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COMPETITION AND COMMODITY PRICE VOLATILITY

Contribution from Turkey

-- Session I --

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-- Turkey --

1. Introduction

1. The main objective of this brief contribution is to provide a sound understanding about meat price changes in Turkey and to demonstrate how the Turkish Competition Authority (TCA) approached and evaluated this emerging situation.

2. Being one of the basic commodities for consumers, meat has indisputable importance for human nourishment. Due to its increasing importance with population growth, any competition infringement in the meat market and other related and interacting markets outstretching in a large array such as milk, leather, wool, fodder plants may have geometrically increasing negative effects on consumers.

3. In April 2010, upon various complaints from different sources of stakeholders such as Consumer Association Organization among others, alleging that some prominent meat producers had stocked meat obtained from cattle and marketed that meat after prices increased due to a cartel agreement, TCA launched a preliminary inquiry. In this process, no evidence could be found proving the existence of an anti-competitive agreement. However, in the sector inquiry conducted subsequently by TCA, some structural problems affecting meat prices in upward direction were detected. These findings are briefly discussed below.

2. Meat Sector Inquiry

2.1 Meat Price Movements

4. According to data regarding the period between 2005 and 2010, meat producer price for cattle increased approximately from 9 TL/kg (5.026 USD/kg) to 17 TL/kg (9.494 USD/kg). Similarly, meat consumer price for cattle increased approximately from 12 TL/kg (6.702 USD/kg) to 23 TL/kg (12.845 USD/kg)¹.

5. For the same term, meat producer price for sheep increased approximately from 8 TL/kg (4.468 USD/kg) to 14 TL/kg (7.819 USD/kg) and meat consumer price for sheep reached approximately from 11 TL/kg (6.143 USD/kg) to 22 TL/kg (12.287 USD/kg).

2.2 Decline in the number of livestock

6. The number of the livestock declined dramatically during the period between 1980 and 2008 in Turkey. Whereas there were 15.5 million cattle, 46 million sheep, 18.7 million goats and 1 million water buffalo in 1980, these numbers decreased respectively to 10.8, 23.9, 5.6 million and 86 thousand, implying a 30%, 48%, 70% and 91% loss. The number of cattle and ovine per person also declined through the same term even if the effect of tourism is not taken into account.

¹ The statistical information referred to in this text is obtained from the sector inquiry report entitled "Turkey Red Meat Sector and Competition Policy" which is available at <http://www.rekabet.gov.tr/dosyalar/sektorraporlari/sektorrapor5.pdf>

7. This situation has become more striking when compared with the data of Food and Agricultural Organization (FAO) about world red meat production amount as a demonstrator of animal number concerning the term between 1990 and 2005. According to this data, cattle meat production increased 12%, sheep meat production increased 17.9%, goat meat production increased 73.6%, and water buffalo meat production increased 37.5%.

2.3 *The quality of livestock*

8. Not only the quantity but also the quality of the stock is very important. There are three types of races that can be ranked according to their efficiency levels: local race at the bottom, hybrid race in the middle and the so-called culture race at the top. Breakdown of the races is 24.2% local, 41% hybrid race and 34.7% culture race. In this regard, it should be noted, as a phenomenon causing cattle breeding for meat to take back seat compared to cattle breeding for milk, that efficient incentive and support mechanisms have been created for the latter.

2.4 *Changes in red meat production*

9. Data referring to the period between 1990 and 2005 purports that meat production amount regressed at a ratio of 19%. On the other hand, it is understood that meat productivity per animal has an increasing trend.

10. Although an increase could be observed for 2006 and 2007, again a drop was experienced in 2008 due to unfavorable weather conditions directly affecting fodder utilities and global economic crisis. This shrinkage continued in 2009 and a reduction of 12.2% for cattle meat, 22.9% for sheep meat, 15.1% goat meat and 24.6% for water buffalo meat occurred. Here, it should be noted that a considerably high ratio of 40% informal economy is in question, causing unreliability about the data.

2.5 *The Structure of the Undertakings and the Integration Level of the Market*

11. Before evaluating the structure of the undertakings operating in the market, it should be mentioned that it is hard to talk about specialized stockbreeding. Only 0.5% of 3 million undertakings are working exclusively in the field of stockbreeding.

