

The Effect of Privatization of Sugar Factories on Sugar Beet Production

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Abstract

This study was written in order to reveal the reasons and results of the sugar factory privatizations made in 2018. While doing this, the changes in the sugar beet production of the provinces were taken into account. The idea of privatizing sugar factories has existed for many years. In the letter of intent written by the IMF in 2000, the need for privatization of sugar factories was clearly stated. and in this letter it is said that the privatizations should be completed by the end of 2001. However, at that time, although the government wanted to complete the privatizations, the judicial decisions stopped these privatizations. In 2018, privatization trials were carried out for 14 sugar factories and 10 of them were privatized in the same year. The uncertainty created by the privatization movement in 2018 caused all farmers to stay away from sugar beet production. While the state factories that continued their activities in 2019 managed to bring their production to the level of 2017, the privatized factories remained below the pre-privatization period production level. This can be seen as an indication that farmers stay away from privatized factories.

Keywords: Privatization, Sugar Beet, Türkiye

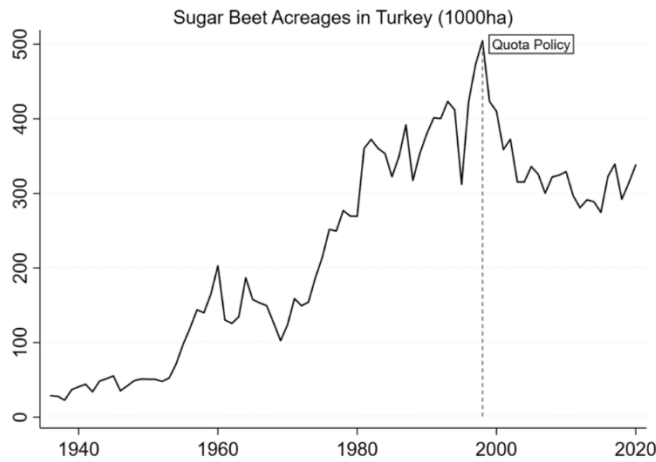
Özet

Bu çalışma 2018 yılında yapılan şeker fabrikası özelleştirmelerinin sebep ve sonuçlarını ortaya koymak amacıyla yazılmıştır. Bu yapılırken illerin şeker pancarı üretimindeki değişimler dikkate alınmıştır. Seker fabrikalarının özelleştirme düşüncesi uzun yıllardır vardı. 2000 yılında IMF tarafından yazılan niyet mektubunda seker fabrikalarının özelleştirme gereksinimi açıkça belirtilmiştir. ve bu mektupda özelleştirilmelerin 2001 yılının sonuna kadar tamamlanması gerektiği söylenmiştir. Ancak o dönemde, hükümet özelleştirmeleri tamamlamak istese de, yargı kararları bu özelleştirmelerin durmasına sebep oldu. 2018 yılına gelindiğinde ise 14 seker fabrikası için özelleştirilme denemesi yapıldı ve 10 tanesi aynı yıl içerisinde özelleştirildi. 2018 yılında özelleştirme hareketinin yarattığı belirsizlik, tüm çiftçilerin şeker pancarı üretiminden uzak durmasına neden oldu. 2019 yılında faaliyetlerine devam eden kamu fabrikaları üretimlerini 2017 yılı seviyesine getirmeyi başarırken, özelleştirilen fabrikalar özelleştirme öncesi dönem üretim seviyesinin altında kaldı. Bu durum, çiftçilerin özelleştirilen fabrikalardan uzak durduğunun bir göstergesi olarak görülebilir.

Anahtar Kelimeler: Özelleştirme, Şeker Pancarı, Türkiye

Introduction

Since 1923, sugar production and the number of sugar factories were increased, in this way, it was aimed to increase both the quality of life and farming skills of farmers. It was also seen as an important source of income to prevent the migration of the villagers to the city. In the first days of the Republic, sugar factories had the task of teaching farmers about farming. This social policy continued until the 1998 crisis, but due to the budget constraint in the 1998 crisis, the quota application for sugar beet was introduced. With this application, Sugar beet acreage started to decrease (Demirdogen, 2023).



