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GAIN Report

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Turkey

Sugar Semi-annual

Enter a Descriptive Report Name

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Report Highlights:

The decreased sugar quotas from last year led to a decrease in the area of sugar beets planted in MY 2011. From a planted area of 322,453 hectares, 18.3 MMT of sugar beets were harvested and 2.28 MMT of beet sugar was produced. The quotas remain unchanged for MY 2012, therefore post estimates 330,000 hectares will be planted and sugar beet production will be 18.5 MMT. Accordingly, sugar production is expected to remain at 2.3 MMT in MY 2012.

Executive Summary:

Due to favorable weather conditions and high yields this year, sugar production exceeded the expectations. With the increased use of high-quality seeds, fewer plantations were damaged and a harvest rate of 99% has been attained. All these factors helped Turkey's total centrifugal sugar production reach 2.28 MMT. The considerable increase in production for 2 consecutive market years reflected positively in exports, which increased a total of nearly US\$ 43.6 million. Post estimates that since the quotas for MY 2012 remain the same as MY 2011, the planted area will remain at 330,000 hectares and total sugar beet production will be 18.5 MMT. The resulting sugar production is estimated to remain at 2.3 MMT.

The continued restriction in production set by the quotas led to public disputes between the starch-based sugar and beet-sugar producers since both parties are fighting for a greater share of the announced quota. This struggle is bound to continue next year as well.

Commodities:

Sugar Beets

Sugar, Centrifugal

Production:

There are 33 sugar beet refineries in Turkey and six starch based sugar (SBS) producers. Of these, the state-owned Turk Seker (operating under the Ministry of Industry and Trade) owns 25 sugar beet refineries, and the remaining 8 are private. The size of the beet-sugar sector is over US\$ 3 billion. Total production capacity of the 33 beet sugar factories is 3.1 MMT per year, and the total production capacity of the 6 SBS factories is 1 MMT per year.

Production: Sugar beets

The average sugar beet yield is 4.260 kg per 1000 m² in Turkey. This figure changes according to region. Yields are higher in the Central Anatolian Region and lower in the Eastern Region. The sugar processing facilities in the east of Turkey are government-owned, and they were established to create employment and to help the economic development of the region rather than to make profit.

In MY 2011, farmers contracted by the state-owned refineries and private factories have produced 18.3 MMT of sugar beets on 322,453 hectares.

Post expects the harvested area in MY 2012 to remain at 330,000 HA due to unchanged production quotas, and the sugar beet production to be around 18.5 MMT. These levels are similar to MY 2011.

Production: Centrifugal Sugar

Turkey's centrifugal sugar production is limited by quotas. The total production quota for MY 2011 was 2,532,000 MT. Ninety percent of this quota (the "A quota"), which amounts to 2,200,000 MT, has been allocated to beet sugar producing companies and 10% (244,400 MT) has been allocated to starch based sugar (SBS) producers in MY 2011. However, the SBS allocation was later increased by 50% and reached 366,600 MT. These quotas remain unchanged for MY 2012.

Sugar beets thrive when there is a significant difference between daytime and nighttime temperatures. 2011 has been a good year in this respect, which eventually lead to a higher polarity factor. This means a greater amount of sugar produced from a given amount of beets. In light of these factors, and against the reduced quotas announced by the Sugar Board (compared to MY 2010), exports grew by 25% in 2011.

The price of crystal sugar provided by Turk Seker in MY 2011 was 1.97 TL/kg (excluding 8% VAT). The price of cube sugar was 2.44 TL/kg. Prices in MY 2012 are expected to be higher due to the foreseen decrease in stocks as a result of unchanged quotas and growing demand.

Production: Starch-Based Sweeteners (SBS)

The Sugar Law allows the Council of Ministers (COM) to increase or decrease the allocated SBS production quota by up to 50 percent regardless of the quota allocated to the sugar beet industry. Since the beginning of the quota system, the COM had increased the SBS quota every year.

In MY 2011, the SBS quota was announced as 244,400 MT initially, and then increased 50% on June 29th 2011 to reach 366,600 MT. The same pattern is expected to continue in MY 2012 as well.

