRLIK) farmers. The Sugar Board assigned TSC with a sugar production quota of 1.3 MMT (1,413,000 MT raw value). PANKOBIRLIK was assigned a sugar production quota of 530,000 MT (576,000 MT raw value).

The total production quota for MY 2005 (September 2004 – August 2005) is again 2,342,000 MT (refined value), which is similar to the quota both in MY 2003 and MY 2004. This includes a production quota of 234,100 MT for cornstarch-based sweetener, again the same as the last two marketing years. However, both in MY 2003 and MY 2004, the Council of Ministers, at the request of the industry, raised the cornstarch-based sweetener quota by 50 percent to 351,150 MT. The Council of Ministers has not yet announced if the cornstarch-based sweetener quota will be increased in MY 2005.

In MY 2005, the sugar beet procurement price for the first time was announced prior to planting as TL 98,909 per kilogram (for 16 percent polar sugar content). This price was announced parallel to the twelve percent target rate of annual inflation. This price will be increased or decreased if the realized annual inflation rate is higher or lower than the target rate. This base price could also be higher or lower depending on the beet sugar content. (Currently USD 1.00 is around TL 1,320,000)

The Sugar Law presumes that domestic demand will be met 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 obligations to the IMF. At that time, sugar beet procurement and ex-factory sugar prices will no longer be announced. The government will allow existing sugar factories to be privatized and new factories to operate.

Privatization of the TSC owned factories were announced to begin by May 2004. Only the Kutahya plant was turned over to the Privatization Administration last year. The Privatization Administration requested information about six other factories from TSC. There are seven or eight factories, which may be privatized. This is because their capacities are large and processing periods are long since they are located in the Central Anatolia Region. It will be difficult to privatize other factories since their capacities are smaller and processing periods are shorter.

TSC sugar production quota is expected to be lower during the upcoming years because TSC factories do not have the flexibility to reduce their selling prices and/or offer deferred payments as PANKOBIRLIK factories have. In addition, the control mechanisms on production of PANKOBIRLIK factories and cornstarch-based sweeteners if the quota requirements are met cannot be fully accomplished. These factors caused a reduction in sales for TSC and, as a result, TSC continues to increase its stocks. These stocks cause a reduction of the quota for TSC for the following year because treasury will not subsidize exports.

The 2004 Import Regime imposes a duty of 108 percent on the CIF value on sugar imports from the EU countries and 135 percent from all other origins. This represents a marginal decrease from the previous year's level of 136.5 percent.

Production

Turkey is expected to produce 14 MMT of sugar beets on 330,000 hectares in MY 2005, according to the production quotas announced by the Sugar Board. Out of this total, about 10.2 MMT of sugar beets are expected to be produced on about 240,000 hectares by Turkish Sugar Corporation (TSC) farmers and about 3.8 MMT of sugar beets are expected to be produced on about 90,000 hectares by the Central Union of Sugar Beet Producers Cooperatives (PANKOBIRLIK) farmers.

The entire beet sugar quota is allocated between the TSC and PANKOBIRLIK. At the beginning of MY 2005, the Sugar Board assigned TSC with a sugar production quota of 1.3 MMT (1,413,000 MT raw value). This is lower than the original TSC quota of 1,628,000 MT (1,797,000 MT raw value). The decrease was due to the carryover sugar stocks TSC had. PANKOBIRLIK was assigned a sugar production quota of 530,000 MT (576,000 MT raw value), including an increase of 44,000 MT (47,830 MT raw value), because of an expectation that the new Cumra factory (the construction of which started last September) will start processing sugar beets in MY 2005.

The MY 2005 sugar beet procurement price, which is the price for Quota A (the sugar of which can be sold in Turkey), was established at TL 98,909 per kilogram (for 16 percent polar sugar content). This price was announced parallel to the target rate of annual inflation, which is twelve percent. If the annual inflation is realized within three percent (higher or lower) this price will not be changed. If the inflation will be higher or lower more than three percent then the half of the difference will adjust this price. This is the base price and could fluctuate depending on the beet sugar content. This was the first time the sugar beet procurement price was announced before planting (in January 2004) as a requirement of the Sugar Law. MY 2004 beet procurement base price (for Quota A) was TL 88,000 per kilogram (for 16 percent polar sugar content).

