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Turkey

Sugar Semi-annual

Turkey Sugar Semi-annual

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Report Highlights:

Lower polarity rates in the last two harvest seasons and unchanged sugar quotas led to a substantial increase in sugar imports in 2015. Eventually, total sugar quota increased six percent in MY 2016/17 where total beet sugar quota is announced as 2.5 MMT and the starch based sugar quota is 265,000 MT. As a result of the increase in quotas, Turkey's sugar beet plantation is expected to increase twenty five percent in MY 2016/17 and the sugar production is expected to be 2.5 MMT.

Executive Summary

Lower polarity rates in the last two harvest seasons led to a deficiency in the 'C' quota sugar demanded by exporter confectionary producers which resulted in a substantial increase in sugar imports in 2015. As a result, after remaining the same for the past two marketing years, total sugar quota increased six percent in MY 2016/17.

Turkey's sugar beet production is expected to increase to 17.5 million MT from a harvested area of 300,000 hectares. Favorable weather conditions led to increased polarity rates in sugar beets which resulted in a fifteen percent increase in the production of sugar. Hence, sugar production is expected to increase to 2.5 million MT in MY 2016/17.

The Sugar Board had prepared a draft regulation that would change the current Sugar Law, but all regulatory affairs were interrupted after the coup attempt in July 2016, which also puts privatization efforts on hold.

Commodities:

Sugar Beets,
Sugar, Centrifugal

Production: Sugar beets

The increase in quotas resulted in the production of 17,500,000 MT of sugar beets from a harvested area of 300,000 hectares in MY 2016/17.

Sugar beets are planted in 4-year rotations with corn, wheat, barley, potatoes and sunflowers. Factories begin processing sugar beets in the beginning of October and finish in January, in a period called the *campaign period*.

Sugar beet yields have been increasing steadily in the past ten years due to the adoption of modern agriculture techniques and higher quality seeds. Currently average yield is approximately 5.8 metric tons per hectare. The yields in the Central Anatolia region are much higher than the Turkey average due to climatic factors and irrigation. Sugar beets require an average of 65 kg of water per square meter and all the plantations in Central Anatolia use either drip irrigation or sprinklers.

Sugar beet prices have been announced as 191 TL/MT (62 USD) for MY 2015/16 and are expected to be the same for MY 2016/17 as well. This is the price for 16 polarity beets. Beets with higher polarity rates get an extra 4 USD per each degree of polarity increase. The favorable weather conditions in 2016 led to higher polarity rates in sugar beets, which mean more income for the farmers. As for other production costs, there is a rise in the use of herbicides due to the increase in labor costs.

Production: Centrifugal Sugar

Turkey's sugar sector is regulated by quotas set by the Sugar Board. The table below provides the production quotas for the past and current marketing years as thousand metric tons.

(1000 MT)	2015/2016 MY			2016/2017 MY		
	A Quota	B Quota	TOTAL	A Quota	B Quota	TOTAL
Beet Sugar	2,250	112.5	2,362.5	2,385	119.25	2,504.25
Starch Based Sugar	250	-	250	265	-	265
Grand Total	2,500	67.5	2,612.5	2,650	119.25	2,769.25

The “A quota” is the amount of sugar that the producers can market domestically. The “B quota” is an additional margin allowed for producers. At the end of the campaign period, any excess sugar produced by the factories above their allocated quotas is sold as C sugar to exporters at world prices.

There are 33 sugar beet refineries in Turkey, 25 of which belong to the state-owned *Turkiye Şeker Fabrikalari A.Ş.* (*Turk Şeker*). Total production capacity of the 33 beet sugar factories is 3.1 million metric tons (MMT) per year, and the size of the beet-sugar sector is valued at more than US\$ 3 billion.

While the daily average beet processing capacity of the 25 factories under *Turk Seker* is 3,730 MT per day, the average beet processing capacity of private sector factories is 8,125 MT.

