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## **1 General review**

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### **1.1 General overview of agricultural and national economy developments**

Following the severe crisis in 2001, the Turkish economy began a recovery process in the first quarter of 2002. Since then reducing inflation, improving the public finance balances and eliminating the structural problems have continued to be the policy priorities. In 2004, the Turkish economy enjoyed an exceptionally high growth rate of 9.9 %, after 5.8 % in 2003 and 7.9 % in 2002. The expected growth rate in 2005 is 5.5 %.

After declining by 1 % in 2003, total employment rose in 2004 and is expected to increase in 2005. The current account deficit rose from 1.5 billion dollars in 2002 to 7.9 billion dollars in 2003, 10.7 billion dollars in 2004, and 15 billion in 2005 January-July period.

At the end of 2003, the twelve-monthly inflation rates were 18.4 % in CPI and 13.9 % in WPI. The inflation rates dropped to single-digit figures in 2004 and continue so in 2005.

The growth rate of agriculture has been only 1.2 % per year on average. The share of agricultural sector in GDP was 11.6 % in 2004. The sector still accounts for a very large share of agricultural employment, though this has fallen considerably due to an increasing urbanisation. The share of agriculture in civilian employment was 34 % in 2004.

Crops account for about 68 % of the production value and livestock products for 27 %, forestry 3 % and fishery products 3 %.

The share of agricultural products in total exports and imports are declining. Agricultural export accounted for only 9.4 % of the total export, and import accounted for 4.5 % the total import in 2004. However, Turkey maintains a trade surplus in agricultural and food products.

### **1.2 Overview of agricultural and rural sector development**

#### **1.2.1 Production**

Total agricultural area of 39 million hectares consists of arable land (24 million hectares), permanent crops (2.5 million hectares) and permanent meadows and pastures (12.7 million hectares). Fallow land makes up more than 20 % of total arable land.

Family owned farms form the basis of agricultural production, and family members provide most of the farm labour. There are 3 million agricultural holdings, mostly fewer than 5 hectares. The national average farm size is 6.1 hectares, with an average number of 6 plots.

Wheat production is around 20 million tonnes. Barley production 8 million tonnes and maize 3 million tonnes. Cotton, sugar beet, and tobacco production are 900, 1200, and 160 thousand tonnes respectively. Chickpeas, dry-beans and lentils productions are 600, 250, and 540 thousand tonnes. 800000 tonnes of sunflower and 5.3 million tonnes of potato are produced.

Yields of major crops are as follows: Wheat 2.1, barley 2.4, maize 5, chickpeas 1, dry beans 1.5, lentils 1.2, tobacco 0.9, sugar beet 40, cotton 1.4, sunflower 1.5, and potatoes 27 tonnes per hectare.

Production of tomatoes was 9820 thousand tonnes, green peppers 1370, apples 2600, apricots 460, grapes 3600, figs 280, oranges 1250 hazelnuts 480, tea 869, and olives 1000 thousand tonnes.

Number of tractors is about 1 million in 2004. Fertilizer use is 4 million tonnes in 2004. Pesticide use does not appear to have increased in last two to three decades.

There are 9.8 million heads of cattle, 25.5 million on sheep, 220 million of poultry, and 4 million hives. About 300000 tonnes of beef, 900000 tonnes of poultry meat, and one million tonnes of milk is produced.

### 1.2.2 Prices

Crop prices in Turkey used to be administered by the government prior to the ARIP in 2000 related institution declared their purchasing price of the crops. Prices in general increased in 2001 in EURO terms when Turkey experienced the economic crisis. They then decreased to the lowest level in the last five years in 2002 due to the serious crises. Later in the expansion period of the economy, prices rose. However, the upward trend in prices stopped in 2004. This is because the production of some of the crops such as wheat and maize has increased. Therefore the purchasing prices declared by the related institutions in 2005 are about at the level of 2004.

Agricultural prices received by farmers in Euro per ton are as follows: wheat 217, barley 154, maize 162 in 2005, tea 296, sugar 56, cotton 509, soya 282, sunflower 274, hazelnut 2969, pistachio 3959, fig 159, raisin 565 in 2004, milk 267, beef 5888, and sheep meat 5116 in 2005.

### 1.2.3 Agricultural Trade

Agricultural imports expanded faster than exports and the share of agricultural products in total exports and imports are declining. Agricultural exports accounted for only 9.4 % of the total exports (6501 million USD), and imports accounted for 4.5 % the total imports (6059 million USD) in 2004. However, Turkey maintains a trade surplus in agricultural and food products.

