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Opportunities and outlook

The Turkish milk market

Turkey's market for milk and dairy products is encountering growing interest of international dairy companies since discussions of Turkey possibly entering the EU have become more serious in recent months. And there are good reasons for being interested in the Turkish market. With more than 70 million consumers, growing population, a low per capita consumption of milk and rising incomes this market offers substantial

opportunities. At the same time, the Turkish market is largely isolated from international competition and there is an urgent need for modernisation of the dairy industry.

There has been a customs union between Turkey and the EU since 1996, but agriculture has been exempt. This allows the Turkish government to grant price protection to agriculture that is much higher than that of the EU for products such as cereals, oilseeds, beef, poultry and dairy products.

Accession to the EU, which is not likely to come before 2015, would require considerable changes in Turkish agricultural policy.

Milk production and milk processing

Border barriers maintain high price levels for dairy products on the Turkish market.

Tariffs for milk products are between 45 and 150 per cent and the level of the maximum tariffs agreed upon in the WTO is 180 per cent. There are small, tariff-free import quotas for EU produce, i. e. 3,000 t of butter, 4,000 t of milk powder and 2,000 t of cheese. Figure 1 shows that Turkish foreign trade in dairy products is small. Imports are sourced mainly from the EU on the basis of the tariff rate quotas.

Milk production in Turkey has been relatively constant at 10 million tonnes over recent decades (figure 2). The average milk yield per cow is 2,000 kg and there has been little productivity gain over time; some 5 million cows are being milked on 2.5 million farms. This may be attributed to low professionalism in milk production, missing education for farmers as well as the small farm size.

The Turkish dairy industry is not consolidated (figure 3). Rabobank International estimated that 35 per cent of the Turkish milk production is consumed on farm and another eleven per cent is sold unprocessed by street vendors. The largest proportion of Turkish milk is processed by so-called "Mandras", very small processing initiatives that usually employ less than ten workers. The remaining 19 per cent of the milk production is processed by modern dairy companies such as Ülker, Pinar, Sütas, Danone and Sek.

Farm-gate milk prices in Turkey are below the EU level (table 1), but wholesale prices are significantly higher than in the EU. Part of the difference in prices may be explained by high costs for milk collection and poor raw milk quality, but the question remains

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Figure 1: Turkish dairy imports and exports, 1990–2003, (1,000 t milk equivalent)

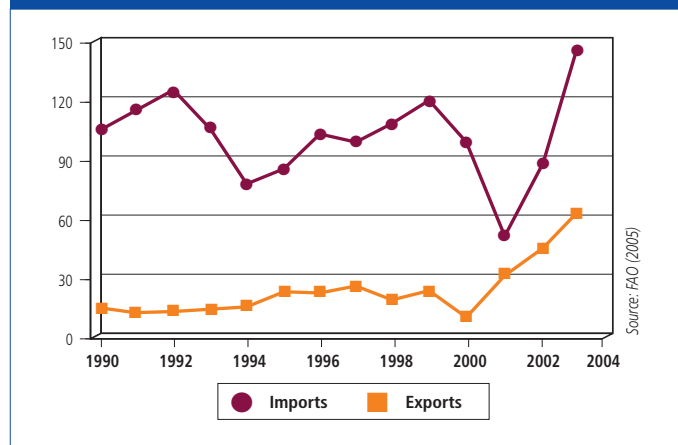


Figure 2: Milk yield in Turkey and the EU (kg/cow/annum)