Production: Starch-Based Sweeteners (SBS)

There are six starch based sweetener (SBS) producers and the total production capacity of these six SBS factories is 1 MMT per year. The corn used by these producers is grown domestically.

Turkey's corn production increased 52 percent in the last decade and exceeded 6 million MT. With the development of animal husbandry, and shrinking of cotton plantations as well as the introduction of new corn fields in the Southeast region, corn production increased to 6.4 million MT in 2015 and is expected to be 6.3 million MT in 2016.

B quota is not allocated for SBS producers, but the Cabinet has the right to increase or decrease the A quota up to 50 percent annually (they have always exercised this right towards increase in the past years). For MY 2016/17, the SBS quota has also increased six percent, in line with the increase in beet sugar quotas. In this respect, SBS production is expected to be 265,000 MT for MY 2016/17.

As per the domestic sales figures of the Sugar Board, Starch Based Sweetener producers utilize 80 percent of their production quotas to produce isoglucose, referred to as High Fructose Corn Syrup, and 20 percent for glucose syrup production.

Consumption

Beet sugar is consumed 80 percent by industry and 20 percent by households. The increase in home-use and industrial sugar consumption appears to be correlated with the increase in population and GDP.

Currently, Turkey's total annual sugar and sweetener consumption is around 2.5 MMT, where beet sugar accounts for 2.2 MMT, SBS accounts for approximately 250,000 MT, and the unregistered (gray trade) sugar accounts for the remainder. The portion of SBS in total sugar consumption is increasing due to increased utilization by industry.

Turkey's annual per capita consumption of total sugar is estimated to be 30 kg (calculated by dividing total sugar production by total population).

Stocks

Unchanged production quotas, helped to deplete Turkey's sugar stocks over the last few years. Any remaining stocks would belong to Turk Seker and they try to sell this stock at discounted prices (ranging from 5 percent to 8 percent, depending on the amount purchased) before the beginning of the new campaign period. Ending stocks are expected to be 260 MT in MY 2016/17 which is subject to decrease depending on the exports.

Trade

As a result of the decrease in sugar production in the past years, Turkey's sugar imports skyrocketed in MY 2015/16 and are expected to reach 250,000 MT by the end of September 2016.

The increase in beet sugar production in MY 2016/17 is expected to reflect on trade figures as a decline in imports and increase in exports in the upcoming market year. In this respect, Turkey's sugar imports are expected to fall back to 25,000 MT and exports are expected to increase to 50,000 MT in MY 2016/17.

Export & Import Trade Matrix

The tables below give quantities in metric tons for refined sugar in solid form (HS Code: 170199)

Export Trade Matrix

<i>Exports to</i>	<i>Oct 2014 – Sep 2015</i>	<i>Oct 2015 – Jul 2016</i>
Azerbaijan	7,758	6,575
Somalia	0	5,000
Turkish Rep. of Northern Cyprus	589	332
Syria	140	76
United States	20	36
Australia	36	24
Turkmenistan	58	17
Iraq	48	16
Kuwait	63	2
Europe Free Zone	269	0
Israel	20	0
Lebanon	43	0

Others not listed	358	69
World Total	9,402	12,147

Import Trade Matrix

<i>Imports from</i>	<i>Oct 2014 – Sep 2015</i>	<i>Oct 2015 – Jul 2016</i>
Brazil	29,370	69,968
Algeria	32,812	61,542
Morocco	19,630	21,055
Germany	258	19,778
India	8,892	16,023
Egypt	0	15,574
United Arab Emirates	0	7,360
France	3,536	4,725
United Kingdom	3,183	599
Thailand	2000	0
United States	15	35
Others not listed	1,481	1,897
Grand Total	101,177	218,556

Marketing:

Turk Şeker and private producers are also wholesalers who handle the marketing of sugar to retailers. All SBS producers and distributors are private.

