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Report Highlights:

MY2002 Turkish cotton area and production are expected to increase marginally, despite low returns for farmers, with area and production estimated at about 700,000 hectares and 850,000 MT. Cotton consumption and imports have increased substantially, driven by increased textile and yarn exports, although domestic textile and apparel consumption remain constrained by an economic downturn. Total imports in MY 2001 are expected to increase by about 30% to 500,000 MT, led by imports from the United States, Turkey's leading supplier.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
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Executive Summary

MY 2002/2003 area and production will be only marginally higher than last year, at about 700,000 hectares and 850,000MT. Even though farmers are not satisfied with their returns, climatic and ecological conditions leave them with few alternatives. In the Aegean region, excessive rains following wheat planting last fall forced farmers to plant cotton and in Cukurova, fungus problems with last year's corn crop persuaded farmers to plant cotton in state this year.

Most observers think cotton production will fluctuate for the next few years between 800,000MT and 850,000MT depending on market and weather conditions. Area expansion in Southeastern Turkey just compensates for declining area in traditional cotton growing areas, particularly in Cukurova and to a lesser degree in the Aegean region.

Consumption increased to 1.3MMT in MY2001, due to an increase in textile and yarn exports. The export dependent Turkish textile industry is benefitted from favorable exchange rates of the Turkish Lira against the major currencies and is also recovering from a domestic financial crises that hurt them during the last year. Many mills are reported to be increasing their capacity.

According to official GOT figures, during the first seven months of the MY2001 cotton imports reached 305,480MT. Year end total imports are projected at about 500,000MT. The United States is Turkey's leading cotton supplier due to quality requirements. Historically low prices spurred imports. Availability of GSM-102 guarantees also plays an important role. In MY2001 Turkey became the United States' second largest cotton importing country following Mexico. U.S. market share also increased as a result of declining quality and availability of Central Asian cotton. Geographical proximity and the E.U. support system helped Greece to become the number two supplier of cotton to Turkey.

PSD Table						
Country	Turkey					
Commodity	Cotton				(HECTARES)(MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		08/2000		08/2001		08/2002
Area Planted	0	654000	0	688000	0	700000
Area Harvested	654000	654000	688000	688000	0	700000
Beginning Stocks	180060	180060	209453	190152	269328	210152
Production	783816	780000	849134	845000	0	850000
Imports	381021	382878	544316	500000	0	520000
TOTAL SUPPLY	1344897	1342938	1602903	1535152	269328	1580152
Exports	25039	27786	27216	25000	0	25000
USE Dom. Consumption	1110405	1125000	1306359	1300000	0	1350000
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	1110405	1125000	1306359	1300000	0	1350000
Ending Stocks	209453	190152	269328	210152	0	205152
TOTAL DISTRIBUTION	1344897	1342938	1602903	1535152	0	1580152

Production

Outlook

MY2002/03 cotton area and production are projected at about 700,000 hectares and 850,000MT. Higher than expected plantings, despite farmer dissatisfaction with returns, was due to climatic and ecological reasons which prevent shifts to alternative crops. Rains in the Aegean region from Sept-Nov 2001 destroyed wheat fields and forced some farmers to plant cotton. Fungus problems in Cukurova last year forced some farmers to shift from corn to cotton. Crop development is reported to be very good in all regions with high yields expected, particularly in the Aegean region due to availability of water for irrigation.

Virtually all of Turkey's cotton is handpicked. Increasing harvest labor costs (estimated at about forty-five percent of the total production costs) have added to the already relatively high capital costs of cotton production and have caused farmers to shift to less capital-intensive crops in traditional cotton growing areas. As a result, there is a growing interest in machine harvesting.

Given the slow pace of extension of irrigation infrastructures in the Southeastern Anatolian Project (GAP), increases in cotton area are expected to just offset declining cotton area in traditional growing areas for at least the next several years. Currently, the major shift from cotton production is occurring

in Cukurova, where farmers are shifting to a wheat-corn rotation or to horticultural production.