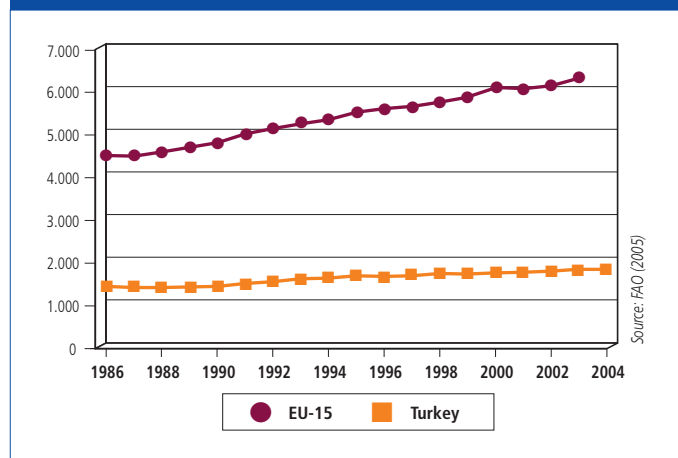


Figure 3: Raw milk utilisation

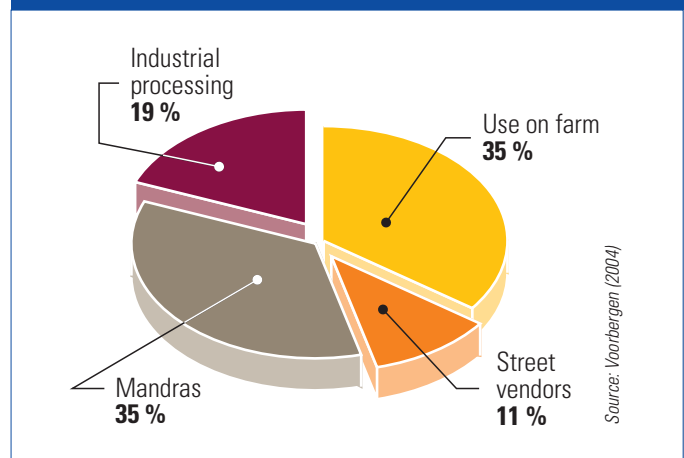


Table 1: Prices for raw milk and processed dairy products (t)

| Product and year | Turkey | EU | Turkey/EU |
|--|--------|-------|-----------|
| Farm-gate price (2002 – 2003) | 241 | 312 | 77 % |
| Butter (wholesale/intervention price, 2001 – 2002) | 5.009 | 3.282 | 153 % |
| SMP (wholesale/intervention price, 1998 – 2000) | 4.300 | 2.055 | 209 % |

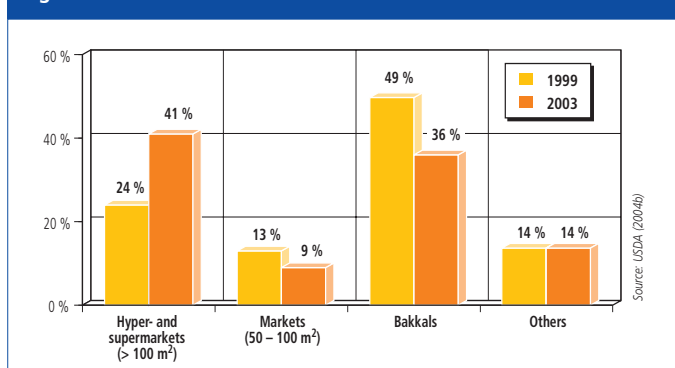
Source: Grethe (2004), own calculations

whether the protection of the oligopolistic market for highly processed dairy products provided by the government allows extra-high profit margins.

Retail and markets

Hyper- and supermarkets only have a 40 per cent share of Turkey's market but their importance is growing all the time (figure 4). The market share of small, non-organised retailers, called "Bakkals", is decreasing. At 150 kg per capita, milk consumption in Turkey ranks well below the EU. Turks drink

Figure 4: Market shares in the Turkish retail sector



less milk and eat less cheese but much more yoghurt than West Europeans. Butter consumption is only 1.2 kg per capita, much less than in the EU.

Added-value milk products are still a market niche. 84 per cent of total yoghurt sales are represented by plain yoghurt, another 13 per cent is sold as plain drinking yoghurt (Ayran) and only three per cent is marketed as high value added yoghurt such as fruit yoghurt.

Similarly, the cheese market is still poorly developed: 85 per cent of cow's milk cheese consumed is white cheese.

Outlook

For the next decade, Turkey expects significant growth of income and population which will lead to increased demand for dairy

products. Growing urbanisation and income will allow supermarkets to replace many of the traditional Bakkals. As supermarkets require higher product quality, this will contribute to modern dairy companies

replacing the small Mandras. A growing urban population will lead to changing consumption patterns resulting in a higher share of high value-added products such as processed cheese and fruit yoghurt as well as a higher butter consumption.

Accession of Turkey to the EU would further boost these developments as Turkey's economy would benefit from accession which would promote urbanisation and rising incomes. EU food legislation would accelerate the change from Mandras and Bakkals to modern-style processing and retail forms as well as consolidation of the sector.

EU accession would also open the Turkish market for imports. At current prices, a sudden opening of the market would significantly boost imports from the EU and decrease local production. Only time will tell whether this will be balanced in the long run by productivity gains in the Turkish milk production and processing industry.

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