Fruits and vegetables have significant shares in total agricultural exports. Cereals and cereal products, honey, sugar, and sugar confectionary are the other important exports. Imported products are generally raw agricultural products such as raw hides and skin, leather and textile fibres and fibre scrap, cereals and cereal products, fruits and vegetable products, fodder crops, tobacco and tobacco products, animal and vegetable oils, fats and waxes, oilseeds and oleaginous fruits.

Turkey's main export markets are the OECD countries, Imports from the EU account for 25% of the total agri-food imports.

### **1.3 Agricultural and rural policy developments**

Past agricultural support policies were inefficient and costly; therefore the Government of Turkey has embarked on a structural adjustment and stabilisation programme. An unsustainable and distorting subsidy system for fertilizer has been phased out and fertiliser prices are linked to world market prices. Most state enterprises in agriculture have been privatised. A unified national programme of direct income support was introduced.

In 2005, State Economic Enterprises set and implemented the farmgate prices. Direct income support is on an area basis and deficiency payments are implemented for oilseeds, mainly sunflower, soybean, cotton, kanola, maize, and olive oil, and tea.

A one-off transition payment is granted to farmers to cover the costs of changing from over-produced commodities (hazelnuts and tobacco) to other commodities.

Strategic objectives, principles, and priorities of agricultural policies to be implemented after the ARIP are set forth in the agricultural policy paper 2006-2010. The objective of this paper is to help make decisions to develop the sector in accordance with the development plans and strategies, taking into account the prospect of EU integration.

Tools of agricultural support to be used until 2010 are direct income payments (DIS), deficiency payments, compensatory payments (farmer transition), livestock support (fodder crops, artificial insemination, breeder incentive, milk premium, risk-free livestock region, bee-keeping, fisheries), crop insurance support, rural development support, environmental set-aside (CATAK).

Turkey initiated the Village Based Participatory Investment Program (VBPIP) with the objectives to: increase rural income, raise social standards of the rural population, rehabilitate infrastructure by conserving natural resources, increase productivity in agriculture in line with sustainability and strengthening food security by taking into account the preservation of natural resources.

### **1.4 Issues related to the enlargement**

Turkish agriculture is characterised by a dual structure: traditional and modern. Regional differences in agricultural technology use (land, labour, and capital saving technology) are also a distinct characteristic of the Turkish agriculture. Implication or impact of the CAP therefore may also differ both across regions and type of the farming. The red meat sector, the most vulnerable sector, would suffer most from market integration and cereals would be the next. The dual structure of Turkish agriculture would in fact be sustainable. Traditional farms, not enjoying economies of scale and relatively labour-intensive, continue to produce for their own consumption in any case and market the surplus production without considering the price much. Modern farms have an advantage in productivity and cost, and therefore continue production with reduced capacity. The overall impact of the EU integration and CAP would be positive. There are currently no cross compliance rules in Turkey; they have to be implemented under the CAP. A significant part of the agricultural *acquis* concerns animal welfare, hygiene standards and food safety. Turkey has already made a good start with passing the necessary CAP-conforming legislation. However, several issues arise in the implementation of the regulation. Creation of the infrastructure to manage the *acquis* is a longer and more difficult process. Problems arise because the sector is highly fragmented, a substantial share of output being for own-consumption or being sold in informal markets.

Therefore, effective communication of the SPS acquis to producers, as well as monitoring and control of all regulations will be a difficult and daunting task.

With EU membership, agricultural producers will lose but food consumers gain, implying income transfer from the rural to the urban sector. Within producer and consumer groups, EU membership reduces income inequality when trade is completely liberalised. With membership, the degree of producer protection and the general price level decrease, while imports of cheap livestock products increase, which in turn increases consumers' welfare.

Fruit and vegetables remain competitive but cereals and livestock products are uncompetitive. Turkey appears to be a net exporter of fruits and vegetables and a net importer of cereals and processed products, mostly animal products.

Axis two and three are expected to reduce the pressure on agricultural land which is on its limit, abundant and unproductive. This would increase overall productivity, reduce rural dependence on agricultural income and integrate agriculture with food industry. This may also change the mindset of the producers so that they would view agriculture not just as a way of life but as a business activity.

## 2 Assessment and Outlook

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### 2.1 Wine sector

#### 2.1.1 Wine consumption

Turkey is not a wine consuming country. While the wine consumption in Europe is approximately 50-60 litre per person, according to TEKEL General Directorate "year 2000 data", Turkey's wine consumption is a little less than 0,9 litre per person<sup>1 2</sup>. Although data are not available on quality and table wine, it is expected that quality wine consumption is very low compared to table wine. Since Turks consume raki (a national alcoholic beverage), wine consumption is not expected to increase much in the near future.

