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Turkey

Cotton and Products

Annual report

2005

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Report Highlights:
MY 2004 area and production are estimated at 635,000 hectares and 800,000 MT, which is a significant decline, compared to MY 2003. Cotton planting declined in every cotton-growing region. Farmers unsatisfied with 2003 returns switched to wheat, barley, corn and vegetables. Domestic consumption remains strong sending imports to record levels. MY 2004 imports are expected to reach 640,000 MT with the U.S. supplying about 400,000 MT. Imports are expected to be even higher next year in the view of declining local production.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

MY 2005 cotton area and production are projected at about 635,000 hectares and 800,000 MT. The decline in production is over thirteen percent compared to last year. MY 2004 was one of the least profitable years for local cotton producers. Low returns were due to several factors, which include; low international cotton prices, an over-valued Turkish Lira, slow domestic sales and late production bonus payments. Low returns persuaded many farmers to plant wheat and barley in the Southeast Anatolia (GAP region), corn in Cukurova region and grapes and vegetables in the Aegean region. Cotton planting is reported to be lower in every region despite the newly irrigated areas where cotton is always the first choice of farmers.

Industry contacts indicate that in order for cotton production to be competitive and profitable, Turkish farmers need to use modern techniques of farming and marketing such as machine picking and modern terms of marketing now available at the Izmir Cotton Futures. Farmers also indicate that they require the GOT to announce higher production bonuses and to pay the bonuses in a timely fashion. Farmers and coops are reportedly buying various types of picking machines particularly in the Aegean region where farm labor is the most expensive.

MY 2004 domestic cotton consumption increased to 1,475,000 MT, which is a record for Turkey. High world petroleum prices caused cotton to replace man-made fiber in textiles pushing cotton consumption to record levels in Turkey. Consumption in MY 2005 is expected to be about 1,450,000 MT with minor effects on Turkish textile exports due to the Chinese competition in the export markets. Domestic consumption in coming years will depend on how well Turkish textile companies compete with Chinese exports in world markets.

Official trade data for the first seven months of MY 2004 show total imports of 304,000 MT of which 144,000 MT were U.S. origin. Based on current trends, post is projecting imports at 640,000 MT during MY 2004, which will be another record for Turkey. Given the projected decrease in domestic production and expected high level of consumption in MY 2005, imports are expected to be higher next year. Total Turkish cotton exports during the first seven months of MY 2004 were 15,000 MT showing a significant decline compared to last year. The relatively strong Turkish Lira against currencies of other cotton exporting countries made Turkish cotton more expensive for international buyers. The EU continues to be the leading buyer for Turkish cotton.

MY 2004 will be a record year for the United States cotton exports to the Turkish market. This is due to the quality of U.S. cotton, the availability of GSM-102 and favorable exchange rates. Total marketing year-end U.S. cotton exports to Turkey are expected to exceed 400,000 MT making Turkey the second largest market for U.S. cotton. Geographical proximity helped Greece and Syria to become important cotton suppliers to Turkey as well. Uzbekistan has also emerged as an important supplier in 2004.

Turkey Cotton (HECTARES)(MT)						
	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		08/2003		08/2004		08/2005
Area Planted	0	710000	0	710000	0	635000
Area Harvested	710000	710000	700000	710000	0	635000
Beginning Stocks	305253	193925	286528	216292	373619	281292
Production	892679	900000	903565	925000	0	800000
Imports	516012	499313	685839	640000	0	650000
MY Imp. from U.S.	0	0	0	0	0	0
TOTAL SUPPLY	1713944	1593238	1875932	1781292	373619	1731292
Exports	77511	76946	32659	25000	0	25000
USE Dom. Consumption	1349905	1300000	1469654	1475000	0	1450000
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	1349905	1300000	1469654	1475000	0	1450000
Ending Stocks	286528	216292	373619	281292	0	256292
TOTAL DISTRIBUTION	1713944	1593238	1875932	1781292	0	1731292

Production

Cotton planting is continuing in all regions. No major climatic difficulties that prevented timely planting were reported. Turkish MY 2005 cotton area and production are forecasted about 635,000 hectares and 800,000 MT, representing a thirteen percent decline compared to last year. Increased world cotton prices in late April made only a minor effect to attract farmers to plant cotton. Better returns in corn - supported by high custom duties - made cotton planting less attractive for farmers. Lack of production planning, an unbalanced crop support system and protectionist policies for alternative crops are adversely affecting domestic cotton production.

