



USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

Template Version 2.08

Required Report - public distribution

**Date:** 5/11/2007

**GAIN Report Number:** TU7032

## Turkey

### Cotton and Products

### Annual report

**2007**

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**Report Highlights:**

MY 2007 cotton area and production are estimated to be 600,000 hectares and 850,000 MT, down about eleven percent from a year ago. Significant reduction in precipitation during last winter and following drought conditions particularly in the Aegean region and to a lesser degree in the Cukurova region, and ecological problems, such as salinity, in the GAP region caused planting area to decline. Domestic consumption, however, is expected to increase in MY 2007 due to the increase in production capacities as a result of continuing investment by the Turkish mills. Total cotton imports were 412,000 MT during the first seven months of MY 2006 with the U.S. supplying 240,000 MT. Total imports are expected to reach 750,000 MT by the end of the marketing year.

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Includes PSD Changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
Ankara [TU1]  
[TU]

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## Executive Summary

MY 2007 cotton area and production are projected to drop about eleven percent from last year to 600,000 hectares and 850,000 MT. A significant decline in the availability of irrigation water due to lower than usual precipitation during winter in the Aegean region and to a lesser degree in the Cukurova region accompanied by increased ecological problems in the Southeast Anatolian (GAP) region are the reasons for the decline. Some Cukurova growers say they have decided not to plant cotton because a May 2006 ban on aerial pesticide spraying will make it impossible to control insects. Some of these farmers have expressed a strong interest in Bt cotton, currently not allowed.

Cotton production continues to increase gradually in the GAP region due to an increase in irrigated land. However, expansion of the irrigation network in the GAP region has been very slow due to a lack of funds. A total of US \$8 billion will be needed to finalize the irrigation part of the project but annually only a small fraction of this amount is reportedly allocated. Average annual expansion during the last five years is only about 10,000 hectares, while the total target area that remains to be irrigated is over 1 million hectares in the GAP region. In all other regions, cotton production continues to fluctuate in accordance with the availability of irrigation water and return on alternative crops. Cotton production will fluctuate between 850,000 MT and 1 MMT for years to come.

Turkish farmers are also in search of ways to make cotton planting more feasible and to be able to compete with imported cotton. The total number of mechanical cotton harvesters in MY 2007 is expected to increase by fifty percent and reach 400. This will lessen the farmers' dependence on hand picking and decrease costs.

In MY 2007 domestic cotton consumption is expected to increase about five percent to 1.65 MMT due to continuing investment of Turkish mills. The worldwide free flow of textile products which began in 2005 has hurt exports of Turkish textile products since the cost of production, including electricity and labor, is higher in Turkey than in newly emerging textile-producing countries. Despite this, Turkish companies managed to regain their markets, particularly in Europe, because of shipping time advantages and the focus on fashion and design. Globally, Turkey is the world's 7th largest fiber producer has the 10th largest textile industry and is the 4th largest garment manufacturer. Domestically the textile and garment industries are crucial, accounting for 10 percent of Turkey's GDP and 17.5 percent of industrial production, 20 percent of Turkey's workforce; textile and garment exports account for 26 percent of total Turkish export earnings.

Total cotton imports are expected to reach 775,000MT by the end of MY 2006 compared to 724,000 MT last year. Further increases in cotton imports are foreseen for next year due to the expected decline in domestic production and a projected increase in local consumption. Turkey imported a total of 412,000 MT of cotton during the first seven months of MY 2006, with the U.S. as the leading supplier with 240,000 MT. Total Turkish cotton exports during the same period were only 15,000 MT. A strong Turkish Lira and low domestic production were the reasons for reduced exports. The great majority of the cotton exports went to Turkish free trade zones, some of which might be imported back into the country.

The United States is by far the leading cotton supplier to the Turkish market. This is due to the quality of U.S. cotton and the availability of GSM-102 credit guarantees. Total marketing year-end U.S. cotton imports are expected to reach 425,000 MT making Turkey one of the leading importers of U.S. cotton. While imports from the neighboring suppliers Greece and Syria have declined due to rain damage they have increased from CIS and India.