#### 2.1.2 Wine imports

Wine imports were unexpectedly high in 2004 suddenly rising to 850000 litres. wine import after having been below 200000 litres in each of the previous five years except for 2000., The value of wine imports was 494000 US\$ in 1999 but rose to above 1.5 million US\$ in 2004. This leap in wine imports came in a year of high economic growth (9.9%) and it is expected that wine imports will further increase in the future as the economy expands.

#### 2.1.3 Vineyard area

Turkey has the world's 4<sup>th</sup> largest grape-growing area (565000 ha) after Spain, Italy and France. However, Turkey is in 5<sup>th</sup> place in terms of grapes production after Italy, France, Spain and USA, with 3850000 tonnes of grapes. According to SIS (2003) 2.14% of Turkey's agricultural land is devoted to vineyards, and production of grapes amount to approximately 30 % of total fruit production.

The State Institute of Statistics only started reporting vineyards for table grapes and wine production separately in 2004 when the vineyard area for table grapes was 300000 hectares with approximately 2 million tonnes of production. Vineyards for wine production totaled 270000 hectares and production was 370000 tonnes in the same year.

Approximately 50 % of the total production of grapes comes from the Aegean Region which has about a third of Turkey's vineyards. This region is followed by the South East Anatolia Region with 17 % of total production. Twenty two % of the grape production is used for wine. The rest is table grapes and dried grapes.

A vineyard cadastre has been established in 70 % of Turkey and the Ministry of Agriculture has implemented a reform program, under which there is a Farm Registry component for soils and climate. There are several varieties from which quality wine is produced. These are Papazkarasi, Gamay, and Karasakiz in the Marmara region, Çalkarasi and Sultaniye in the Aegean region, Narince in the Blacksea region, Kalecik Karasi and Emir in Central Anatolia, Öküzgözü, Bogazkere in the East Antolia, Dökülgen in the Mediterranean region.

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<sup>1</sup> Bağcılık ve alkollü içkiler Arastırma Komisyonu Raporu, TBMM Cumhuriyet Halk Partisi Grup Başkanlığı, Mart 2005 Ankara

<sup>2</sup> ÖZAY A, AKYOL A, AZABAGAOĞLU, M.Ö. "Türkiye Sarap Sektörü'nün Pazarlama Karması Elemanları Açısından İncelenmesi ve Sektörün Rekabet Performansının Artırılması için Öneriler" Sarap Sanayicileri Derneği Yayınları No.1, İstanbul 2005

#### 2.1.4 Structure of production

With 59 firms producing wine in 61 plants, all private, the wine sector is growing steadily. Nevertheless, currently the Turkish wine sector is not competitive on the world market. 37 of the wine producing firms have formed an Association of Wine Producers which is carrying out studies in various areas. The wine producing firms are mostly situated in Marmara-Thrace and Aegean Regions where most of the wine grapes are produced.

Unfortunately, it is difficult to gain information on firms' capacities and on the sector's concentration ratio.

#### 2.1.5 Wine yields maximum

The average grape yield in Turkey is six tonnes per hectare. Separate yields for table grapes and vineyards only began to be reported in 2004 when the averages were 6.33 tonnes per hectare for table grapes and 5.28 tonnes for wine grapes.

#### 2.1.6 Wine production

Different sources report different statistics on the wine production. UHT data indicates that more than 50 million litres of wine was produced in Turkey in 2003, while State Institute of Statistics reported only less than half of this figure for the same year. FAO, on the other hand reported 35 million litres of wine. According to the first two data sources, there is an increasing trend in the wine production. Contrary to these sources, FAO indicates rather decreasing wine production. There is no information, at least known by the researcher, about the different categories of wine.

#### 2.1.7 Production cost and competitiveness

Published data for wine production costs is available only up to 1998. A state monopoly used to produce wine and its cost data per bottle were reported at 1998 prices. It is difficult or maybe not relevant to judge the competitiveness of the sector based on the data available.

#### 2.1.8 Wine exports

Turkey's wine exports have varied from around 4 million litres to some 6 million litres in the period 1999 to 2004 except for the year 2002, the recovery period of the economy, when exports were more than 8.2 million litres. However, the value of wine exports had not changed much. The export value increased up to as high as 7.9 million US dollars in 2004. It was 5.2 million US dollars in 2001, in the year of recession. Germany is the leading destination for Turkey's wine exports with 30% of total exports. Belgium, Luxembourg and France together accounted for another 40% of exports.

