

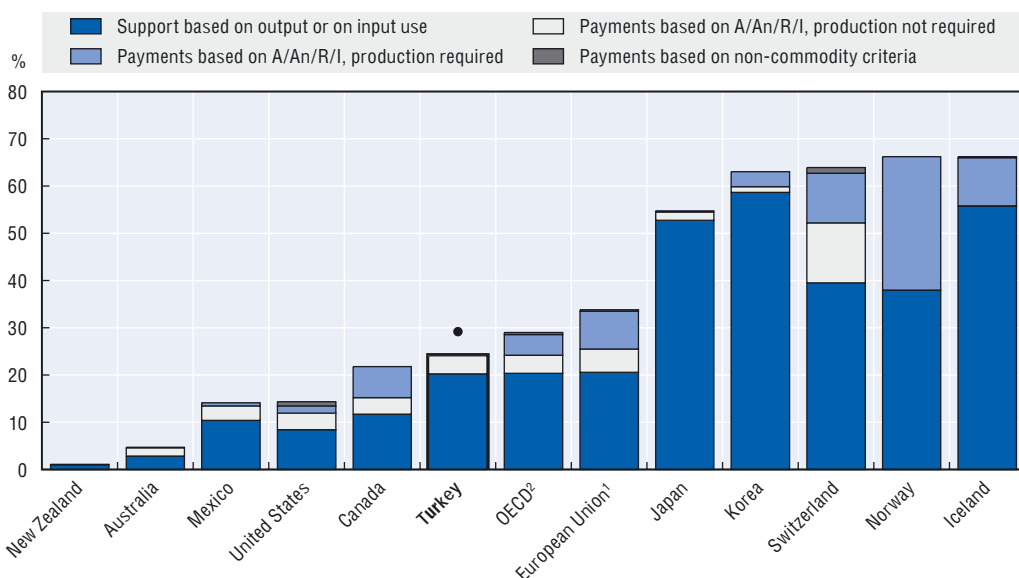
Chapter 14

Turkey

Evaluation of policy developments

- Overall, progress in policy reform towards market orientation since 1986-88 has been variable. There have been frequent *ad hoc* changes to policy settings within the context of high inflation. While the percentage PSE remains higher than its 1986-88 level, it is well below the OECD average and is lower in 2006 than in the previous two years. The composition of support has improved, with a move away from market price support in recent years.
- Direct Income Support payments, which are granted on a flat, per-hectare rate and which entail no requirement to produce commodities, could decrease the production distortions associated with agricultural support policies and enhance the targeting of stated objectives.
- The recent introduction of payments based on output for cereals is a step backwards to more distorting forms of support, which undermines ongoing reform efforts.
- Continuation and expansion of the 2001-05 ARIP is broadly in line with an improvement in market orientation. This, together with efforts to strengthen the legal framework and develop more coherent rural development policies, such as training, advisory and research, and appropriate farming practices could help to modernise the sector and increase its productivity. In order to achieve these objectives Turkey should focus its efforts on policies that facilitate structural adjustment rather than increasing output- and input-linked support.

Figure 14.1. **Turkey: Producer Support Estimate by country, 2004-06**
Per cent of value of gross farm receipts



A (area planted), An (animal numbers), R (receipts) or I (income).

1. EU25. 2. The OECD total does not include the six non-OECD EU member states.

Source: OECD PSE/CSE database, 2007.

Summary of policy developments

The main policy development in 2006 was the enactment of the new Agricultural Law. The new law relies to the government's "Agricultural Policy Paper 2006-10", which is intended to bring Turkey's agricultural policies into line with those of the European Union. The Agricultural Reform Implementation Project (ARIP) was extended until 2007 and was broadened to include, in addition to direct income support, a new Rural Development Programme and a wider set of investment support activities. The National Rural Development Strategy was endorsed in 2006.