Cotton production in major areas - Southeast Anatolia (GAP), Aegean, Cukurova and Antalya is continuing to face various challenges and increasing competition from other crops. In the Aegean region, farmers who are not happy with their return are reportedly planting vegetables and grapes. In the Cukurova region increased cost of production due to ecological problems (soil degradation and pest problems) are forcing farmers to switch to a wheat/corn rotation and some farmers prefer wheat and barley in the GAP region. Finally, in Antalya cotton fields are under the pressure of residential and tourism developments.

Production General

Most of the 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 varieties in the Aegean region are "Nazilli 84", Carmen, BA 119 and BA 125, in Cukurova BA 119 and BA 125 and; "Stone Mill 453", "Delta Pine Diamond" and "Diyarbakir Gold" in the Southeast. Aegean cotton generally is considered 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 other regions.

The great majority of Turkey's cotton is handpicked. High labor costs - estimated about forty percent of total production - continue to be an obstacle. As a result, farmers are either shifting to less capital-intensive crops or searching for ways to shift to machine harvesting. Even though the size of an average cotton farm in Turkey is too small to utilize modern harvesting machines due to their high cost farmers and coops see machine picking as the only way to stay competitive. Producer groups and coops have started to purchase picking machinery jointly. FSU-origin tractor-pulled cotton picking machines are also used in increasing number. As a result of increased utilization of machinery, the amount of machine-picked cotton in Turkey is expected to reach about five percent of the total production this season.

All of Turkey's estimated five hundred gins are privately owned. The great 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, increased machine picking will require increased investment in new saw gins. Even though there are two new modern saw gins in operation in the Aegean region owned by Taris, an Agricultural Sales Cooperative, it is not enough to meet the demand.

The ginning rate averages about 42 percent in the Aegean region and about 39 percent in Cukurova. Ginners generally purchase seed cotton directly from growers, playing an important role in domestic marketing channels. Lint generally is graded and certified by 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 is one of the most important and dynamic sectors in the Turkish economy, accounting for 7 percent of the GNP, 11 percent of the industrial employment and 29 percent of the total exports. Total spinning capacity is estimated at about 1.9 MMT, of which 1.6 MMT is for cotton and the remainder is for synthetics.

In MY 2004, consumption is expected to increase to 1,475,000 MT up about thirteen percent due to increased prices of man made fibers because of increased world petroleum prices. Low world cotton prices, despite the appreciation of Turkish lira against the U.S. dollar, helped Turkish textile exports.

The Turkish textile industry is facing increasing competition from China, India, Pakistan, and Bangladesh in export markets. It has been reported that Turkish textile exports to the U.S. are stagnating due to increased competition from these countries. The worldwide free flow of textile products starting from 2005 is a real concern for Turkish mills since the cost of production (electricity, labor) is higher in Turkey compared to newly emerging textile-producing countries. Turkish mills are continuing to invest either to increase capacity and improve their scale of economies or to integrate to increase value of their final products to remain competitive. It is also reported that acquisitions and mergers are taking place in the sector and some mills are buying smaller ones to increase their scale. The future of Turkey's textile industry will depend on how well Turkish mills adjust to the new conditions.

Consumption Subcategory- Marketing Channels
The bulk of the cotton is sold directly to mills and the remainder is traded on a spot basis, mainly 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 has recently started. Presently, the trading of futures is very limited, but expected to increase in the future. The other supporting infrastructure such as bonded storage facilities, is under construction and soon will be available for traders.