## PSD, Cotton

Turkey Cotton (HECTARES) (MT)						
	2005 USDA Official [Old]	Revised Post Estimate [New]	2006 USDA Official [Old]	Estimate Post Estimate [New]	2007 USDA Official [Old]	Forecast Post Estimate [New]
<b>Market Year Begin</b>		08/2005		08/2006		08/2006
<b>Area Planted</b>	600000	580000	700000	670000	0	600000
<b>Area Harvested</b>	600000	580000	700000	640000	0	600000
<b>Beginning Stocks</b>	388642	276025	355983	240237	0	280237
<b>Production</b>	772929	750000	816475	875000	0	850000
<b>Imports</b>	729384	744212	653180	775000	0	800000
<b>MY Imp. from U.S.</b>	400000	412176	375000	425000	0	450000
<b>TOTAL SUPPLY</b>	1890955	1776237	1825638	1890237	0	1930237
<b>Exports</b>	32659	30000	21773	35000	0	30000
<b>USE Dom. Consumption</b>	1502313	1500000	1491427	1575000	0	1650000
<b>Loss Dom. Consumption</b>	0	0	0	0	0	0
<b>TOTAL Dom. Consumption</b>	1502313	1500000	1491427	1575000	0	1650000
<b>Ending Stocks</b>	355983	240237	312438	280237	0	250237
<b>TOTAL DISTRIBUTION</b>	1890955	1770237	1825638	1890237	0	1930237

**Production**

Domestic cotton planting area in MY 2007 is projected to decline to 600,000 hectares compared to 670,000 hectares last year. Another cause for this decline is the reduction in the availability of irrigation water due to lower than usual precipitation during the winter particularly in the Aegean region and lesser degree in the Cukurova region. Increased ecological problems in the GAP region was also a factor in the drop. Total production is expected to remain about 850,000 MT.

Turkey received about 25 percent less than usual precipitation last winter. Among the cotton growing regions the Aegean region was the most affected which lowered the amount of water in reservoirs to dangerous levels. It is reported that the government officials in the region are taking farmers to the reservoirs to show them the level of water and asking them to plan their planting accordingly. A similar but less critical situation is also reported for the Cukurova region.

In the Harran area, the heart of the cotton growing area of the GAP region, where 140,000 hectares are under irrigation, an estimated 15,000 hectares of land is facing a salination problem due to poor irrigation practices. Reportedly, raising underground water levels due to the excessive irrigation and lack of drainage is adversely affecting the cotton fields. Due to the growing ecological programs in the GAP region and the scarcity of water in the other cotton growing regions, the government is getting ready to introduce a new project providing education and funds to farmers who will invest in drip irrigation systems.

Turkish farmers are continuing to search for ways to make cotton planting more feasible and to be able to compete with imported cotton. Trials of cotton harvesters proved to cut the high cost and burden of cotton picking labor and make cotton planting profitable for farmers. Farmers and co-ops are continuing to purchase cotton harvesters - the total number of cotton harvesters will reach 400 in 2007 compared to 260 last year.

An increase in the use of certified seeds in all regions is also reported to increase yields. The government pays farmers a ten percent higher production bonus for certified seed users reported to increase utilization of certified seeds.

Pests are a problem, and growers are upset that the government banned aerial pesticide spraying in May 2006. Growers say they have no other cost-effective way to control infestations. Growers are eager to learn more about Bt cotton, currently not permitted.

In April 2007, the GOT announced a YTL 0.348 per kilo production bonus for MY 2006 seed cotton. The new bonus represents a 16 percent increase over last year's bonus showing the government's desire to support domestic cotton production. Even though the bonus was announced late and it is not known when actual payments will be made, it is still considered to be a useful tool to attract farmers to plant cotton. The government is expected to continue providing production bonus payments for seed cotton for years to come.

The co-ops (Cukobirlik, Antbirlik, Taris) have plans to produce bio-diesel to cut fuel costs as well. However, the GOT announced higher than expected (YTL 0.65 per liter) consumption tax for bio-diesel and not exempting co-op-produced bio-diesel from the tax has caused confusion in the industry and among the co-ops. The high tax diminished the cost advantage of the bio-diesel and until the tax issue is resolved it is not clear if the co-ops will proceed with their investment plans.

### **Production General**

Most of Turkey's cotton is planted between mid-March and mid-May and harvested from mid-August through November. The crop is grown in three main areas; the Aegean region, Cukurova and Southeastern Anatolia. Small amounts of cotton also are produced around Antalya and Antakya. The most popular variety in the Aegean region is "Nazilli 84" and "Nazilli 88"; in Cukurova "Carolina Queen", "Delta Pine", and "BA 119", "Stone Mill"; and "Diyarbakir Gold" is the most popular variety in the Southeast. Aegean cotton generally is considered to be the best quality and is preferred by the local textile industry. Aegean cotton is longer (1 1/8") than cotton from Cukurova (1 3/32") and from the GAP (1 5/32) region. Quality and properties of cotton has improved significantly in the GAP region due to improved quality of seeds.