The Turkish Sugar Industry has undergone major changes as a result of the new Sugar Law adopted in April 2001. The details of the new Sugar Law were given in the previous annual and semi annual sugar reports in 2002, 2003, and 2004. The total quota for MY 2005 (September 2004 – August 2005) is again 2,342,000 MT (refined value), which is similar to the quota in MY 2003 and MY 2004. This includes a quota of 234,100 MT for cornstarch-based sweetener, again the same as the last two marketing years. However, both in MY 2003 and MY 2004, the Council of Ministers, at the request of the industry, raised the cornstarch-based sweetener quota by 50 percent to 351,150 MT. The Council of Ministers has not yet announced if the cornstarch-based sweetener quota will be increased in MY 2005.

Turkey produces around 60,000 MT of honey annually.

Official beet production data for MY 2004 (September 2003 – August 2004) is not yet available. However, beet production is revised slightly downward because of lower yields due to the hot and dry weather during the summer months. The beet yield in MY 2004 was about 39 MT per hectare for TSC compared to about 43 MT per hectare a year ago. On the other hand, MY 2004 sugar yield was 14.12 percent for TSC and 14.21 percent for PANKOBIRLIK, both of which are slightly higher than the previous year's level (they were 13.86 percent for TSC and 13.05 for PANKOBIRLIK).

Sugar beets are produced throughout Turkey and are grown under contract. As part of these contracts, factories require specific crop cultivation techniques for the region. Beets generally are grown in three or four year rotations with cereals, pulses, fodder crops and sunflower. Planting begins as early as February and continues through May with harvest

from late July through November. Approximately 380,000 farms grow sugar beets in Turkey. The TSC and PANKOBIRLIK factories guarantee purchases of beets produced under contract. Planting started late this year due to colder than normal weather with more rains in the Marmara, Aegean, and Mediterranean Regions and heavy snow in Eastern and Central Anatolia.

Farmers contracting with the TSC are obliged to use TSC-supplied seeds. Although they are free to purchase fertilizer from anywhere they wish, they generally prefer to use TSC fertilizers because payment is deducted from the balance a farmer receives after the harvest. Final payments may not be received until March in the following year or even later. Since the final payment represents a significant portion of his total return, the risk 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 factory or other central collection points.

Consumption

The total number of sugar factories in Turkey is 30, of which 25 are fully owned by the TSC. The other five factories are jointly owned by the TSC in conjunction with other entities. Three of these factories, located in Konya, Kayseri and Amasya, are co-owned by PANKOBIRLIK. One of the other two factories, located in Kutahya, was transferred to the Privatization Administration to be privatized last fall. The second of the other two, located in Adapazari, has not been operating since the major earthquake in 1999. PANKOBIRLIK's new factory in Cumra may start producing in MY 2005. Each factory is assigned a geographic region and farmers within that region may contract with the factory to produce sugar beets. PANKOBIRLIK's factories function independently and are supervised by their own executive boards.

TSC bought 9,131,000 MT of sugar beets for about TL 830 trillion (or about USD 650 million) in MY 2004, compared to TL 936 trillion (or about USD 535 million) the year before. Since part of this was paid in advance, TSC still owes about half of this amount (TL 430 trillion) to farmers. All debts must be paid by the end of April in order to avoid interest payments. Similarly, PANKOBIRLIK factories procured 3,444,000 MT of sugar beets worth about TL 325 trillion (or about USD 250 million) and have paid nearly one half of this total (TL 160 trillion) so far. PANKOBIRLIK factories procured about 4.4 MMT of beets and paid about TL 350 trillion (or about USD 200 million) in MY 2003.

Annual per capita sugar consumption is estimated to be around 30 kilograms (refined basis).