Currently the SBS producers, composed of five factories, are utilizing about 30% of their total capacity and industry sources estimate a market demand of 600,000 MT per year. Due to the quota being lower than the demand (despite of the incremental increases granted by COM every year) the remaining difference in demand is supplied illegally through smuggling from neighboring countries (primarily Syria) and by unregistered production outside the quota.

Consumption:

As the population increases, consumption also increases in both home-use and industrial sugar. The increase in sugar consumption also seems correlated with the increasing GDP. Currently, industry sources agree that total sugar consumption in Turkey including SBS is around 3 MMT per year, well above the amount of sugar produced under official quotas. In order to meet the increasing demand, out-of-quota sugar is sourced either by unregistered production or smuggling. 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" from the southern border and another 100,000 MT are smuggled through other means.

Of the 2.8 MMT of annual sugar and sweetener consumption SBS accounts for approximately 350,000 MT, beet sugar accounts for 1,900,000 MT, and unregistered and smuggled sugar accounts for the

remainder. Annual sugar and sweetener consumption is estimated to be around 40 kilograms per person, and the portion of SBS in total sugar consumption is increasing every year.

In order to fight obesity in schools and to promote healthy nutrition the Ministry of Education banned the sale of fast-food like hamburgers, chips and fried goods, and all sodas including energy drinks in school cafeterias. Instead yogurt, ayran (a traditional Turkish drink made by yogurt and water) and fresh fruit will be sold. This decision will affect 16 million students in the 2011-2012 education year.

Trade:

Turkey’s sugar exports increased 25% in MY 2011. Azerbaijan used to be a major importer of refined Turkish sugar, but this year Azerbaijan switched to Iran as a provider of raw sugar. However, Iraq emerged as an important market and Turkish sugar exports to Iraq reached a total of US \$26.5 million. This constitutes nearly 80% of Turkey’s total sugar exports. Syria also emerged as a new export market. The Current “C” quota sugar price for exports is US \$697/MT; while the current “A” quota sugar factory selling price is YTL 1.97, which amounts to US \$1.07/MT (Conversion rate as of Sept 27, 2011 is 1 USD=1.84 TL).

Exporters of sugar products purchase C quota or imported sugar for inward processing and do not pay duty on the amount of sugar used in their exported products. In the past, the Sugar Board penalized companies for using “C” quota sugar in their domestically marketed products, and on December 21, 2006 amended the regulations on the usage of “C” quota sugar. The legislation states that companies can only buy “C” quota sugar after they present export documents to the Sugar Board. In practice, exporting companies now get reimbursed after their actual exports. Moreover, with this legislation, fruit juice exporting companies could no longer use “C” quota sugar. This caused the industry to use starch-based sweeteners rather than beet sugar. In addition, with the 2006 law, sales to Free Trade Zones are not accepted as exports.

The tariff rate on sugar imports to Turkey remains at 135 percent on the CIF value in 2011 which makes Turkey’s import figures negligible. The import duties on products containing sugar such as candy, cookies, and chocolates vary between 8.3 percent and 15.4 percent, plus an additional tax called “agricultural contribution” is applied that can be as high as US \$400 per 100 kilograms depending on the starch/glucose ratio and milk fat percentage. This procedure is adopted from the EU system. Even though Turkey has a trade agreement with Bosnia Herzegovina which allows for duty-free imports of sugar, there is no significant amount of sugar trade between the two countries.