Currently the wholesale price of a 50 kg bag of crystal sugar is 145 TL (48 USD) and a 50 kg bag of cube sugar is 179 TL (59 USD) (including 8 percent value added tax [VAT]) (exchange rate for 1 USD is 3 TL as of October 2016). Sugar prices for MY 2016/17 have not been declared yet but are expected to be close to today's figures. Currently the wholesale price of 1kg of sugar is 2.90 TL (0.97 USD) and the retail price is 4.60 TL (1.54 USD)

There is currently no additional tax application for products with added sugars like the recent implementation in UK. The increase in sugar imports does not mean an increase in domestic consumption. It is for the demand of confectionary exporters who use this sugar in their export products. Exporters of sugar products can buy C quota sugar at world prices, and bring the sugar into free zones under the Inward Processing Regime, which exempts them from the 135 percent import duty imposed on sugar imports, with the precondition that they export the end product and not sell it domestically.

Policy:

Production Policy and Privatization

Quotas are significantly lower than the established production capacity of both beet sugar and SBS processing plants. This challenges all producers and leads to a consistent struggle of seeking higher quotas.

As a result of the large underutilized capacity, the Sugar Board prepared a draft communique to change the Sugar Law that has been in effect since 2001. The communique claims that the sugar sector in Turkey has undergone substantial changes and that there have also been global changes which necessitate a new law. The major changes that this draft proposes are summarized below:

- 1) Currently, the SBS quota is 10 percent of the beet sugar (A) quota and the Cabinet has the right to increase or decrease this quota an additional 50 percent (which creates a range of between 5 percent and 15 percent). The new law proposes to set the quota at a fixed 15 percent.
- 2) The Sugar Board shall be restructured with broader authorities and be converted into “Sugar Sector Regulation and Auditing Board”.
- 3) Sugar shall be classified as food purpose and non-food industry purposes, and the sugar that will be used for non-food purposes shall be excluded from the announced quota regime.

The sugar beet producers have raised concerns with this draft law claiming that it is biased towards supporting the SBS sector and would eventually hurt the sugar beet sector.

The law also calls for privatization efforts to continue, but the latest bids were cancelled by order of the Prime Minister. The sector wants the factories subject to privatization to be purchased by the sugar beet producers (cooperatives) so that the social aspects of the factories in Eastern Turkey can still be continued. For this purpose, they have proposed for the separation of factories’ land from the plants, and only to sell the plants, in an effort to discourage the purchase of the land by construction companies that are mainly interested in the land itself.

For more details please refer to the Sugar Annual Report dated April, 2016 (TR6018).

Production, Supply and Demand Data Statistics:

Centrifugal Sugar

Sugar, Centrifugal Market Begin Year	2014/2015		2015/2016		2016/2017	
	Oct 2014		Oct 2015		Oct 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Turkey						
Beginning Stocks	103	103	0	0	0	35
Beet Sugar Production	2055	2055	2000	2000	2500	2500
Cane Sugar Production	0	0	0	0	0	0

Total Sugar Production	2055	2055	2000	2000	2500	2500
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	110	110	170	250	25	25
Total Imports	110	110	170	250	25	25
Total Supply	2268	2268	2170	2250	2525	2560
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	14	14	10	15	50	50
Total Exports	14	14	10	15	50	50
Human Dom. Consumption	2254	2254	2160	2200	2200	2250
Other Disappearance	0	0	0	0	0	0
Total Use	2254	2254	2160	2200	2200	2250
Ending Stocks	0	0	0	35	275	260
Total Distribution	2268	2268	2170	2250	2525	2560
(1000 MT)						

Sugar Beets

Sugar Beets Market Begin Year	2014/2015		2015/2016		2016/2017	
	Sep 2014		Sep 2015		Sep 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Turkey						
Area Planted	288	288	290	290	300	310
Area Harvested	285	285	288	288	295	300
Production	16500	16500	16632	16632	17500	17500
Total Supply	16500	16500	16632	16632	17500	17500
Utilization for Sugar	16500	16500	16632	16632	17500	17500
Utilization for Alcohol	0	0	0	0	0	0
Total Distribution	16500	16500	16632	16632	17500	17500
(1000 HA) ,(1000 MT)						