Graph by Demirdogen, 2023. Source: SIS

As a result of the economic crises between 1990 and 2000, after the negotiations with the World Bank and the IMF, it was decided to privatize the state economic enterprises. First, tea and tobacco factories were requested to be privatized, then sugar factories were also requested to be privatized. In the Stand-By agreement signed with the IMF in 1999, a new Sugar Law was requested to be enacted together with the privatizations. The letters of intent (IMF, 2000) included the privatization

of sugar factories. After the agreement with the IMF, the subsidies given to sugar were abolished, but the attempts to privatize were not successful at that time, because the privatization attempts of the governments were stopped by judicial decisions.

On 20.02.2018, the tender process for the privatization of 14 factories (Afyon, Alpullu, Bor, Burdur, Çorum, Elbistan, Erzincan, Erzurum, Iğın, Kastamonu, Kırşehir, Muş, Turhal and Yozgat Sugar Factories) was initiated by the Prime Ministry Privatization Administration. At the end of the same year, the sale of 10 of these factories was completed. These factories have been transferred in such a way that production will be **mandatory for 5 years**. The sale did not take place as there were no buyers willing to pay the Kastomunu sugar factory at the desired levels. The sale of Burdur, Yozgat and Iğın Sugar factories was canceled by the Presidential decision because the companies that bought those factories did not fulfill the commitments. As a result of all these, Turkseker (The state organization) has 15 sugar factories, 6 sugar factories belong to cooperatives, and 12 sugar factories as private sugar factories. In addition, there are 5 factories that produce starch-based sugar, but since they export a large part of the products they produce, they do not need to be considered as an important sugar production source in the country.

With the sharing that privatizations will be made, the farmers preferred to produce other products instead of producing sugar beet, and for this reason, sugar beet production experienced a sudden

decline in 2018. In 2019, production returned to the old normal in provinces where there are non-privatized/public sugar factories. This shows the distrust of farmers towards privatization.

Literature Review

The privatization of sugar factories is an important issue, but in order to understand this, it is necessary to examine the effects of sugar factories. Erdinç (2017) presents a historical overview of the sugar industry in Turkey, tracing its development from its origins in the early 20th century to the present day. They describe the various policy measures that have been implemented over the years to support the sector, including measures to promote investment in sugar factories, improve agricultural productivity, and regulate the market for sugar.

According to Esturk (2018), even though agriculture is a sector that makes significant contributions to the economy and the capital accumulation process at the initial stage of economic development, the cost of sugar produced by the state in Turkey in 2018 is about twice the world average with a ton price of 900 dollars. The reason for this can be shown as the old technology production structure of public sugar factories with high employees. Despite the negativities of the sugar industry is in, the added value and social benefits it creates are high. Sugar beet farming, directly and indirectly, affects approximately 10 million people in Turkey. The privatization of some of the state-owned sugar factories in the sugar industry in Turkey and the fact that the high-tech sugar factories established by the private sector began to operate, increasing the level of productivity in the sector.

The study conducted by Cimenderoglu and Erenoglu (2021) examines the socioeconomic effects of sugar factories in Kastamonu, Turkey. One of the key findings of the study is the significant positive impact of sugar factories on the local economy, particularly in terms of employment and income generation. The authors note that the establishment of sugar factories has led to the creation of a large number of jobs, both directly and indirectly, and has also contributed to the growth of other industries such as agriculture and transportation. In addition, the analysis reveals that farmers are producing far from modern technologies such as soil analysis.

Demir (2017) attributes the inefficiency of sugar production in the region to the climatic conditions of the region. However, he emphasized that productivity can be increased with the right policies and investments to be made in districts where climate conditions are more suitable. He also underlined the social problems that would be caused by the privatization of the Kars sugar factory, which was in a state of privatization for a period.