Production- General

Most of Turkey's cotton is grown in three main areas: the Aegean region, Cukurova, and Southeastern Anatolia. Small amounts of cotton also are produced around Antalya and Antakya. 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 other regions. While cotton production is increasing in the Southeast Anatolia as a result of Southeastern Anatolian Project (GAP), it is decreasing in the Cukurova region due to ecological problems created by excessive use of chemicals over past years and competition from other crops, mostly corn. The GAP project consists of series of hydroelectric and irrigation dams. When completed in the year 2010, a total of 1.7 million hectares of land will be irrigated. Currently about 140,000 hectares on the Harran Plain are irrigated by the Ataturk dam, of which ninety percent is planted in cotton.

Cotton generally is planted between mid-March and mid-May and harvest usually begins in mid-August and continues through November. The most popular variety in the Aegean region is "Nazilli 84", in Cukurova "Carolina Queen" and "Delta Pine" and "Stone Mill" and "Carmen" in the Southeast.

Most of Turkey's estimated 500 gins are privately owned. Nearly all the gins in the Aegean region are roller gins, more suitable for longer staple cotton, while about half the gins in Cukurova and the Southeast are roller gins and about half are saw gins. The ginning rate averages about 42 percent in the Aegean Region and about 39 percent in Cukurova. Ginners generally purchase seed cotton from growers and as a result, play 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 April.

Consumption

The textile industry is the most important and dynamic sector in the Turkish economy, accounting for 7 percent of GNP, 28 percent of industrial employment and 38 percent of total exports. More than 96 percent of the textile industry is privately owned and the remaining state-owned mills are being slowly privatized.

Total spinning capacity is estimated at about 1.75 MMT, of which about 1.4 MMT is for cotton and the remainder is for synthetics. Consumption is difficult to estimate without timely (and accurate) trade statistics because it is highly export-dependent and because there are significant incentives to under report consumption to avoid taxes and other charges.

Increased textile exports during the marketing year, mostly to the E.U, resulted in increased capacity utilization. Unofficial sources forecast MY 2001 cotton consumption at about 1.3MMT and indicate that utilization of cotton will continue to remain high due to continued demand from export markets. Domestic sales of textiles and apparel continue to be negatively effected by ongoing economic

problems and reduced consumer spending.

The industry estimates that forty percent of total textile production and seventy percent of ready-made garment production are exported. The E.U. remains Turkey's largest market, with Germany the leading importer within the E.U.. Textile exports to the FSU, mainly on a cash basis through a combination of small scale "suitcase trade" and regular border trade, have been stagnating due to customs problems and increased local production in Russia. The United States has become an increasingly important market, accounting for eight percent of total exports. A recent increase in U.S. textile import quotas and lifting of quotas for some items, i.e., bathrobes, as well as Turkey's increasing focus on quality, are reasons for the increase.

Marketing Channels

The bulk of local cotton is sold directly to mills and the remainder is traded on a spot basis, mainly at the cotton exchange in Izmir. The Izmir exchange also trades some cotton from other regions. There are smaller spot markets in Adapa and the Southeast. Both cotton producers and the textile industry are expected to benefit from the establishment of a cotton futures market in Izmir, which is expected to open in MY 2002.

Trade

Official trade figures for the first seven months of MY 2001 indicate that cotton imports will reach about 500,000MT while exports are expected to remain at about 25,000MT.

Optimism regarding textile exports is continuing and the industry expects high levels of exports to continue next year.

The driving force behind Turkey's growing imports has been rapid expansion of its export-oriented textile industry. Given the higher cost of production and the slow pace of development of the GAP, many observers expect Turkey to remain a net cotton importer for at least the next three to five years. Although the longer term outlook is less certain, the general consensus is that Turkey will remain an importer, even after the GAP is fully developed for various types of cotton, i.e., SJV.

The United States remains Turkey's leading supplier due to quality preferences, reliability of U.S. cotton and the availability of GSM-102 credit guarantees. In FY 2001, \$104.8 million (out of a total of \$359.8 GSM million program for Turkey) were registered in cotton sales. During the first seven months of FY 2002, \$36.8 million (out of \$257.0 million) in GSM registrations were cotton. Lower usage of GSM for cotton reflects tightened credit availability for the industry, fewer participating banks, and concerns about exchange rate fluctuations.

According to Turkish trade data, the United States supplied 32% of Turkey's 382,878 MT imports in MY 2001 (see TU2005 for details). This percentage increased to over 40% during the first seven months of MY 2001. Greece has become an importer supplier due to geographical proximity and low prices due to the E.U. subsidies, while Central Asia has lost market share due to problems related with quality and availability.