#### 2.1.9 Policy issues

Wine production is now exposed to free market conditions. Although there are also state enterprises in wine production, there is not much government involvement in the sector. Various laws are related with wine production in Turkey. These laws are related with beverages, food, special tax, and technical regulations. A number of government decisions, decrees, and bylaws have also been issued.

## **2.2 Sugar sector**

### 2.2.1 Sugar consumption

Sugar consumption in Turkey has decreased slightly since 2000 when it totalled two million tonnes; it was down to 1960000 tonnes in 2004 despite Turkey's population increase. Per capita sugar consumption decreased from about 30 kg in 2000 to 27.5 kg in 2004.

### 2.2.2 Sugar import

Turkey is mainly self sufficient in sugar. Sugar imports which had been 444000 tonnes in 1995 fell to 694 tonnes in 2003.

### 2.2.3 Sugar beet area

Sugar production has been registered in Turkey for decades, with the area, production and producers recorded since there is a production quota system in force. The current sugar law (number 4634) was enacted in 2001 and conforms to the EU's sugar CMO. This new law required a substantial reduction in the total sugar quota and in consequence the sugar production area has steadily fallen from 410000 hectares in 2000 to 330000 hectares in 2004.

### 2.2.4 Structure of production

With the exception of coastal areas and the South-Eastern Anatolia Region, sugar beet is produced all over the country. It is a rotation crop and producers are contracted. Sugar beet production accelerated with the establishment of sugar factories in 1926??, was 13000 tonnes in 1994 and reached to the level of 1.9 million tonnes in 2000, due to the price policy and increase in yield. Due to the changes related to rotation system and production quotas in 2001, sugar beet production has decreased.

There are 29 sugar plants in Turkey, of which 3 are private. The number of producers contracting with the Turkish sugar company varies from year to year. It was 337 327 in 2000 and increased up to 416 619 in 2002 and decreased again down to 303 428 in 2004. The average size of the holdings producing sugar beet is also varying from year to year between 9.8 hectares in 2000 and 6.34 hectares in 2003.

### 2.2.5 Yields

Both sugar beet yield and sugar content varies significantly from year to year due to weather conditions. No clear trend in productivity is discernable.

### 2.2.6 Sugar and isoglucose production

Sugar production in Turkey varies from year to year. It was 2.5 million tonnes in 2000 and 2004. However, it was as low as 1.7 million tonnes in 2001 and 2 million tonnes in 2003.

### 2.2.7 Production cost and competitiveness

The cost of sugar beet production has increased in Turkish Lira terms. Sugar processing is expensive in some old factories but newly built sugar processing plants are equipped with modern technology, therefore have lower production costs.

Turkey's competitiveness on international markets is determined as much by exchange rate fluctuations as by changing internal production costs, though in so far as the latter are influenced by inflation in the economy as a whole, the two are linked. The world price of sugar is, of course, affected by the subsidies and support measures applied in key producer countries.

### 2.2.8 Exports

Turkey used to be a sugar exporter with exports of 579000 tonnes in 2000, but exports in 2004 were only 9000 tonnes.

### 2.2.9 Policy issues

Turkey's 2001 "Sugar Law" sets out the regulations on sugar production, marketing and pricing policies for both domestic consumption and export. In order to regulate sugar production and sugar markets, quotas have been determined periodically, if necessary, for each kind of sugar. The quota for sugar produced from starch could not exceed 10% of the quota for sugar beet-based sugar production. The Ministerial Council has responsibility to determine the quota in agreement with the National Sugar Council. The quantity is determined by considering domestic demand, consumption and the processing capacity of sugar factories for each five-year period. Annual "A" and "B" quotas are then allocated to each sugar producing company.

For the 2004/2005 marketing year, the "A Quota" sugar allocation to the Turkish Sugar Factories Corporation (TSFAS) is 1550100 tonnes and to private factories is 556800 tonnes (One of the subsidiaries of TSFAS was privatised in 2004). "B Quota" allocations are 31000 tonnes and 11100 tonnes for TSFAS and private companies respectively. Quota allocation for starch-based sweeteners amounted to 351150 tonnes.

The 2001 Sugar Law was enacted to conform to the EU sugar regulations. Further harmonisation of the Turkish and EU regulations is expected to follow after the EU's sugar CMO is reformed.