Beginning in MY 2003, TSC and PANKOBIRLIK are setting ex-factory prices independently. PANKOBIRLIK may offer reduced prices and/or deferred payments to their customers. The following table provides the ex-factory prices of TSC (TL per kilogram, 8 percent value-added tax [VAT] included) which, have not changed since the last Annual Report (TU3007) dated April 2, 2003.

Type of Sugar	April 1, 2003
Crystal Sugar:	Turkish Lira
- In 50 kilogram bags	1,512,000
Cube Sugar:	
- In 50 kilogram bags	1,642,680
- In 1 kilogram box (25 boxes)	1,736,640

(As of April 7, 2004, USD 1.00 is approximately TL 1,320,000)

Sugar retail prices are not regulated. Consumption of sugar substitutes, including glucose, HFCS, and artificial sweeteners is increasing due to increasing demand for a variety of sweetener products, and the economics of sweetener production. There are three international and two local companies currently producing cornstarch-based sweeteners, with total annual capacity of 900,000 MT. Turkey applies high duties on corn imports, which results in higher production costs for fructose and glucose.

The cornstarch-based sweetener producers have again asked the GOT to raise the quota for cornstarch-based sweeteners by 50 percent. Currently the cornstarch-based sweeteners receive ten percent of the total sugar quota. The ten percent quota is significantly below the industries production capacity. The industry has been arguing that its quota should be adjusted to reflect dry solid content of the products, and glucose production should be excluded from the overall quota since it is not included under the EU system.

Trade

TSC reduced its sugar exports in recent years since the level of production and carryover stocks were decreased due to the reforms in the sugar industry. TSC used to export large quantities (through subsidized exports) a few years ago in order to reduce its large inventories.

Turkey is not expected to export any sugar in MY 2005 since no export subsidy will be available. TSC should complete all of its subsidized exports remaining from MY 2003 in MY 2004 (September 2003 – August 2004). In MY 2003 Georgia was the main destination for Turkish sugar followed by Iraq and Azerbaijan. During the first four months in MY 2004, however, Iraq became the major destination followed by Georgia.

MY 2003 trade matrixes present trade data for the entire marketing year (September 2002 – August 2003) while MY 2004 trade matrixes include data only for the first four months (September 2003 – December 2003).

Stocks

Official statistics for stocks are not available. PSD stock estimates are based on information received from both public and private sources. Sugar stocks declined in recent years due to the reduced production quota. However, stocks in MY 2005 are projected to increase slightly compared to in MY 2004 parallel to the projected increase in production. According to industry sources, TSC will have almost all of the stocks.

Policy

Production Policy

The Sugar Law presumes that domestic demand will be met 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 IMF obligations. At that time, sugar beet procurement and ex-factory sugar prices will no longer be announced. The government will allow existing sugar factories to be privatized and new factories to operate.

The Sugar Board is charged with studying the overall supply and demand for sugar and sweetener in Turkey during the first five years of the application period, which started in MY 2003. The Board is also responsible for establishing production quotas for sugar and sweeteners based on this information. Each factory has its own quota based on production levels during the past three years (with some possible adjustments for new factories). Unused quotas can be cancelled.

Neither beet nor cornstarch-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 forces them to operate at about 25 percent of their existing capacity and threatens the viability of their investments. The Sugar Law allows the Council of Ministers to increase the quota, but this decision is politically sensitive. The quota was increased both in MY 2003 and MY 2004 and cornstarch-based sweetener producers were allowed to produce 351,150 MT. Demand for cornstarch-based sweeteners is increasing due to increases in the beverage and food industry as a result of an improving economy. A similar increase in the quota for MY 2005 has not yet been announced. While cornstarch-based sweetener producers argue that their investments should be protected from this type of regulations, beet sugar producers argue that an increase in cornstarch-based sweetener production quotas would result in lower prices for beet sugar.

Privatization of the TSC owned factories was announced to begin by May 2004. Only the Kutahya plant was turned over to the Privatization Administration last fall. The Privatization Administration requested information about six other factories from TSC. There are seven or eight factories, which may be privatized. This is because their capacities are large and processing periods are long since they are located in the Central Anatolia Region. On the other hand, it will be difficult to privatize other factories since their capacities are smaller and processing periods are shorter.