- Support to producers (%PSE) fell by seven percentage points to 20% in 2006, compared to 2005. It increased from 16% in 1986-88 to 24% in 2004-06, but remained below the OECD average.
- In 1986-88 the most distorting policies (commodity output- and variable input-based payments) accounted for all of producer support and in 2004-06 for 84%. Reductions in the most distorting forms of support have been offset by increases in the Direct Income Support payment, which represents 16% of support to farmers.
- Prices received by farmers in 2004-06 were about 28% higher than those received on the world market. They were 17% higher during 1986-88.
- The share of single commodity transfers increased from 72% of producer support in 1986-88 to 81% in 2004-06. Single commodity transfers were over 40% for sugar and beef and 31% for poultry and eggs.
- The cost imposed on consumers, as measured by the %CSE, increased from 16% in 1986-88 to 19% in 2004-06. Consumers paid prices 21% higher than world prices in 1986-88 and 26% higher in 2004-06.
- In 2004-06, support for general services provided to agriculture remained unchanged from the 1986-88 period, at 10% of total support. The share of total support to agriculture in GDP also remained unchanged, at around 4%.

Figure 14.2. Turkey: PSE level and composition by support categories, 1986-2006

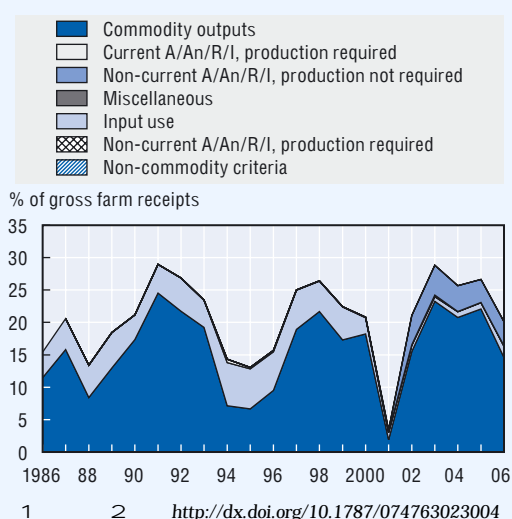


Figure 14.3. Turkey: Producer SCT by commodity, 2004-06

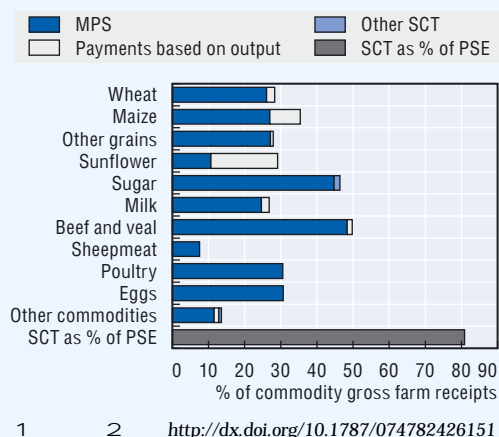


Table 14.1. Turkey: Estimates of support to agriculture
New Turkish Lira, TRY million

	1986-88	2004-06	2004	2005	2006p
Total value of production (at farm gate)	18	62 651	58 499	62 662	66 793
<i>Of which share of MPS commodities (%)</i>	<i>57</i>	<i>59</i>	<i>62</i>	<i>59</i>	<i>57</i>
Total value of consumption (at farm gate)	15	55 720	52 825	56 350	57 985
Producer Support Estimate (PSE)	3	16 073	15 921	17 784	14 514
Support based on commodity output	2	12 723	12 892	14 756	10 522
<i>Market Price Support</i>	2	11 702	12 387	13 652	9 067
<i>Payments based on output</i>	0	1 021	504	1 104	1 455
Payments based on input use	1	805	544	628	1 242
<i>Variable input use</i>	1	178	186	168	181
<i>Fixed capital formation</i>	0	587	341	413	1 009
<i>On-farm services</i>	0	39	17	48	53
Payments based on current A/An/R/I ¹ production required	0	37	5	47	60
<i>Of a single commodity</i>	0	36	5	47	57
<i>Of a group of commodities</i>	0	1	0	0	2
<i>Of all commodities</i>	0	0	0	0	1
Payments based on non-current A/An/R/I ¹ production required	0	0	0	0	0
Payments based on non-current A/An/R/I ¹ production not required	0	2 508	2 481	2 353	2 689
<i>Variable rates</i>	0	0	0	0	0
<i>Fixed rates</i>	0	2 508	2 481	2 353	2 689
Payments based on non-commodity criteria:	0	0	0	0	0
<i>Long-term resource retirement</i>	0	0	0	0	0
<i>Specific non-commodity output</i>	0	0	0	0	0
<i>Other non-commodity criteria</i>	0	0	0	0	0
Miscellaneous payments	0	0	0	0	0
Percentage PSE	16	24	26	27	20
Producer NPC	1.17	1.28	1.30	1.35	1.19
Producer NAC	1.20	1.32	1.35	1.36	1.25
General Services Support Estimate (GSSE)	0	1 880	946	2 311	2 382
Research and development	0	40	38	37	46
Agricultural schools	0	4	6	5	0
Inspection services	0	211	132	157	343
Infrastructure	0	4	4	4	5
Marketing and promotion	0	1 596	750	2 086	1 952
Public stockholding	0	0	0	0	0
Miscellaneous	0	26	17	23	37
GSSE as a share of TSE (%)	9.7	10.5	5.6	11.5	14.1
Consumer Support Estimate (CSE)	-2	-10 468	-11 329	-12 400	-7 675
Transfers to producers from consumers	-2	-11 964	-12 866	-14 113	-8 915
Other transfers from consumers	0	799	616	691	1 090
Transfers to consumers from taxpayers	0	0	0	0	0
Excess feed cost	0	697	921	1 021	150
Percentage CSE	-16	-19	-21	-22	-13
Consumer NPC	1.21	1.26	1.30	1.31	1.16
Consumer NAC	1.20	1.24	1.27	1.28	1.15
Total Support Estimate (TSE)	3	17 953	16 867	20 096	16 896
Transfers from consumers	2	11 165	12 250	13 421	7 825
Transfers from taxpayers	1	5 989	4 002	5 983	7 981
Budget revenues	0	799	616	691	1 090
Percentage TSE (expressed as share of GDP)	4.10	3.64	3.92	4.12	2.89
GDP deflator 1986-88 = 100	100	296 904	274 511	289 308	326 893

p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

1. A (area planted), An (animal numbers), R (receipts) or I (income).

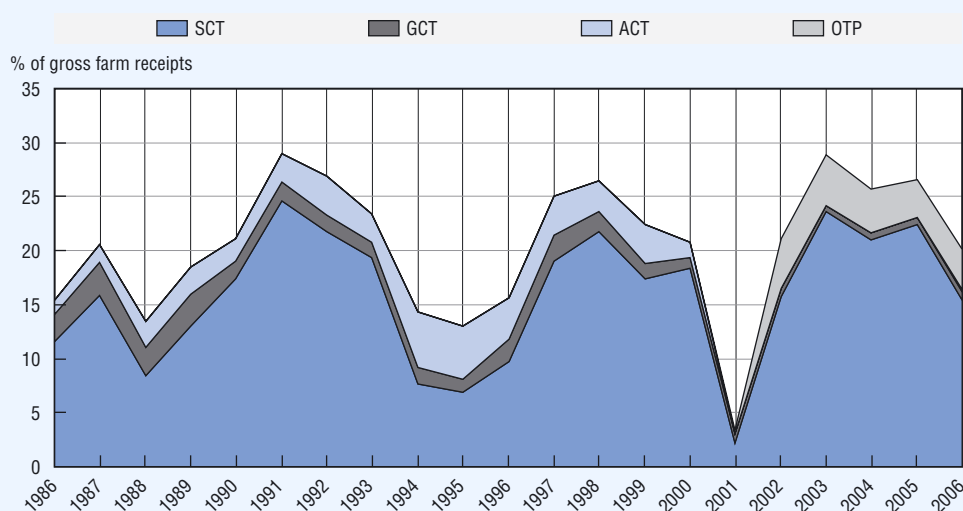
MPS commodities for Turkey are: wheat, maize, other grains, oilseeds, sugar, potatoes, tomatoes, grape, apple, cotton, tobacco, milk, beef and veal, sheepmeat, poultry and eggs. Market price support is net of producer levies and excess feed costs.

Source: OECD, PSE/CSE database, 2007.

Box 14.1. Turkey: Commodity-specificity of support

In 2006, Single Commodity Transfers (SCT) made up 77% of the PSE, down from 84% in 2005; they increased from 72% in 1986-88 to 81% in 2004-06. Group Commodity Transfers (GCT), where producers have the option to produce any one of a specified group of commodities as part of programme eligibility, have doubled in 2006 as compared to 2005, to 4%. GCT fell significantly from 17% in 1986-88 to 3% in 2004-06. Transfers provided under the headings All Commodity Transfers (ACT) and Other Transfers to Producers (OTP) place no restriction on the commodity farmers choose to produce or do not require any commodity production at all.¹ Together these accounted for 20% of the total PSE in 2006, up from 13% in 2005 (they had increased from 11% in 1986-88 to 16% in 2002-04).

Figure 14.4. Turkey: PSE level and commodity specificity, 1986-2006



Source: OECD PSE/CSE database, 2007.

1 2 <http://dx.doi.org/10.1787/074810236767>

1. The definition of the categories SCT, GCT, ACT and OTP are provided in the Chapter I.3 of this report including an annex with the list of groups used in specific countries in the period 1986-2006.

Description of policy developments

Main policy instruments

Border measures and budgetary payments are the main policy instruments supporting agriculture. Under the 2001-05 ARIP, an annual direct income support payment to cushion the losses associated with the removal of administered prices and input subsidies is granted on a per-hectare basis to all farmers registered with the National Farmer Registration System (NFRS) at a flat rate. The ARIP programme was extended for the period 2005-07 and its scope enlarged. Import tariffs – complemented by purchasing prices fixed for cereals, sugar and tobacco – provide support for domestic production. Export subsidies are applied to a number of products, including fresh and processed fruit and vegetables and derived food products, poultrymeat and eggs. Production quotas at processing plant level are applied for sugar beet.

Deficiency payments – based on production costs, world and domestic prices – are implemented for olive oil, oilseeds, cotton, tea, and, as of 2005, for cereals. Tea growers are partially (70%) compensated for the costs incurred in implementing the strict pruning requirements to control supply. Compensatory payments are also granted to potato and livestock producers to compensate for income losses. A farmer transition programme, originally designed to reduce excess supply of hazelnuts and tobacco, was put in place in 2005 for these crops. Livestock sector support policies include numerous health and quality measures to meet the EU's sanitary and phytosanitary standards.

Most farmers are exempt from income tax. Subsidies on fertilisers were abolished in 2002, as were those on hybrid seeds and pesticides for all commodities. Input subsidies are provided mainly in the form of interest concessions, and payments to improve animal breeds and farm production capacity (e.g. field levelling, drainage, soil improvement and protection, and land consolidation). Farmers also receive an area-based payment for gasoline use. Financial aid is granted to assist in the restructuring and transformation of Agricultural Sales Co-operatives (ASC) and their unions (ASCU) into independent, financially autonomous and self-managed co-operatives. Financial aid is also provided for improving public services to facilitate reform implementation.

A number of regulations control water and soil pollution, and protect wetlands. National and regional plans provide information to help farmers to combat land desertification and reduce the discharge of nutrients. The government plays a major role in providing infrastructure investment, especially for irrigation. Capital costs relating to irrigation and operation and maintenance expenditures incurred by the General Directorate of the State Hydraulic works (DSI) are subject to repayment.

A new agriculture law to facilitate implementation of the "Agricultural Strategy Paper 2006-10" was enacted in April 2005. This law puts emphasis on increasing productivity and ensuring food supply. The tools of agricultural support to be used for achieving the strategic objectives, principles and priorities of the agricultural policies outlined in the strategy paper include direct payments, deficiency payments, compensatory payments, livestock support (fodder crops, artificial insemination, milk premiums, risk-free livestock regions, bee-keeping, fisheries), crop insurance support, rural development support and environmental set-aside. In addition, funds will be allocated to selected credit supports and research and development.

A National Rural Development Strategy paper, in line with the EU's Rural Development Programme, has been prepared. Turkey will adapt the EU's agricultural policy aquis over the period 2005-15, a significant part of which concerns sanitary and phytosanitary measures, animal welfare, hygiene standards and food safety.

Domestic policy

Purchasing prices, which are set by marketing boards and take into account world prices, cost of production and domestic market conditions, decreased in 2005 compared to the previous year's prices for all commodities except tobacco and sugar. In 2006, purchasing prices increased for most types of wheat, rye, oats and tobacco (Table 14.2). In 2006, grain purchasing prices were somewhat higher in national currency, but lower in USD terms compared to the marketing year 2005. Following policy reforms in the tobacco market, purchasing prices for tobacco are now differentiated regionally.

Table 14.2. Turkey: Purchasing prices for cereals, sugar and tobacco

Product	2004		2005		2006		Change in TRL price	Change in TRL price
	TRL mn/t	USD/t	TRL mn/t	USD/t	TRL mn/t	USD/t	2004/05	2005/06
							%	%
Wheat								
Durum, Anatolian	392	273	360	268	385	269	-8	7
Durum, other	374	260	350	261	300	209	-6	-14
Hard, white	371	258	350	261	375	262	-6	7
Hard, red Anatolian	371	258	350	261	375	262	-6	7
White barley	264	184	248	185	265	185	-6	7
Rye	250	174	234	174	250	175	-6	7
Oats	278	193	245	183	260	181	-12	6
Maize	332	231	260	194	226	158	-22	-13
Sugar beet	99	69	99	74	100	70	0	1
Tobacco, Aegean A	4 800	3 340	5 410	4 033	5 790	4 042	13	7
GDP deflator 1995 = 100	3 972		4 186		4 729		5	13

Source: Government of Turkey, Resmi Gazete (Official Gazette), Ankara, 2006.

In 2005, **compensatory payments**, amounting to TRY 12 million (USD 9 million), were granted for the first time to potato growers to compensate for income losses associated with the prohibition of potato production in provinces affected by the potato ward disease. In 2006, a total of TRY 4 million (USD 3 million) was paid in compensatory payments to potato growers, and TRY 54 million (USD 38 million) to tea growers (to compensate for the costs of pruning). No compensatory payments to sugar beet growers were made in either 2005 or 2006, and the production quota remained unchanged at its 2002 level of 2.2 million tonnes of sugar equivalent.

The system of **direct income support** (DIS) continued in 2006. Each registered farmer continues to receive per-hectare payments, up to a maximum of 50 hectares. Producers with less than 0.01 hectare are excluded from DIS payments. At the end of 2005, DIS was applied to over 17 million hectares of land, and 2.75 million farmers have been registered under the National Farmer Registration (NFR) system. The rate of DIS payments was TRY 100 (USD 75) per hectare in 2005 and TRY 160 (USD 112) in 2006. Total expenditure for DIS payments increased from about TRY 1 946 million (USD 1 451 million) in 2005 to

TRY 2 689 million (USD 1 877 million) in 2006. Farmers on the DIS payment register also received a so-called “diesel payment” of TRY 23.9 (USD 18) per hectare (up to a maximum of 50 hectares) in 2005; no payment has been reported for 2006.

The uptake of the **transition payment** programme, aimed at helping farmers switch from overproduced commodities (namely hazelnuts and tobacco) to other commodities, was weak and only TRY 5 million (USD 4 million) out of the TRY 298 million (USD 213 million) available, were paid over the 2001-05 period. No payments have been reported for 2006.

The total amount of the price premium was increased by 41% for milk, while it was negligible for beef producers. **Deficiency payments** in nominal terms decreased by 86% for olive oil, but increased by 24% for cotton, 53% for oilseeds and 76% for cereals. To increase the quality of cereals – mainly wheat – a certified seed supply programme was developed in 2005 by the Ministry of Agriculture and Rural Affairs (MARA). This policy initiative was complemented by a deficiency payment mechanism for cereals in 2005: TRY 35 (USD 28 million) per tonne of wheat and TRY 25 (USD 19 million) per tonne of barley, rye and oats for registered farmers. If crop production is stored by the Turkish Grain Board (TMO), it will make an advance payment to farmers of up to 25% of the total crop value. These farmers will also be able to receive credit from banks with the receipt vouchers they receive from the TMO for their crops.

An **insurance support scheme** was implemented in 2006. The scheme is open to all producers and covers hailstorm and frost for aquaculture, greenhouse and livestock, including poultry. The government reimburses 50% of the premium costs. In 2006, TRY 1.2 million (USD 1 million) were paid to insure crops and TRY 0.6 million (USD 0.4 million) to insure livestock.

In 2006, more than 80% of the total government expenditure on **input subsidies** were for improving livestock breeds. **Interest subsidies** were abolished in 2002. However, in 2005 a new credit scheme at an interest rate of 25-60%, equivalent to TRY 36 million (USD 27 million) in 2005 and TRY 146 million (USD 102 million) in 2006, was provided to producers for organic farming, certified seed production and use, agricultural research and development, fishery products, investments on mechanisation, animal husbandry, irrigation, greenhouse farming, gardening nurseries, aromatic and medicinal crops, and good farming practices. The application period of the Restructuring Farmers’ Debts Law, enacted in mid-2003, ended in January 2006.

Enterprises that operate or invest in animal husbandry (including aquaculture and poultry), greenhouse production, certificated seed production and cooling warehouse sectors and agro-industry, are eligible for support at rates ranging from 20-50% of the cost of **electricity energy** consumption, according to their existing employment levels and levels of new recruitment. As from 2005, there has been a growing interest in producing **energy crops** in Turkey. The government supports production of canola through a deficiency payment scheme.

With regard to agricultural **state economic enterprises**, all state-owned sugar factories (SEKER), the state tobacco company (TEKEL) and the state tea processing companies are to be privatized by 2013, while the TMO will be maintained. Financing practice based on warehouse-receipts by ASCUs and TMO was introduced in 2006. The state hazelnut co-operative, FISKOBIRLIK, has ceased setting purchasing prices and the government eliminated all of its debts of about TRY 2.1 billion (USD 2 billion) during 2000-06. Following

the decision of an inter-ministerial committee chaired by the Prime Minister, procurement of hazelnuts was assigned to the TMO.

Several projects have been implemented to harmonise domestic **food safety and quality** standards with those of the European Union. On 12 November 2006, a new Agricultural Quarantine Regulation was published in the Official Gazette. A new regulation concerning the establishment of **agricultural producer organisations** was published in 2004.

On **rural development**, a new component, the “Participatory Rural Development Programme”, was included in the amended ARIP, consisting of three sub-components: i) land consolidation; ii) institutional reinforcement of farmers’ organisations; and iii) a village-based participatory investment programme. The first sub-component aims at achieving an optimal size of land holdings, while the second aims at strengthening the institutional capacity of farmer organisations, such as co-operatives, water user associations and farmers’ unions. The objective of the “village-based participatory investments” sub-component, which is divided into both private and public sector programmes, is to support community-based activities in small-scale agricultural processing, marketing and other off-farm businesses, as well as the rehabilitation of public infrastructure related to the provision of public services in remote rural areas. Projects on the following investment areas in 16 pilot provinces are to be implemented: maize drying and storage; collection, cooling and processing of milk; storage, processing and packing of fruits and vegetables; construction of greenhouses using alternative sources of energy (geo-thermal, solar, wind, etc.); meat processing, food legume processing and packing, and bee products processing and packing. Under the programme which focuses on the private sector, individual farmers and other private individuals engaged in small rural businesses would be eligible to participate, as well as groups of farmers, co-operatives, and other farmers’ organisations. A 50% grant element for private-sector investment proposals and 75% for investments by the public sector have been set. The maximum project size as a basis for the loan financing will be TRY 49 000 (USD 35 000) for individuals and TRY 350 000 (USD 250 000) for private enterprises, groups of farmers, and non-profit organisations, and TRY 420 000 (USD 300 000) for public-sector investments.

Concerning **environmental protection**, the Law for the implementation of Soil Protection and Land Use regulation was enacted in July 2005. The “Environmentally Based Agricultural Land Utilisation” sub-component of the amended ARIP aims to protect environmentally fragile areas by setting aside agricultural areas formerly planted to crops in excess production or subject to severe erosion and replacing harmful agricultural farm practices with more environmentally friendly ones such as contour tillage, reduced flow irrigation, organic agriculture, production of fodder and adoption of pasture rehabilitation measures. It will be implemented in four pilot provinces totaling approximately 5 000 hectares: farmers in these areas would be offered annual transition payments (5 to 10 years) of TRY 560-1260 (USD 400-900) per hectare.

Trade policy

In 2006, most duties remained at the same rates as in 2005. Duty rates for wheat, barley, corn, sorghum, sunflower seeds, crude sunflower oil and soybean meal were raised in 2006. The average rate of **customs duties** for agricultural products was 56.4% in 2005 and 59.2% in 2006.

Export subsidies for agricultural products were announced in the Official Gazette dated 15 February 2006 and were applied for the exports realised during the 2006 calendar year. In 2006, 16 commodity groups, out of the 44 groups eligible under Turkey's WTO commitments, received export subsidies. The subsidies are provided to exporters in the form of deductions in their payments to public corporations such as taxes, social insurance premium costs, telecommunication costs or energy costs. The subsidy per product and the share of the exported quantity eligible for the subsidy are given below.

Table 14.3. **Turkey: Export subsidy rates, 2006**

Product	Rate (USD/ton)	Share of exported quantity eligible for the subsidy (%)
Cut flowers (fresh)	205	37
Vegetables, frozen (excluding potatoes)	79	27
Vegetables (dehydrated)	370	20
Fruits (frozen)	78	41
Preserves, pastes	68	51
Honey	65	32
Homogenized fruit preparations	63	35
Fruit juices (concentrated)	134	17
Olive oil	100	100
Prepared or preserved fish	200	100
Poultrymeat (excl. edible offal)	186	14
Eggs	6 per 1 000 pieces	78
Preserved poultrymeat products	250	22
Chocolate and other food preparations containing chocolate	119	48
Biscuits, waffles	119	18
Macaroni, vermicelli	66	32

In 2005 and 2006, the announced rates of **export subsidies** and related quantity limits remained at around 2004 levels, except for olive oil. Export subsidies, limited to a maximum of between 10% and 20% of the export price and between 14% and 100% of the quantities exported, continued to be provided for processed fruit and vegetables, fruit juices, olive oil, potatoes, apples, poultrymeat and eggs.

A Memorandum of Understanding was signed with Australia in December 2005 which proposes exchanges of scientific and technical information, research reports and experts, agricultural trade and investment related activities, and other joint activities.