Trade
Official Turkish Trade data is only available through February 2005. According to this data, Turkey's cotton imports reached 304,000 MT during the first seven months of the marketing year, of which 144,000 MT was from the United States. Marketing year-end imports are expected to reach 640,000 MT, which will be a record for Turkey. Turkish total cotton exports during the same period were 15,400 MT, the lowest level in many years. EU member countries such as Italy, Germany, and Portugal are among the main export destinations for Turkish cotton.

U.S. cotton continues to have a large share of the market. The appreciation of the Turkish Lira against the U.S. dollar continues to make U.S. cotton more attractive to Turkish buyers.

U.S. trade data indicate that about 395,000 MT was exported or registered as sales to Turkey during the first nine months of the marketing year. Greece and Syria continue to be important suppliers due to geographical proximity and attractive prices.

Total Turkish Textile exports continued to increase in MY 2004 despite the over-valued Turkish Lira but with a smaller margin. Turkish Textile exports to the U.S. are reported to lose pace due to strong Turkish Lira against the dollar and Chinese competition. However, exports to the EU countries are continuing to increase due to geographical proximity, an increase in the number of member countries and the fast response of the Turkish textile industry to European demands.

Given the high cost of production, competition of other crops and the slow pace of development of the GAP, Turkey will remain a net cotton importer for many years to come.

Import Trade Matrix

Country Turkey

Commodity Cotton

Metric tons

Time Period	Aug/July		Aug/Feb
Imports for:	MY 2003		MY 2004
U.S.	307441	U.S.	144477
Others		Others	
Greece	77490	Greece	107067
Syria	31388	Uzbekistan	11022
Turkmenistan	26411	Syria	17372
Mersin Free Zone	14964	Turkmenistan	3837
Iraq	8554	Israel	4195
Israel	7354	Egypt	3982
Azerbaijan	6028	Kazakhstan	2965
Egypt	5338	Paraguay	1485
Uzbekistan	3141	Brazil	1225
Ethiopia	2600	Tanzania	1054
Total for Others	183268		154204
Others not Listed	8604		6137
Grand Total	499313		304818

Export Trade Matrix

Country Turkey

Commodity Cotton

Metric tons

Time Period	Aug/July		Aug/Feb
Exports for:	MY 2003		MY 2004
U.S.		U.S.	
Others		Others	
Mersin Free Zone	19457	Italy	3140
Italy	12158	Netherlands	2027
Germany	4261	Kayseri Free Z.	1727
Bangladesh	4139	Thailand	1184
Portugal	3868	Mersin Free Z.	1459
Netherlands	3754	Portugal	1039
France	3611	Greece	872
China	3541	France	775
Kayseri Free Z.	2729	Russia	604
Greece	2080	Hungry	476
Total for Others	59598		13303
Others not Listed	17348		2103
Grand Total	76946		15406

Export Trade Matrix

Country	Turkey		
Commodity	Cotton Yarn		Metric tons
Time Period	Jan/Dec		Jan/Dec
Imports for:	CY 2003		CY 2004
U.S.	914	U.S.	2123
Others		Others	
Italy	27442	Italy	22435
Bulgaria	11767	Portugal	18354
Portugal	11255	Bulgaria	12900
Greece	6229	Greece	7671
Romania	4595	Poland	6343
Spain	4398	Romania	5142
Germany	4307	Spain	3955
United Kingdom	3584	Germany	3464
Poland	2917	United Kingdom	2819
Israel	2169	Israel	2476
Total for Others	78663		85559
Others not Listed	12525		18825
Grand Total	92102		106507

Import Trade Matrix

Country	Turkey		
Commodity	Cotton Yarn		Metric tons
Time Period	Jan/Dec		Jan/Dec
Imports for:	CY 2003		CY 2004
U.S.	95	U.S.	24
Others		Others	
Turkmenistan	23605	India	17937
Pakistan	18541	Turkmenistan	16156
Uzbekistan	15284	Uzbekistan	14950
India	14216	Pakistan	13945
Syria	6843	Kayseri Free Zone	12084
Kayseri Free Zone	5029	Egypt	2880
Egypt	4061	Syria	2274
Italy	1932	Italy	2056
U. A. E.	564	U. E. A.	413
Greece	457	Greece	378
Total for Others	90532		83073
Others not Listed	1793		2104
Grand Total	92420		85201