According to the May 23, 2002 USDA export sales report, accumulated U.S. cotton exports to Turkey during the first ten months of MY 2001 had reached 1,175,600 bales (compared to 432,000 bales during the same period of MY 2000) and outstanding exports were at 287,000 bales (compared to 289,000 in MY 2000). USDA BICO reports indicate during the first half of the fiscal year 2002 (Oct 2001-Mar 2002), exports of U.S. cotton to Turkey increased to \$151 million, compared to \$85 million during the same period of MY 2001.

The following trade matrix includes official GOT data for the first seven months of the MY2001.

Import Trade Matrix			
Country	Turkey		
Commodity	Cotton		
Time period	MY2001	Units:	Metric tons
Imports for:			1
U.S.	129802	U.S.	
Others		Others	
Greece	106534		
Syria	27812		
Turkmenistan	17353		
Azerbaijan	7474		
Uzbekistan	5243		
Egypt	2954		
Brazil	2096		
Israel	1164		
Tajikistan	1078		
Mersin Free Zone	955		
Total for Others	172663		0
Others not Listed	3015		
Grand Total	305480		0

Export Trade Matrix			
Country	Turkey		
Commodity	Cotton		
Time period	MY2001	Units:	Metric tons
Exports for:			1
U.S.		U.S.	
Others		Others	
Portugal	3319		
Italy	3414		
Germany	1688		
Mersin free zone	1255		
Holland	1049		
Russia	810		
S. Korea	783		
N. Korea	640		
England	519		
Ukraine	358		
Total for Others	13835		0
Others not Listed	2466		
Grand Total	16301		0

Stocks

There are no official records of cotton stocks, but industry observers project MY2001 year-end stocks at about 210,152MT. Turkish mills normally prefer to maintain stocks at minimal levels due to high costs of financing (approximately seven percent per month). During MY 2001, however, many mills took advantage of historically low prices to purchase larger amounts than usual. Coops (Taris and Cukobirlik), are expected to maintain carry-over stocks at relatively high levels due to slow sales of their domestic cotton purchases in the face of competitively priced imports.

Policy

Production Policy

Nearly thirty five percent of the population lives in rural areas and earns the bulk of its income from farming. As a result, agriculture and rural development are top priorities for the Turkish government. The massive investments in the GAP are probably the best example of this policy. The quasi-government farmers' cooperatives, TARIS, Cukubirlik and Antbirlik provide their members with low-cost loans, seed and fertilizer and are supposed to buy members' cotton at government announced prices.

Almost 35-40 percent of the cotton/textile industry is said to be operating in the gray market and under reporting income. For the MY2001 crop, the GOT issued a 5 cents per kilogram bonus payment for seed cotton in an effort to keep cotton and cotton products within the registered economy. The GOT is under pressure from producers to continue the support program next year.

There are no special subsidies for cotton inputs. As with other crops, subsidized credit is available at about seventy percent of commercial rates. A ten percent subsidy on fertilizer costs ended in October 2001. Irrigation water is provided by the State Irrigation Authority (DSI) for a fee, although there is continuing debate whether the prices which are charged reflects actual costs. Pesticides are commercially available. Except for minor white fly damage in Cukurova, insect damage and disease are generally not major problems.

Under Turkey's 2002 Import Regime (tariff schedule), cotton imports from all sources remain duty-free.

Marketing

U.S. cotton enjoys a strong following among Turkish spinners due to its consistent quality and the reputation of the United States as a reliable supplier. However, to maintain and expand its position in this growing market, new as well as potential users will need to be identified and appropriate trade servicing activities conducted to maximize the likelihood that they become repeat customers. The Cotton Council has an active, ongoing marketing program in Turkey, as has Cotton Inc. Timely seminars on U.S. cotton and export credit guarantee programs in this region can help generate increased interest and demand.

TURKEY'S	YARN	AND FABRIC
	EXPORTS	IMPORTS
	2001	2001
Cotton Yarn(MT)	109,732	29,524
Cotton Fabric(1)	19,845	10,794
Cotton Fabric(2)	60,572	46,077
(1) Cotton Fabric LTE	200 grm/per SQmtr	
(2) Cotton Fabric GT	200 grm/per SQmtr	