Up until three years ago virtually all of Turkey's cotton was handpicked. However the high cost - estimated at about forty percent of total production - and scarcity of labor, was an obstacle for cotton farmers. As a result, farmers have started to invest in mechanical cotton harvesters and are expected to total 400 this season. While the majority of the new harvesters are modern, about 100 are old tractor-pulled harvesters. In all of the cotton producing regions, but particularly in the Cukurova and Aegean regions, a significant quantity of local cotton will be collected by harvesters this season making cotton production profitable for farmers.

All of Turkey's estimated 500 gins are privately owned. The majority of the gins in the Aegean region are roller gins, more suitable for longer staple cotton, while about half of the gins in Cukurova and the Southeast are roller gins and half are saw gins. However the recent increase in machine harvesting triggered construction of new saw gins. Agricultural coops, Taris and Cukobirlik, invested in new saw gins to meet the need of their members.

The ginning rate averages about 41 percent in the Aegean region, about 39 percent in GAP and 38 percent in Cukurova. Ginners generally purchase seed cotton directly from growers, playing an important role in domestic marketing. Lint generally is graded and certified by the government-regulated inspectors at the gins, using the green card system. Domestic regulations require that all locally produced cotton be ginned before the end of April.

**Consumption**

The textile industry continues to be one of the most important and dynamic sectors in the Turkish economy, accounting for 10 percent of the GNP, 20 percent of industrial employment and 26 percent of total exports. Total spinning capacity is estimated at about 2 MMT, of which 1.55 MMT is for cotton and the remainder is for synthetics.

Domestic cotton consumption went up about five percent to 1.57 MMT in MY 2006 an additional four percent increase is also foreseen for MY 2007, bringing the total consumption to 1.65 MMT due to continuing increase in domestic spinning capacity.

The worldwide free flow of textile products, which started in 2005 has limited Turkish textile products exports since the cost of production, including electricity and labor, is higher in Turkey compared to newly emerging textile-producing countries. The Turkish textile industry continue to face increasing competition from China, India, Pakistan and CIS countries in international textile and yarn markets. The appreciation of the Turkish lira against the US dollar affected textile exports adversely and also caused increase in imports of low cost yarn and fabric from the new competitor countries.

In recent years Turkish companies are struggling to keep their shares in export markets by increasing productivity, lowering profit margins, extending payment periods and replacing raw materials with low cost imports. In order to remain competitive Turkish mills are cutting costs by producing their own energy and increasing fashion and innovation. Turkish textile exports have increased since last autumn following a decline in MY 2005. Turkish textile exporters are benefiting from fast response time for orders and higher quality.

Additional import quotas imposed by the U.S. and E.U. on certain textile and apparel categories in 2006, from China allow Turkish firms time to prepare for tougher competition in 2008 when additional quotas on Chinese textile exports will expire. The future of Turkey's textile industry will depend on how well Turkish mills adjust during the interim to the new conditions.

While textile exports to the United States declined during CY 2006 due to competition from China and other Asian countries, Europe remained Turkey's main export market. Available Exporters Union data show that textile exports increased about 1 percent to \$13.5 billion and textile exports increased 12 percent, reaching \$6.5 billion. Exports to the United States were down 17 percent in 2006 compared to a year ago and exports to the EU increased about five percent in dollar terms. Available data also indicate that textile exports to the EU represent about 55 to 60 percent of total annual exports. Domestic demand for textiles is also increasing due to favorable local economic situation positively contributing local cotton consumption.

**Consumption Subcategory-Marketing Channels**

Cotton is mainly sold directly to mills and the remainder is traded on a spot basis at the exchange in Izmir. The Izmir exchange also trades some cotton from other regions and countries. There are smaller spot markets in Adana and the Southeast.

The new cotton futures market in Izmir began operating last fall. Presently, the trading of futures is very limited and so far it had no impact on cotton trading. Other supporting infrastructure, such as bonded storage facilities, is under construction and will be available for traders in the near future.

## Trade

**Important note:** Official cotton import and export figures for cotton are not available due to a policy change of the State Statistical Institute. Post utilized the available total import and export figures from private sources for the PSD and the import trade matrix. However, available import numbers from the private sources do not carry country breakdown figures for CIS and Western Africa.

According to industry sources, during the first seven months of MY 2006 Turkey imported a total of 412,000 MT of cotton. The United States was the leading supplier with 240,000 MT followed by the CIS and Greece. While imports from Greece have declined due to loss of quality following rains during the picking season, imports from India have increased due to more availability and aggressive marketing of Indian exporters.