Export Trade Matrix

Country Turkey

Commodity Cotton Fabric

			Metric tons
Time Period	Jan/Dec		Jan/Dec
Imports for:	CY 2003		CY 2004
U.S.	13850	U.S.	10110
Others		Others	
Italy	10172	Italy	11281
Ataturk Free Zone	9384	Ataturk Free Zone	10855
Romania	3712	Poland	7591
Poland	3110	Istanbul Free Zone	6267
Russia	3065	Romania	5291
United Kingdom	2943	Russia	3337
Germany	2752	Germany	3018
France	2384	United Kingdom	2661
Spain	2127	France	2407
Serbia	1888	Spain	1802
Total for Others	41537		54510
Others not Listed	27351		25554
Grand Total	82738		90174

Import Trade Matrix

Country Turkey

Commodity Cotton Fabric

			Metric tons
Time Period	Jan/Dec		Jan/Dec
Imports for:	CY 2003		CY 2004
U.S.	1967	U.S.	691
Others		Others	
Pakistan	23917	Pakistan	27124
China	16101	China	15028
India	13833	India	13386
Ataturk Free Zone	9050	Turkmenistan	12565
Bulgaria	8867	Ataturk Free Zone	11009
Italy	6246	Bulgaria	9326
Indonesia	6224	Indonesia	7443
U. A. E.	6057	Italy	7177
Turkmenistan	5491	U. A. E.	5370
Uzbekistan	3624	Uzbekistan	3416
Total for Others	99410		111844
Others not Listed	19958		18337
Grand Total	120335		130872

Stocks
There are no official stock estimates. Turkish mills preferred to maintain stocks at minimal levels due to the high cost of financing. Despite the improved economy, interest rates are still high compared to western economies. In general, this minimum stock policy works to the mill's 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. However, with the availability of a local futures market should assist mills to cover this risk.

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 (although investments have slowed significantly in recent years) are probably the best example of this policy. However, cotton is the only major commodity in Turkey that competes with no protection from imports. 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. Since the last economic crisis in 2000, and as a part of the IMF economic reform program, they become 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 but the role of Cukobirlik in the Cukurova region, has been declining.

The GOT announced a TL 190,000 (approx. U.S.$ 0.14) per kilogram production bonus for seed cotton for MY 2004 crop. This amount represents 111 percent increase compared to TL 90,000 (approx. U.S.$ 0.06) per kilogram production bonus for the MY 2003 crop. Farmers receive an addition twenty percent bonus if they plant certified seeds. 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 2004 crop were expected to take place in April 2005 during the planting season for MY 2005 however, no payments have been made. Even though the great majority of the MY 2004 total production bonus package of 600 Trillion TL (approx. U.S.$ 444 Million) is allocated to cotton (approx. U.S.$ 300 Million) such late announcements and payments works against the program and does not motivate farmers to plant cotton.

There are no specific government input subsidies for cotton. As with all crops, subsidized credits from the Turkish Agricultural Bank and subsidies on the cost of all fertilizers stopped in October 2001. The State Irrigation Authority (DSI) provides irrigation water 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 2005 import regime, cotton imports from all sources remain duty-free.

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, promotion and technical activities done by the CCI and CI and also the Cochran program executed by FAS help to maintain high awareness among the Turkish mill owners. Timely seminars on U.S. cotton and GSM, such as the recent conference in Antalya, are continuing to generate a great deal of interest and demand for U.S. cotton. The licensing program executed by CCI has also

proven to be effective to maintain consistent demand for U.S. cotton. According to the program, mills that use U.S. cotton can sign an agreement with the CCI to carry a 'COTTON USA' Mark to identify quality, 100 percent cotton products made from 50 percent or more U.S.-grown cotton in their products. Presently, about forty Turkish companies signed up for the program and there is growing interest among the local mills using U.S. cotton to be part of the program. The licensing program provides recognition in the international retail markets and assist U.S. cotton users in marketing their end products.