Export Trade Matrix

The table below gives quantity figures for refined sugar in solid form (HS Code: 170199)

Export Trade Matrix

	Time Period	
	Sept 2009-July 2010	Sept 2010-July 2011
Exports to:		

United States	18	United States	12
Azerbaijan	4,720	Azerbaijan	3,648
Iraq	34,308	Iraq	39,961
Kosovo	59	Pakistan	500
Israel	20	Syria	5,094
Northern part of Cyprus	1,443	Northern part of Cyprus	1,183
Lebanon	111	Lebanon	109
UAE	13	UAE	24
Others not listed	122	Others not listed	736
World Total	40,814	World Total	51,267

Import Trade Matrix

The table below gives quantity figures for refined sugar in solid form (HS Code: 170199)

Import Trade Matrix

	Time Period	
	Sept 2009-July 2010	Sept 2010-July 2011
Imports from:		
United States	0	United States 0
United Kingdom	3,661	United Kingdom 2,823
Germany	162	Germany 156
France	158	France 1221
UAE	50	UAE 0
Iraq	55	Iraq 26
Others not listed	0	Others not listed 52
Grand Total	4,086	Grand Total 4,278

Stocks:

As a result of the increase in sugar production in MY 2010, sugar exports increased considerably and ending stocks decreased from 500,000 MT to 250,000 MT by the end of the year. Post expects sugar stocks to decrease even further in MY 2011 due to the sales and export figures of MY 2010 and the foreseen increase in consumption.

Policy:

Production Policy and Privatization

The Sugar Law of 2001 formed a Sugar Board which operates under the Ministry of Industry and Trade. 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. For newly established refineries, the quota is determined by their reported capacity.

This arrangement was initially meant to protect the beet producers and to regulate the sector, but now seems to be causing more problems than solutions. The factories are utilizing only half of their capacities and because they are limited to supply beets only from their own region, factories in the East

are constantly running at a loss, which the government tries to make up for with the profits that Central Anatolian factories make.

Despite the incremental increase granted every year, the production quotas announced still remain below the built-up capacity of sugar processing plants. The farmers are also willing to produce more beets and plant in larger areas, but are not allowed to do so. Eventually, the distribution of the production quotas creates problems for both beet sugar and SBS producers as both parties struggle to get a bigger share of the announced quotas.

There have been several attempts to change the Sugar Law, but so far all have failed. Industry sources note that the Sugar Board's existence is closely linked with completion of privatization efforts and that its authority will be extended until the conclusion of privatization of government-owned sugar factories. However, there have been no new developments pertaining to privatization in MY 2011. Even though the privatization of public factories belonging to Turk Seker is still at a suspended state, the private sector is noticeably shifting gear. While the daily average beet processing capacity of the 25 factories under Turk Seker is 3,730 MT, the average beet processing capacity of private sector factories have reached 8,125 MT per day. Capacity utilization rates also follow a similar trend – while the annual sugar production capacity of the former is 85,000 MT, it is 126,000 MT in private sector.

Marketing: Turk Seker and other private producers, wholesalers, and retailers handle the marketing of sugar. All SBS producers and distributors are private. The government determines the price to be paid to farmers for their beets by the factories, and also the price of the sugar that the factories (including private factories) will produce.

Production, Supply and Demand Data Statistics:

Sugar Beets Turkey	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted		350		330		330
Area Harvested		340		323		325
Production		17,720		18,300		18,500
Total Supply		17,720		18,300		18,500
Utilization for Sugar		17,720		18,300		18,500
Utilization for Alcohol						
Total Distribution		17,720		18,300		18,500

1000 HA, 1000 MT

Sugar, Centrifugal Turkey	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Sep 2009		Market Year Begin: Sep 2010		Market Year Begin: Sep 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	505	505	587	549	422	327
Beet Sugar Production	2,531	2,530	2,275	2,274	2,280	2,300
Cane Sugar Production	0	0	0	0	0	0
Total Sugar Production	2,531	2,530	2,275	2,274	2,280	2,300
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	5	5	5	5	5	5
Total Imports	5	5	5	5	5	5
Total Supply	3,041	3,040	2,867	2,828	2,707	2,632

Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	54	41	45	51	40	40
Total Exports	54	41	45	51	40	40
Human Dom. Consumption	2,400	2,450	2,400	2,450	2,400	2,450
Other Disappearance	0	0	0	0	0	0
Total Use	2,400	2,450	2,400	2,450	2,400	2,450
Ending Stocks	587	549	422	327	267	142
Total Distribution	3,041	3,040	2,867	2,828	2,707	2,632
1000 MT						