U.S. cotton continues to have a large share of the market due to consistent quality and the availability of the GSM-102 Export Credit Guarantee Program and also lack of quality cotton in Greece and Syria. About 251,000 MT were exported or registered as sales from the United States to Turkey during the first nine months of the marketing year. Imports from Greece and Syria declined significantly and remained about 48,000 MT and 7,500 MT respectively. India emerged to be a new supplier with 28,600 MT during the same period.

According to available unofficial information, Turkey's total cotton exports reached 15,600 MT during the first seven months of the MY 2006, most of which is destined to the Turkish free trade zones. Some of that cotton is expected to be imported back into the country during the marketing year. Additionally Turkey also exports about 5,000 MT of hydrofoil cotton annually for medical use; this is not listed in the Trade matrix.

**Note:** For MY 2005 Turkish cotton exports country breakdowns are available only for the first ten months of the marketing year and for MY 2006 only for January and February 2007.

Due to the expected decline in domestic cotton production next year, slow pace of development of the GAP region and continuing investment in the textile industry, Turkey is expected to remain a net cotton importer for years to come.

Import TM, cotton

**Import Trade Matrix****Country** Turkey**Commodity** Cotton

Units:

Metric tons

Time Period

Aug/July

Aug/Feb

Imports for:

MY 2005

MY 2006

U.S.

412761

U.S.

240628

Others

Others

Greece	188522	Total C.I.S.	65418
Syria	45868	Greece	47770
Total C.I.S.	39986	India	28627
Free Z. Turkey	10578	Syria	7451
Brazil	6572	Free Zone Turkey	9153
Egypt	6005	Egypt	2710
W. Africa	4724	Brazil	1137
Israel	3527		
Australia	509		

Total for Others 306291

162266

Others not Listed

25160

9789

Grand Total

744212

412683

Units

Bales

Time Period

Aug/July

Aug/Feb

Imports for:

MY 2005

MY 2006

U.S.

1894573

U.S.

1106888

Others

Others

Greece	728501	Total C.I.S.	300922
Syria	223900	Greece	219742
Uzbekistan	72861	India	131684
Turkmenistan	66454	Free Zone Turkey	42103
Israel	41351	Syria	34274
Egypt	35425	Egypt	12466
Mersin Free Zone	21591	Brazil	5230
Azerbaijan	19214		
Uganda	18084		
Kazakhstan	13609		

Total for Others 1405875

746423

Others not Listed

115484

45029

Grand Total

3415932

1898340



## Export, TM Cotton

## Export Trade Matrix

Country Turkey

Commodity Cotton

Units: Metric tons

Time Period Aug/May

Units: Jan/Feb

Exports for: MY 2005

MY 2006

U.S.

U.S.

Others

Others

Turkey F Zones	17796	Turkish Free Trade Zones	13002
Italy	5464	Greece	808
Netherlands	2912	Indonesia	686
Greece	1459	Portugal	240
France	1350	China	213
Indonesia	1284	Germany	198
China	1194	Thailand	189
Portugal	968	Pakistan	160
Pakistan	763	Italy	22
Hungry	706	France	21

Total for Others 33896

15539

Others not Listed 3650

66

Grand Total 37546

15605

Units: Bales

Time Period Aug/May

Jan/Feb

Exports for: MY 2005

MY 2006

U.S. 918

U.S.

Others

Others

Turkey F Zones	81683	Turkey Free Trade Zones	59809
Italy	25079	Indonesia	3155
Netherlands	13366	Greece	3719
Greece	2107	China	979
France	6196	Germany	910
Indonesia	5893	Thailand	869
China	5480	Portugal	1104
Portugal	4443	Pakistan	736
Pakistan	3502	Italy	101
Hungry	3240	France	97

Total for Others 33896

71480

Others not Listed 16753

301

Grand Total 51567

71781

## Export TM, Cotton yarn

**Export Trade Matrix**

Country	Turkey	
Commodity	Cotton Yarn	
Time Period	Jan/Dec	Metric tons Jan/Dec
Imports for:	CY 2005	CY 2006
U.S.	1126	
Others		
Italy	22320	Italy 26112
Portugal	15078	Portugal 19092
Bulgaria	9848	Greece 8780
Greece	7757	Poland 7638
Poland	7538	Egypt 6015
Germany	5172	Bulgaria 3513
Romania	4020	Spain 2983
Spain	3760	Germany 2420
Hungry	2843	Israel 1882
Israel	2730	Romania 1382
Total for Others	81066	79817
Others not Listed	22941	5083
Grand Total	105133	85000