It is necessary to look at the reasons why factories are demanded to be privatized as well as their impact on society. Unsal (2022) stated in his report that there are vital issues that need to be resolved for the sustainability of the sugar industry. While the share of sugar cane in sugar production was 63% in the 1980s, it is predicted that it will increase to 79% in 2022. Due to its higher cost, domestic sugar has no competitive power with cane sugar. Additionally, he adds that the use of ethanol as a fuel has made oil and sugar prices sensitive to each other.

The article (Erdal G. et al, 2007) addresses the importance of sugar beet production in Turkey and provides an overview of the sugar industry in the country. The authors then delve into the

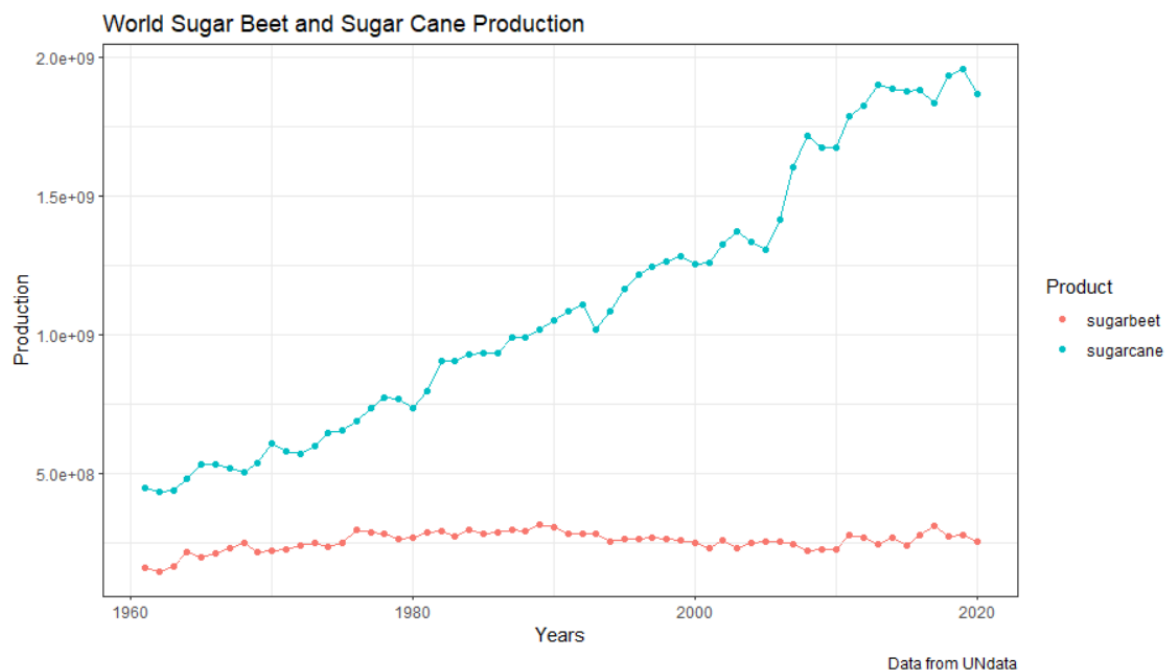
specific case of the Tokat province, examining the energy use and economic viability of sugar beet production in the region. They utilize a range of data sources, including field studies and surveys, to provide a detailed analysis of the energy inputs and outputs of sugar beet production in Tokat. This study reveals that due to the wrong fertilizer use, farmers are both economically damaged and endanger their environmental health. He also states that since the fields used in production are small/medium-sized, they use inefficient diesel fuel.

There are also studies on the effects of privatization, such as the article of Cinar et al. (2020) provide a technical analysis of sugar factories. The authors found that privatized sugar factories were not efficient, but achieved a relative productivity increase after privatization. They also state that only one of the state-owned sugar factories is efficient. They also state that even though the productivity increase is limited, the technology increase.

Alper Demirdogen (2023) argues that since 1923, the state has been using sugar factories as a policy tool to increase the social welfare of farmers. Therefore, farmers have high trust in public sugar factories. With the privatization move in 2018, there were decreases in production in 13 factories that were reported to be privatized. Because in this transition period, farmers preferred to avoid uncertainty and plant other crops.