The TSC sugar production quota is expected to be lower during the upcoming years because TSC factories (unlike PANKOBIRLIK) do not have the flexibility to reduce their selling prices and/or offer deferred payments. These factors cause a reduction in sales for TSC and, as a result, TSC continues to build up its stocks. These stocks cause a reduction for the subsequent year's quota because the Treasury will not subsidize exports.

Trade Policy

The 2004 Import Regime imposes a duty of 108 percent on the CIF value on sugar imports from the EU countries and 135 percent from all other origins. This represents a marginal decrease from the previous year's level of 136.5 percent.

Statistical Tables:

PSD Table for Sugar Beets

Turkey Sugar Beets							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		09/2002		09/2003		09/2004	MM/YYYY
Area Planted	372	372	330	315	0	330	1000 HA
Area Harvested	370	370	330	314	0	330	1000 HA
Production	16396	16396	14100	12575	0	14000	1000 MT
TOTAL SUPPLY	16396	16396	14100	12575	0	14000	1000 MT
Utilization for Sugar	16396	16396	14100	12575	0	14000	1000 MT
Utilizatn for Alcohol	0	0	0	0	0	0	1000 MT
TOTAL UTILIZATION	16396	16396	14100	12575	0	14000	1000 MT

PSD Table for Centrifugal Sugar

Turkey Centrifugal Sugar							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		09/2002		09/2003		09/2004	MM/YYYY
Beginning Stocks	434	434	764	730	609	565	1000 MT
Beet Sugar Production	2345	2345	1875	1915	0	1990	1000 MT
Cane Sugar Production	0	0	0	0	0	0	1000 MT
TOTAL Sugar Production	2345	2345	1875	1915	0	1990	1000 MT
Raw Imports	0	0	0	0	0	0	1000 MT
Refined Imp. (Raw Val)	1	1	0	0	0	0	1000 MT
TOTAL Imports	1	1	0	0	0	0	1000 MT
TOTAL SUPPLY	2780	2780	2639	2645	609	2555	1000 MT
Raw Exports	0	0	0	0	0	0	1000 MT
Refined Exp. (Raw Val)	116	150	100	150	0	0	1000 MT
TOTAL EXPORTS	116	150	100	150	0	0	1000 MT
Human Dom. Consumption	1900	1900	1930	1930	0	0	1000 MT
Other Disappearance	0	0	0	0	0	0	1000 MT
Total Disappearance	1900	1900	1930	1930	0	1960	1000 MT
Ending Stocks	764	730	609	565	0	595	1000 MT
TOTAL DISTRIBUTION	2780	2780	2639	2645	0	2555	1000 MT

Export Trade Matrix for Sugar

Turkey
Centrifugal Sugar

Time Period	Sep.02-Aug.03	Units:	Metric Tons
Exports for:	2003	Sep.-Dec.03	2004
U.S.	9	U.S.	2
Others		Others	
Georgia	75398	Iraq	80820
Iraq	15893	Georgia	21779
Azerbaijan	14829	Northern Cyprus	1624
Northern Cyprus	3745	Russia	1087
United Arab Em.	1462	Germany	1000
Russia	1129	Turkmenistan	435
Germany	571	France	324
France	430	Israel	115
Israel	167	Azerbaijan	111
Yugoslavia	163	Bulgaria	65
Total for Others	113787		107360
Others not Listed	35307		156
Grand Total	149103		107518

Import Trade Matrix for Sugar

Turkey
Centrifugal Sugar

Time Period	Sep.02-Aug.03	Units:	Metric Tons
Imports for:	2003	Sep.-Dec. 03	2004
U.S.	11	U.S.	10
Others		Others	
United Kingdom	514	United kingdom	176
Germany	257	France	54
France	69	Germany	46
Italy	50	Italy	10
Spain	27	Spain	6
United Arab Em.	22		
Saudi Arabia	1		
Total for Others	940		292
Others not Listed	95		
Grand Total	1046		302