12. In respect of the structure of the undertakings, small family run, multi partial and unintegrated character is dominant. Even though undertakings dealing with ovine stockbreeding have larger herds enabling them to benefit from scale economies, the situation is not so bright for those dealing with cattle stockbreeding. 60% of those undertakings have 1-4 animals, 99.2% of them have 1-49 animals, and only 1.2% of them (corresponding to 411 undertakings) have 150 and more animals and therefore are qualified as having large herds. When compared to EU with 30 animals on average per undertaking, it seems hard to attain the cost advantages that the economies of scale will create.

13. Lack of integration of these undertakings results in the expansion of the margins between producer and consumer prices because each additional intermediary adds his own profit and this weakens the relationship between producer profit and retail selling price. In addition, the pressure on the price that is occurring in wholesale markets has increased as well due to structural transformation experienced in fast moving consumer goods sector and expansion in the buying power of retailers gaining the control of the channel. That pressure increases further because of the rising demand for meat products in nourishment in parallel with the increase in welfare; relative decrease in livestock stock and cost increases. And this situation considerably stifles the activities of the stockbreeding undertakings which do not have enough capital and financial power. This evaluation may be illustrated with the data between 1999 and 2007. In 1999, the ratio of consumer prices to retail prices was 32.5/26.2 and in 2007, this ratio was 14/55.7.

2.6 Course of Fodder Costs

14. Fodder costs constitute 70% of all costs of the producers. Efficiency decrease caused by global aridity in 2007, global crisis and increase in energy prices supporting biofuel production in 2008 lead to considerable increases in fodder prices. Especially in 2007, it was almost impossible to afford the cost of fodder with the profit obtained. By 2009, fodder prices have started to decline.

2.7 Decline in the Breeding Animal Stock

15. Milk gets the largest portion from the animal production value in Turkey. Therefore, as the source of milk, cows have importance for the future course of livestock. However, due to increases in dairy cattle feed costs in 2007 that exceeded milk prices, owners preferred to sell their animals especially in Feast of Sacrifice (Eid al-Adha) even though the insufficiency of the cow race causes obtaining 50% less meat. Over 400 thousand cows were sold at that period purporting a decline in birth rate and a great problem for the feature of breeding animals.

2.8 Meat and Livestock Import

16. Increases in meat prices that emerged in 2007-2008 and that could not be overcome with the current regulations caused public authorities to take new measures. By a number of cabinet decisions within certain conditions, permission was given for the import of meat and livestock. Although legal barriers constraining the import of both livestock and meat have been considerably decreased, it is seen that the expected decline in prices has not been realized with effect of this import. Further, it may be stated that imports will have more negative effects in long run.

2.9 Increase in sheep export

17. Turkey exported 37,351 and 80,750 sheep (respectively 1,810,830 kg and 4,363,710 kg) in 2008 and 2009.

18. Taking into consideration that sheep meat is a close substitute to cattle meat, it may be concluded that switching from supply to export affected the rise in red meat prices.

3. Meat Market Investigation

19. Besides the above-mentioned issues associated with some structural problems, TCA also has concerns about the activities of undertakings operating in meat and meat products markets. Following a preliminary inquiry, based on the allegations that some undertakings stocked meat and thus caused artificial supply restraints with a view to increasing prices, which was closed due to lack of evidence, an ex-officio investigation was launched in August 2010 about four meat producers supplying meat and meat products especially to chain hotels (catering firms were also getting product from these firms, but their total demand was low when compared to hotels so they were not evaluated and no other proof could be obtained regarding other regions) in Aegean and Mediterranean regions to determine whether meat and meat products' prices were fixed and whether there was market allocation between these firms between October 2007 and December 2009. Although it was determined that there was a relationship between the prices of these producers and general price fluctuations, at the end of the process two undertakings were fined approximately TL 1.2 million because they shared information and future price lists.²

² TCA Decision date and number: 17.11.2011, 11-57/1510-538. The decision of TCA has not been judicially reviewed yet.

4. Conclusion

20. In the context stated above, it can be concluded that increases in meat prices have structural causes, and the effect of global economic and climatic conditions should be considered as well. Nevertheless, it should also be indicated that TCA ex officio conducted an investigation through 2011 and punished some producers with the accusation of infringing Article 4 of the Act on the Protection of Competition no 4054 regarding cartels.