Requirements for Privatization

Approximately 28% of world sugar production is produced from sugar beet and 72% from sugar cane. Sugar produced from sugar cane has a lower cost due to reasons such as the production of sugar cane, which can only be grown in tropical and sub-tropical regions, at a lower cost compared to sugar beet, and low processing costs (Kaya, 2015). Due to its costs, sugar beet does not have the power to compete with sugar cane. In addition, there is no difference in quality between the sugars that are produced. For these reasons, the transition from sugar beet production to sugar cane production is inevitable in the long run.



For these reasons, it is a fact that sugar production with sugar cane will reduce costs. However, sugar beet has been seen as a social policy tool in Turkey since the first days of the republic. The reason for this is the value created by sugar beet production.

- In addition to its economic value, sugar beet provides continuity in employment and agricultural production,
- One decare of sugar beet production provides employment of approximately 10 labor force,
- It causes 20% yield increase in the cereals planted after itself,
- Molasses and pulp formed as a result of processing sugar beet are used as animal feed. (Unsal, 2022).

Therefore, the social costs of switching to sugarcane production instead of sugar beet should not be neglected.

Tablo 11. Sugar imports-exports (thousands ton)

Years	Sugar Beats		Starch Based Sugar	
	Imports	Exports	Imports	Export
2012	5,5	33,4	11,0	104,3
2013	9	63,8	11,2	85,5
2014	4,6	15,8	13,2	105,9
2015	170*	9,8	15,7	167,2
2016	780**	16,3	32,4	192,8
2017	230***	3,8	56,2	193,4
2018	201	68,2	28,3	232,1
2019	169	30,3	22,7	232,0
2020	221	12,6	26,1	268,0
2021	49	296,6	22,5	326,0

*Source: Türkşeker, 2022 (Unsal, 2022)

As seen in the table, sugar beet import has always remained limited. Except for 2021, a significant import level could not be reached. In addition, the previously self-sufficient sugar market has had to import sugar from abroad in recent years. In addition, starch-based sugar

(*) 165.9 thousand tons are sugar exported within the scope of DIR. The remaining 3,7 thousand tons of sugar are special-purpose (pharmaceutical, laboratory, etc.) sugars that cannot be produced domestically.

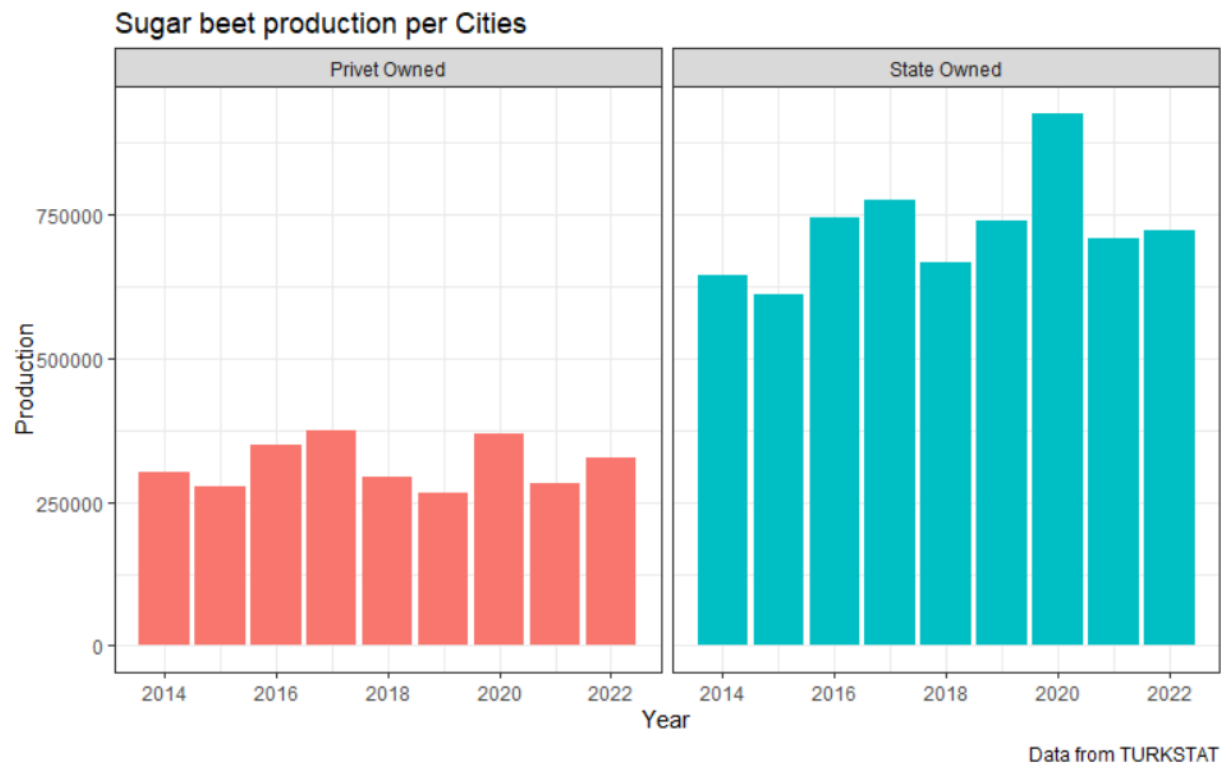
(**) 240 thousand tons of sugar is exported within the scope of Inward Processing Regime (DIR). 39.5 tons of it is imported with a direct import license, and the remaining 0.4 thousand tons of sugar is special-purpose sugar that is not produced domestically.

(***) 227.6 thousand tons of this amount is sugar exported within the scope of Inward Processing Regime (DIR). 2 thousand tons are special-purpose (pharmaceutical, laboratory, etc.) sugars that cannot be produced domestically.

imports are at high levels. The biggest reason for this is the quota system that prevents starch-based sugar from being sold in the country. 3 different quota systems are applied for both beet types, these are A, B and C quotas. A quota determines the amount of sugar that is planned to be sold domestically within 1 year. The B quota determines the amount of sugar that can be found in warehouses longer than 1 year. The C quota determines the amount of sugar allowed to be sold abroad. For starch-based sugar, the a quota could be at most 10% of the total a quota. However, this was reduced to 2.5% in 2018. In other words, 95% of the sugar sold in the country must be sugar produced from sugar beet.

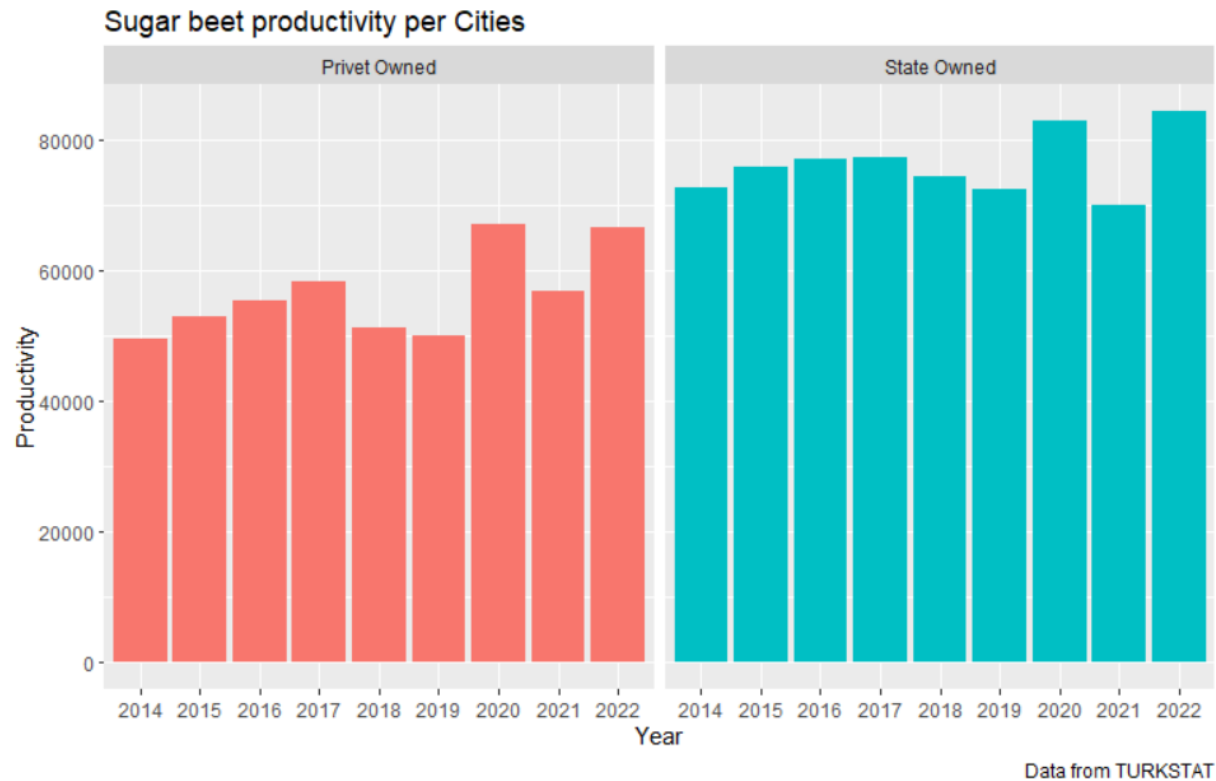
The Effects of Privatization

Public factories were privatized in 10 cities in 2018, and with this move, the state earned 3.452.200.000 TL, which is approximately 506.806,000 € at the euro exchange rate of that period. The important point here is the commitment of these factories to continue production for 5 years. The locations where sugar factories are located in the city are generally locations that have the quality of valuable land. In other words, companies can stop the production of factories and use the factory's areas for construction, if they want, from the end of 2023. Therefore, this can be seen as an opportunity for a gradual transition to cane sugar production.



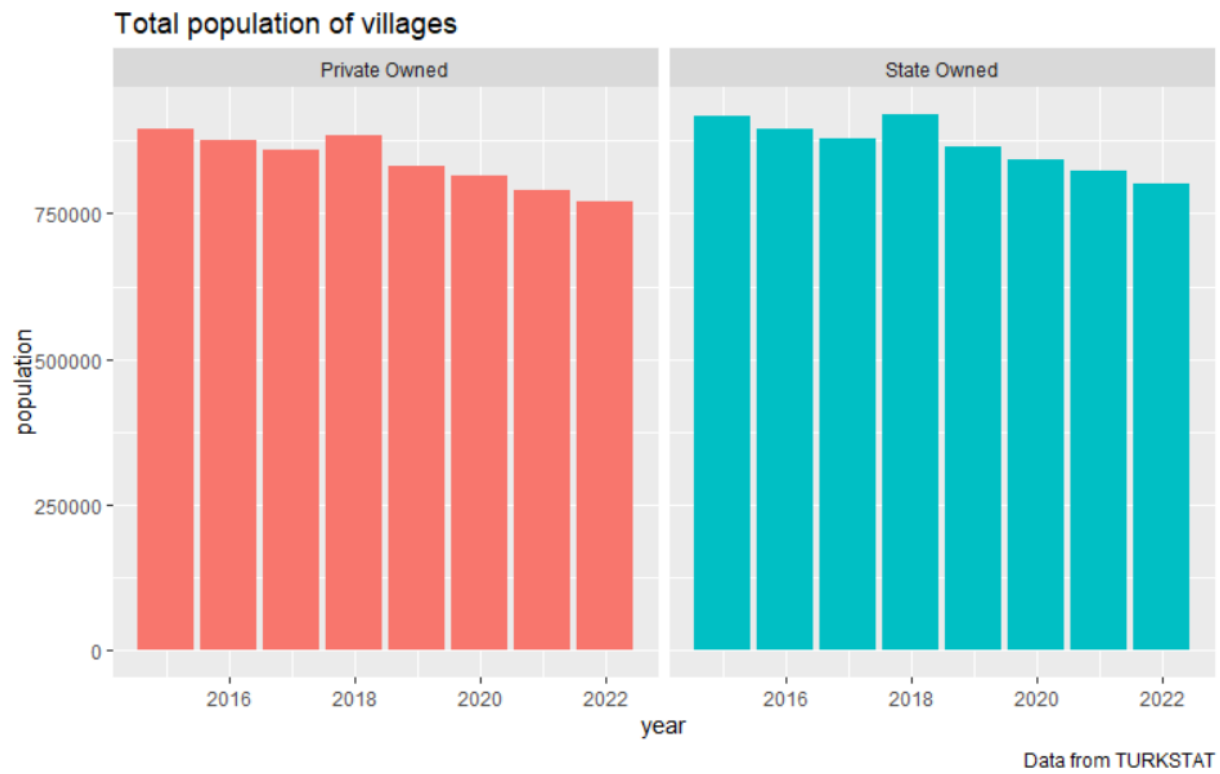
The table shows the average production of provinces with sugar factories. The datas shown as privately owned are the average productions of the factories that were privatized in 2018.

According to the table, we can say that the factories that were privatized in 2018 were selected from the provinces with relatively lower production. In addition to this, we can say that in 2018, farmers moved away from sugar beet production because of the uncertainty environment created by the privatization movement. By 2019, we see that farmers are avoiding privatized factories. In the same year, production in state-owned factories increased to 2017 levels, while production in private factories fell even below the previous year.



This table shows the production per decade. It can be said that production with relatively low efficiency is carried out in places where there are factories that are customized according to this table. however, it is seen that both indicators move together after customization. therefore, it can be said that privatization has no effect on productivity in sugar beet production.

Sugar factories were used as a policy tool to prevent the migration of peasants to the cities. It is known that the villagers both enable them to produce high value-added products - thus earning a high income - as well as producing sugar beet as ancillary gains. Thanks to the high amount of fertilizer used for sugar beet production, it has an effect increasing the harvest of the next year, besides, sugar beet pulp is used as a food source for raising animals. All this is thought to increase the welfare of the farmers and encourage them to continue their production in the village. However, it can be thought that the uncertainty created by the privatization causes the farmers to believe that they will lose these gains and leave their villages.



This chart shows the total population in the villages. This data was created by collecting the population of the villages of the provinces where the factories are located. There is no relationship between population change and privatization. that is, the privatization of sugar factories has no effect on the population/immigration in the villages. Between 2018 and 2022, the population decreased by 12% in places where there are state-owned sugar factories, while this rate is 13% in villages where privatization takes place.

Conclusion

Since the cost of sugar produced from sugar beet is high, it is imperative to switch to production with sugar cane. The production of sugar cane, which is only produced in Düzce, needs to be expanded in our country. The privatization of sugar factories is therefore necessary. However, the prosperity that sugar factories provide to farmers must continue to be provided in other ways. It is clear that the sugar produced from sugar beet has no power in export. The number of exports decreased after the previous export supports were not given with the IMF stand-by agreement.

Since the 5-year production obligation rule set during the privatization of sugar factories will expire at the end of 2023, it is inevitable to create a state of uncertainty. Even though the factories were outside the city at the time they were built, they almost stayed in the city centers after the cities grew. This has caused their lands to become valuable for the construction industry. Therefore, it is inevitable - in the long term - that these factories will be closed in time to make use of their lands.

Farmers are insecure about producing in privatized factories. It still has not reached the average production in 2017. In places where there are state factories, production has returned to its

previous levels - even above - after the year of uncertainty. I emphasized that sugar factories are a political tool to keep farmers in their villages. The privatization of sugar factories did not change this.

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