## Import TM, Cotton yarn

**Import Trade Matrix**

Country	Turkey	
Commodity	Cotton Yarn	
Time Period	Jan/Dec	Metric tons Jan/Dec
Imports for:	CY 2005	CY 2006
U.S.	28	
Others		
Uzbekistan	25795	Uzbekistan 32238
Turkmenistan	22277	Turkmenistan 15205
Pakistan	19450	Pakistan 11056
India	14543	Kayseri FTZ 10463
Kayseri Free Zone	9548	India 5721
Egypt	3297	Egypt 1245
Italy	1282	Italy 548
Kazakhstan	799	Kazakhstan 398
Mersin Free Zone	617	Greece 79
Greece	381	China 33
Total for Others	97989	76986
Others not Listed	2030	3014
Grand Total	100047	80000

Export TM, Cotton Fabric

## Export Trade Matrix

Country	Turkey	
Commodity	Cotton Fabric	
Time Period	Jan/Dec	Metric tons Jan/Dec
Imports for:	CY 2005	CY 2006
U.S.	9720	1015
Others	Others	
Italy	12990	8385
Ataturk Free Zone	9409	4910
Poland	7591	3652
Romania	7233	3315
Bulgaria	5379	2770
Germany	4735	1805
Poland	4555	1736
Russia	3677	1594
Istanbul Free Zone	3320	1121
United Kingdom	3249	1000
Total for Others	62138	30288
Others not Listed	27896	8697
Grand Total	99754	40000

Import TM, cotton fabric

## Import Trade Matrix

Country	Turkey	
Commodity	Cotton Fabric	
Time Period	Jan/Dec	Metric tons Jan/Dec
Imports for:	CY 2005	CY 2006
U.S.	787	26
Others	Others	
Pakistan	40404	34135
China	18832	16165
India	11525	7185
Indonesia	11001	7128
Turkmenistan	10929	5605
Ataturk Free Zone	9273	4572
Italy	7723	2912
Bulgaria	7209	1452
Thailand	3012	896
U. A. E.	2796	766
Total for Others	122704	80816
Others not Listed	21895	4158
Grand Total	145386	85000

**Stocks**

There are no official stock estimates. Turkish mills preferred to maintain stocks at minimal levels due to the high cost of financing (approximately 1.5 percent per month). In general this policy works to their advantage during the first half of the marketing year when local supply is abundant and prices are low. However, it also makes them vulnerable to price increases in the world market, as well as to speculative price increases in the local market during the second half of the marketing year.

**Policy****Production Policy**

About one third of the Turkish population lives in rural areas and earns the bulk of its income from farming. Therefore, agriculture and rural development are still top priorities for the government. The massive investments in the GAP are probably the best example of this policy. The farmers' cooperatives, TARIS, Cukobirlik and Antbirlik have historically provided their members with low-cost loans, seed and fertilizer and are supposed to buy members' cotton at announced prices. However, since the last crises in 2001 and as a part of the IMF economic reform program they became more independent and are not permitted to operate at a loss necessitating funds from the treasury. TARIS, located in the Aegean region, continues to play an important role buying and selling cotton. The role of Cukobirlik in the Cukurova region, however, has been declining.

Last February the GOT announced a YTL 0.348 (approx. US\$ 0.25) per kilogram production bonus for seed cotton for the MY 2006 crop. The new bonus represents sixteen percent increase over last year's bonus showing GOT's desire to support domestic cotton production. The aim of the government is to keep cotton and cotton products within the registered economy and support production. The cotton bonus payments for MY 2006 crop are expected to take place in September during the harvest of the MY 2007 crop. Even though the bonus was late to be announced and it is not known when actual payments will be done but it still is considered to be a tool to attract farmers to plant cotton. The GOT expects to continue with the production bonus payments for seed cotton for years to come.

As with all crops, subsidized credits from the Turkish Agricultural Bank and subsidies on the cost of all fertilizers stopped in October 2001. Irrigation water provided by the State Irrigation Authority (DSI) for a fee but there is a continuing debate whether the price of water is below its actual cost. Pesticides are commercially available.

**Trade Policy**

According to the 2006 import regime, cotton imports from all sources are duty-free. However, the recent policy changes of the Turkish government requiring the issue date on phytosanitary certificate to be prior or the same date with bill of lading of the shipment have caused considerable obstacles for U.S. cotton exporters. The negotiations are continuing with the Turkish government officials to resolve the issue.

**Marketing**

U.S. cotton enjoys a good reputation among Turkish spinners due to its consistent quality and the reputation of the United States as a reliable supplier. Marketing and promotion activities done by the CCI and CI as well as use of the Cochran program executed by FAS has helped to maintain high awareness among the Turkish mill owners. Timely seminars on the U.S. cotton and GSM are continuing to generate a great deal of interest and demand for U.S. cotton.

(Exchange rate: US\$ 1 = YTL 1.35)