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Sugar Semi-annual

Turkey Semi-annual Sugar Report 2010

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Report Highlights:
Due to favorable weather conditions, Turkey's sugar beet production for the MY 2010 was 17.27 MMT, the highest amount recorded in the last 9 years. Consequently MY 2010 total centrifugal sugar production has increased to 2.53 MMT. Sugar beet production in MY 2011 is forecast to be 14.0 MMT and the total sugar output in MY 2011 is forecast to be 2.2 MMT.

Executive Summary:

2010 has been a very generous year in terms of favorable weather conditions and precipitation. Therefore Turkey's sugar beet production for MY 2010 was 17.27 MMT from a harvested area of 324,000 hectares This substantial increase in the yield rate has been recorded as the highest figure in the last 9 years. Post estimates that the total sugar beet production for MY 2011 will be 14.0 MMT because the planted area this year is 318.500 hectares. The A sugar quota specified by the Sugar Board for the 2010 MY was 2,438 MT. For the MY 2011 the A quota is 2.2 MMT. Therefore, the post expects the **total** centrifugal sugar production to decrease to 2.4 MMT in MY 2011 due to quota restrictions. There has been no recent development in the field of privatization since the Council of State ruled out the 2009 bid results for the privatization of Portfolio C sugar factories.

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.

Production: Sugar beets

Sugar beets are produced mainly in the Central Anatolian Region of Turkey. The Sugar Board's 2009 official count of sugar-beet-producing farms is 187.937. While the number of farms is decreasing by the year yields is increasing. This is mainly due to the adaption of modern agriculture applications such as irrigation methods. As a result of these modern agriculture applications adopted by the farmers and the favorable weather conditions, the highest root yield (5,332 kg/da) and sugar yield (942 kg/da) ever in the history of Turkey has been achieved in MY 2010.

In MY 2010, farmers contracted by the state-owned refineries and private factories have produced 17.275 MMT of sugar beets on 324,000 hectares.

Post expects the harvested area in MY 2011 to decrease to 300,000 HA due to decreased production quotas for MY 2011 and the high amount of stocks to remain from this year.

Production: Centrifugal Sugar

Turkey's centrifugal sugar production is limited by quotas. The total production quota for MY 2010 had been 2,708,900 MT. Ninety percent of this quota (the "A quota"), which amounts to 2,438,000 MT, has been allocated to beet sugar producing companies and 10% (270,900 MT) has been allocated to starch

based sugar (SBS) producers in MY 2010. However, the SBS allocation was later increased by 50% and reached 406.350 MT.

Due to favorable weather conditions and high yields of this year, production exceeded the expectations and resulted in excess supply, which eventually led to higher stocks. In the light of these factors, the Sugar Board reduced the MY 2011 A quota by 6.3% to 2,228,000 MT. The starch-based sweetener (SBS) quota for MY 2011 is currently 244,000MT.

The price of crystal sugar provided by Turk Seker did not increase in MY 2010 and stayed at the 2009 rate of 1.9656 TL/kg (including 8% VAT). Due to excess supply, Turk Seker announced that it would sell at this price rate in 8 months deferred payment terms. Even though there was no actual decrease in the prices, this forward sale strategy brought the retail price of sugar down to the level of 2 TL/kg in the supermarkets whereas it used to be around 2,50 TL/kg. The price of starch based sugar in liquid form has been around 1.30 TL/kg. (As of September 27, 2010, the exchange rate for 1 USD is 1.47 TL)

The price expectations for MY 2011 are highly dependent on the consumption of the vast amount of stocks from this year and whether C sugar export will be permitted or not.

Production: Starch-Based Sweeteners (SBS)

There are five factories in Turkey producing starch-based sweeteners (SBS) under quota; and 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 (COM) to increase or decrease the 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. Currently, SBS producers are utilizing only about 30% of their capacity and industry sources estimate a market demand at 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 unregistered production.

Consumption:

Industry sources agree that total sugar consumption in Turkey is around 2.8 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 though 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 rate of SBS in sugar consumption is increasing every year.

Trade:

The cost of producing sugar from beets is much higher than producing it from cane. Therefore the average sugar price in Turkey is well above world prices. Since there are no export subsidies, Turkey's sugar exports are negligible. Manufacturing companies that use sugar in their exported products, however, are eligible to buy "C" quota sugar at world prices. The current "C" quota selling price is US $594/MT; while the current "A" quota sugar selling price is YTL 1,965, approximately US $1,310/MT. These exporters import sugar for inward processing and do not pay any duty on the amount of sugar used in their exported products.
Previously, the Sugar Board penalized companies for exploiting the "C" quota sugar used in their locally marketed products and amended the regulations on the usage of "C" quota sugar. The legislation which entered into force on December 21, 2006, 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 the actual export. Moreover, with this new legislation, fruit juice exporting companies will no longer be able to use "C" quota sugar. This industry generally uses starch-based sweeteners rather than beet sugar for nectar production. In addition, with the new law, sales to Free Trade Zones are not accepted as exports.

The tariff rate on sugar imports remained at 135 percent on the CIF value in 2010. 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 100 kilograms depending upon the starch/glucose ratio and milk fat percentage. This is adopted directly 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.

Stocks:

As a result of the 17.6% increase in sugar production compared to last year, the ending stocks increased by about 40.6% compared to MY 2009. While private companies are considering exports to reduce their bloated stocks, they are faced with a much lower international price of sugar and can only sell at a substantial loss. The public factories have organized a 12-20 month sales-on-account between August 16-September 1 to reduce their stocks. On the other hand it is expected that supplying the food-aid to be made to Pakistan from the local market will also help relieve the excessive sugar stocks.

Policy:

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.

Distribution of the production quotas creates problems from time to time for both sugar and SBS producers. 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 has been no new developments pertaining to privatization in MY 2010. The privatization of public factories belonging to Turk Seker is still at a suspended state.

Marketing:

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

Production, Supply and Demand Data Statistics: