

Bi-weekly Bulletin

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TURKEY



The Republic of Turkey is the largest wheat producing country in the Middle East and the third largest producer of durum in the world. The Turkish government strongly supports the agricultural industry through a variety of agencies and policies aimed to promote production and encourage value added exports. Canadian exports of special crops, particularly lentils, have increased. This issue of the *Bi-weekly Bulletin* examines the situation and outlook for Canada's exports of grains and special crops to Turkey.

ECONOMY

Historically, the agriculture sector has been Turkey's largest employer and a major contributor to the country's Gross Domestic Product (GDP), exports and industrial growth. There are about 4.5 million farms in Turkey, characterized by many producers with small and fragmented land ownership. This situation is due to a combination of inheritance law and the reluctance of the rural population to sell inherited land.

Over the past 20 years, a series of policy changes have occurred in Turkey. These changes were aimed at moving the Turkish economy away from strategies of industrialization based on government control and import substitution towards strategies of economic growth based on an expanded role for free market operations and the private sector. Reform has centered on removing structural impediments in order to promote more open markets, mainly through deregulation, increased privatization and liberalization of trade.

Since its initial reform in the early 1980s, Turkey has made significant improvements in opening up its borders to imports and reducing controls on exports. Turkey has improved its trade policies with those of the European Union (EU) and the European Free Trade Association and has entered into new regional trading arrangements. As a result of economic reforms, the Turkish economy has experienced an average annual growth rate of almost 5% over the past 20 years, a record among Organization for Economic Co-Operation and Development (OECD) countries. Economic growth in Turkey, which fell in 1999 due to spillover from the Asian and Russian crises, is estimated to have expanded in 2000. Turkey's entrance into international markets and the resulting increase in international competitiveness has further accelerated the industrialization process.

As of January 1, 1997, the date of the entry into Customs Union with the EU, Turkey has eliminated all custom duties and charges having equivalent effect on imports of industrial products from the EU. The bilateral trade agreement initially covered only processed agricultural products

grain, oilseeds, dairy, and beef. In return, Turkey received concessions on trade in tomato paste, citrus fruit and vegetables. The Customs Union gives Turkey improved access to the countries within the EU. It guarantees the free circulation of industrial goods and processed agricultural products.

AGRICULTURAL POLICY DEVELOPMENT

Turkey's proximity to Europe, the Middle East, and North Africa gives it access to large markets via the Black, Aegean, and Mediterranean Seas. In addition, Turkey's domestic market, which is characterized by high population growth rates and increasing incomes, is expected to experience an increase in demand for more grains and oilseeds of higher quality. The principal objectives of the Turkish agricultural policy are set out in successive five year development plans. These are to stabilize grain prices, to meet the nutritional needs of the growing population, to increase yields and production, to reduce the vulnerability of production to weather conditions, to promote the application of modern agricultural techniques and to develop the export potential of Turkish grains and grain products.

These objectives are primarily achieved through a complex set of price supports for commodities, with domestic prices supported by intervention purchases. These initiatives are complemented by trade related measures, subsidies for farm inputs and investments in infrastructure. The measures are carried out by numerous government agencies who oversee

TURKEY: ECONOMIC STATISTICS

	1996	1997	1998	1999	2000e
Population (million)	62.3	63.4	64.5	65.5	67.4
GNP* (US\$ billion)	184	194	205	187	190
Inflation rate (%)	78	99	70	75	55
Exchange rate (000 lira/US\$)	78	141	252	415	615

Land area: 77 million hectares
Arable land: 24.3 million hectares

* Base year 1992=100
e: estimate, AAFC, April 2001
Source: FAO, IMF, AAFC

containing cereals, sugar and milk along with industrial products. However, on April 25, 1997, Turkey and the EU agreed to liberalize trade in agriculture. The results of those negotiations, provided the EU with substantial trade concessions on



agricultural policy. The main agencies are: the State Economic Enterprises (SEE), Agricultural Sales Cooperative Unions (ASCU), and state owned banks. These institutions oversee the agri-food industry including inputs to production, determination of price support levels, subsidy distribution and regulating net export activity.

The SEEs are involved mainly in agricultural marketing. The largest is the Turkish Grain Board, Toprak Mahsullei Ofisi (TMO), which oversees grains and pulses.

GRAIN POLICY

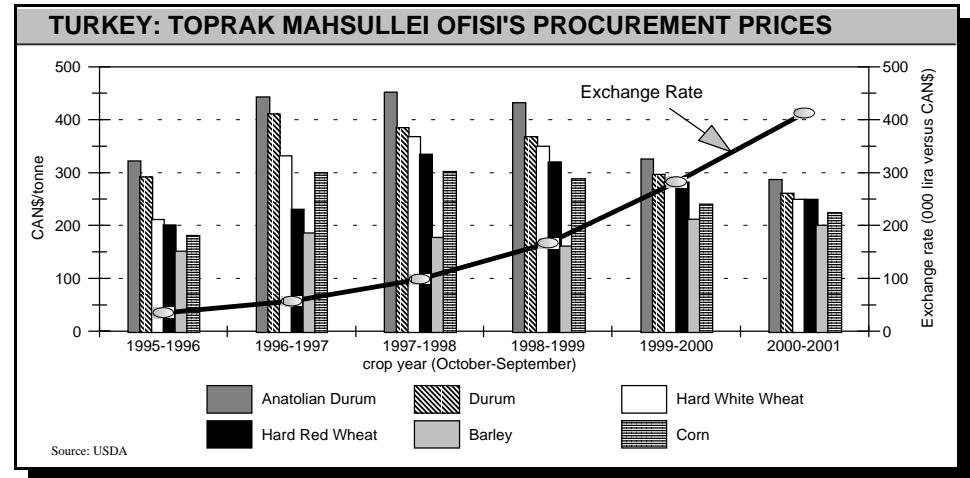
In December 1999, the EU accepted Turkey as an official candidate for full membership into the EU. The EU announced a list of political and economic obligations of membership Turkey must meet before it can become a full member of the EU.

The conditions that must be met under agriculture include: 1) increasing production through sustainable agriculture; 2) phasing out existing support policies and replacing them with a direct income support system targeted to low-income farmers; 3) establishing a land register system; 4) upgrading food inspection and control mechanisms; and 5) establishing a clear strategy for phytosanitary conditions.

As part of its free market strategy, the Turkish government is reducing its role in agricultural marketing by privatizing its SEEs and processing plants. The TMO continues to be an active government based agency, but its role has evolved to allow for more private sector involvement. Value added processing continues to be encouraged by the government through various import licences and initiatives.

The TMO is the main government body responsible for the regulation of the grains industry. The agency purchases surplus crop production (about 15-30% annually) with the objective of maintaining domestic stock levels. It also supports and regulates domestic grain prices.

Turkish producers are able to sell their grain to the TMO, at a specified price, or to the private sector. For the grain that is not sold privately, usually due to its low milling quality, the TMO will act as the



residual purchaser. The TMO will try to export the grain on the world market, usually at low prices, due to the limited storage capacity in Turkey.

The role of the TMO in the domestic market is limited. The purchase or procurement price it offers is set at the domestic price support level which are announced by the Ministry of Agriculture at the beginning of each marketing year (late May-early June) and are usually revised over the course of the year. In real terms, the prices which the TMO will pay producers are lower than the announced prices because of the effects of devaluation on the Turkish lira. Turkey has a high inflation rate, so to counteract this, the TMO increased its support price for grains by semi-monthly payments from July-October. In most years, domestic prices have been above the government support prices, and therefore, the majority of Turkish wheat is sold directly to domestic merchants and millers and not the TMO.

Wheat support prices are based on the Anatolian Hard Red Wheat, since this is the type most commonly produced. It is similar to United States (U.S.) Hard Red Winter wheat. The TMO has gradually reduced the procurement prices in the last few years at the request of the International Monetary Fund (IMF) and as part of the conditions Turkey must meet as a potential member of the EU.

Privatization has gradually reduced the role of the TMO in grain marketing. In the past, the TMO was active in regulating grain import and export activity through restrictive import and export licences and levies, which were applied to the private sector and from which the TMO was exempt. As part of government reforms, the level of intervention by the TMO has gradually been

reduced, but the system remains in place for use by the TMO if deemed necessary.

The domestic market is protected by import duties on milling wheat which were raised from 15% in 1997 to 55% in 1999, where it has remained. The EU Customs Union Agreement includes a tariff rate quota for duty free imports of 0.2 Mt for milling wheat.

WHEAT AND SEMOLINA MILLING

The Turkish milling industry has consolidated rapidly and has become more sophisticated to meet changing domestic needs and world export challenges. The Turkish domestic wheat crop is generally low in protein and millers rely heavily on imports of high protein wheat to blend with domestic wheat. Although the quality problem often makes it difficult for Turkey to export wheat, it is the world's fifth largest flour exporter. There are over 720 privately owned flour and semolina mills in Turkey, with an annual milling capacity of about 25 million tonnes (Mt).

SITUATION AND OUTLOOK

Wheat

For 2000-2001, all wheat production increased to 17.5 Mt, up 6% from 1999-2000, due to a 5% increase in yields to 2.0 tonnes per hectare (t/ha), related to excellent weather conditions. As a result, imports are expected to decrease to 0.9 Mt from 1.5 Mt in 1999-2000. Competition from the EU and Argentina is expected to limit imports from the U.S. to 0.1 Mt and from Canada to 0.08 Mt.

Currently, per capita consumption of wheat in Turkey is one of the world's largest - averaging about 260 kilograms (kg) per

annum versus 90 kg in North America. For 2000-2001, consumption is forecast by USDA to increase. An increase in consumption to 265 kg per capita would require an additional 0.5 Mt of wheat. About 85% of all wheat consumed annually is used to make bread and 7% to make pasta.

For 2000-2001, Turkey is expected to produce about 12 Mt of flour and semolina, and export 1.0 Mt of wheat flour and semolina, up 5% from 1999-2000. The Commonwealth of Independent States (C.I.S.), North African, and Middle Eastern markets are the major buyers of Turkish flour and semolina. Bread production is about 12 Mt and annual pasta production is about 0.6 Mt.

Turkey's major buyers of pasta products are C.I.S., the Middle East, and the EU.

For 2001-2002, a very dry winter, especially in Anatolia, the main wheat growing area, located in west central Turkey, is forecast to result in a decrease in yields. All wheat production is forecast to decrease by 5% to 16.6 Mt causing imports to increase. There has not been significant snow cover, which has made the wheat crop susceptible to cold, dry conditions. Canada's share of the Turkish wheat market is expected to be similar to 2000-2001. Millers in Turkey are attracted to the high protein and quality of Canada Western Red Spring (CWRS) wheat, which is blended to improve domestic flour quality.

1999. In the early 1990s, Turkey imported an average of about 20,000 tonnes (t) of Canadian durum. For 2000-2001, Turkish durum imports are forecast to be the same as 1999-2000, at 20,000 t, mainly from the U.S. Canada is not expected to export any durum to Turkey.

For 2001-2002, durum production is forecast to decrease slightly from 2000-2001. Turkish durum exports are expected to decrease in 2001-2002, due to lower world durum demand.

Barley

Turkey is the fifth largest barley producer in the world. Barley is the most important feed grain in the country, as about 90% is used for feed. For 2000-2001, barley production, consisting mainly of 2-row varieties, increased by 12% to 7.4 Mt. Consumption increased marginally in 2000-2001. Barley imports are forecast to increase to 0.1 Mt, largely from the EU, for the domestic beer industry. Imports of barley are constrained by an 85% import duty. The majority of Turkish barley imports are from France and the Ukraine. Turkish malting barley consumption is not expected to increase as per capita beer consumption in Turkey is only 10 litres (L) compared to 90 L in North America. In recent years barley exports have decreased, due to poor quality and increasing demand from the domestic livestock industry. For 2000-2001, barley exports are forecast at 0.5 Mt, near the 5-year average of 0.6 Mt. The majority of Turkish feed barley exports are destined for Saudi Arabia, Northern Cyprus, Syria, and Morocco. The government continues to expand dairy, beef and poultry operations and is expected to maintain strict policies on beef imports to ensure rising beef demand is supplied by domestic feed grains. However, animal nutrition in Turkey is poor and feed industries are expected to improve feed rations which will probably mean higher usage of imported corn and soymeal.

For 2001-2002, barley production is forecast to decrease due to the dry weather conditions. Turkish barley consumption is expected to remain strong and therefore, exports are expected to decrease.

Corn

For 2000-2001, corn production increased to 2.1 Mt from 1999-2000 due to higher yields. The Cukurova region, located in

TURKEY: CROPS

<i>October-September crop year ^{1/}</i>	1998 -1999	1999 -2000	2000 -2001	2001 -2002^f
.....thousand tonnes.....				
All Wheat ^{2/}				
Production	18,000	16,500	17,500	16,600
Consumption ^{3/}	16,886	16,777	17,300	17,500
Imports	1,862	1,455	900	1,500
Exports ^{4/}	2,803	1,984	1,500	700
Durum				
Production	4,000	3,800	4,000	3,900
Consumption ^{3/}	3,788	3,175	3,420	3,520
Imports	13	25	20	20
Exports ^{4/}	225	650	600	400
Barley				
Production	7,500	6,600	7,400	6,600
Consumption	6,790	6,763	7,200	6,900
Imports	140	100	100	100
Exports	743	181	400	100
Corn				
Production	2,300	2,000	2,100	2,100
Consumption	3,200	3,200	3,000	3,200
Imports	887	1,250	1,000	1,200
Soybeans				
Production	60	60	40	55
Consumption	372	363	370	400
Imports	335	315	330	350
Lentils				
Production	540	380	380	380
Consumption	430	380	384	388
Imports	70	118	110	110
Exports	185	93	80	80
Chick Peas				
Production	625	560	540	540
Consumption	480	480	484	488
Imports	23	10	10	12
Exports	158	85	60	60

^{1/} Except wheat (July-June) and soybeans (November-October)

^{2/} Includes durum

^{3/} Includes stock changes

^{4/} Includes products

f: forecast, Agriculture and Agri-Food Canada, April 2001

Source: USDA, IGC, AAFC

Durum

For 2000-2001, durum production increased to 4.0 Mt, up 5% from 1999-2000. Area seeded to durum increased due to normal growing conditions. The higher returns compared to other crops, and the limited number of crops that can be grown in the durum region have supported durum area.

Smaller scale farms located in Anatolia have consistently produced a higher quality durum, which is reflected in the current TMO procurement premium of CAN\$26 per tonne (/t) over durum grown in the south and south-eastern part of the country. In the late 1980s, large amounts of durum were used to make bread, not pasta.

For 2000-2001, Turkish durum exports are expected to decline to 0.6 Mt, down 8% from 1999-2000, but remain above the 5-year average of 0.3 Mt. Durum imports have decreased from an average of about 100,000 t in the mid-1990s due to an increase in the durum duty from 15% in 1997 to 50% in

GUNEYDOGU ANADOLU PROJESİ (GAP)

In 1976, Turkey began development of the US\$32 billion Southeastern Anatolia Project, or the GAP, one of the biggest regional development projects in the world. The integrated, multi-sectoral project includes the construction of 22 dams and 19 hydroelectric power plants on the Euphrates and Tigris rivers. Upon completion, the project is expected to irrigate 1.7 million hectares of land and generate 27 billion kilowatts of electricity, about 20% of current requirements. The increased irrigation capacity is expected to enable Turkey to become one of the leading producers of grains, oilseeds, and vegetables.

The centerpiece of the GAP, the Ataturk Dam, completed in 1993, irrigates, as of 1999, about 200,000 hectares of land, mostly in the Harran plain in southeastern Turkey, and has produced record incomes for farmers. The majority of this land (80%) was seeded to cotton due to its high return value, followed by corn (10%) and vegetables (10%). Turkish government officials have stated that the average income of local producers has increased by a factor of three.

Recently, however, foreign investment in the GAP has decreased due to concerns over flooding of villages and destruction of archeological sites. Arguments over compensation and displacement of people, resulted in the government's announcement that all remaining funding will come from the government of Turkey. Disputes over this project have yet to be settled, although construction continues.

The expected completion date, which was initially 2005, is likely to be delayed until 2008.

the southern part of Turkey accounts for about 50% of Turkey's corn production where two corn crops can be harvested annually. For 2000-2001, Turkish corn imports are mainly from the U.S., Bulgaria, and Romania. The 50% import duty was lowered on February 16, 2001, to 25% after the TMO exhausted its stocks.

For 2001-2002, corn production is forecast to remain unchanged from 2000-2001, while consumption is expected to return to average levels of 3.2 Mt due to expansion of dairy and beef production, and continuing expansion of corn starch and high fructose corn syrup production.

Pulse Crops

For 2000-2001, production and consumption of lentils remained similar to 1999-2000 at 0.38 Mt. Red lentils are primarily grown in the southeastern area of Turkey and green lentils are grown primarily in the north central area. Chickpeas are mainly grown in central Turkey. In recent years, per capita consumption of lentils and chickpeas has

decreased slightly due to high prices and continued migration of younger people from rural to urban areas. These pulses are the affordable protein choice for the rural population and low-income urbanites.

Turkey's total imports of lentils have been trending upward, with imports forecast at about 0.11 Mt in 2000-2001. As Canada is the major source for Turkish imports, Canadian exports are expected to increase from 87,000 t to 100,000 t in 2000-2001. Canadian lentils are imported to the cities of Mersin and Gaziantep, and then re-exported for human consumption to customers in the Middle East, Indian subcontinent, and North Africa.

For 2000-2001, **chickpea** consumption and total imports are forecast to be similar to 1999-2000, at 484,000 t and 10,000 t, respectively, with Canadian exports of chickpeas increasing to 5,000 t. Turkish chickpea exports are expected to decline to 60,000 t in 2000-2001. The current import duty on chickpeas and lentils is 21%. The TMO has not procured any chickpeas or lentils since 1994.

lentils to Turkey are expected to remain stable, while chickpea exports are forecast to increase due to a continuing shift to Canada as a major supplier. Exports of both dry peas and dry beans are also expected to increase.

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CANADA: EXPORTS TO TURKEY

August-July crop year	1997 -1998	1998 -1999	1999 -2000	2000 -2001f	2001 -2002f
 thousand tonnes.....				
Lentils	15	15	87	100	100
Wheat	216	56	77	75	80
Chickpeas	0	0	3	5	8
Dry Beans	1	1	4	4	5
Dry Peas	1	1	1	2	3

f: forecast, AAFC, April 2001

Source: Statistics Canada, Canadian Grain Commission

In addition to lentil and chickpea exports, Canadian **dry pea** exports to Turkey averaged about 1,000 t per year during the last 5 years, while **dry bean** exports averaged about 2,000 t per year.

For 2001-2002, total Canadian exports of