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Required Report - public distribution

Date: 3/14/2017

GAIN Report Number: TR7010

Turkey

Cotton and Products Annual

Turkey Cotton Annual Report

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Report Highlights:

Turkish cotton area and production are forecast to increase about fifteen percent in Marketing Year (MY) 2017/18, as good returns and government support encourage production. Due to high world cotton prices, a difficult business and export environment for Turkish textiles, and an increased volume of imported cotton yarn, the sector's consumption of cotton in Turkey is expected to be lower than normal this year. The United States remains the top supplier of cotton to the Turkish market, and the Turkish textile industry continues to be the one of the leading sectors in the Turkish economy.

Commodities:

Cotton

Turkey Cotton Annual Report

Executive Summary

Turkish cotton planting area is forecast at 460,000 hectares and production at 820,000 metric tons (MT), which 3.76 million bales. Good returns on cotton during MY 2016/17, lower than expected returns on alternative crops such as corn, an increased production bonus, recent high world cotton prices, and new areas that received irrigation water in the GAP region will all have positive impact on cotton planting.

In an effort to increase cotton planting, the Turkish government has increased the cotton production bonus three years in a row. Accordingly, the bonus for seed cotton was increased to 0.75 Turkish Lira (TL) per kg for MY 2016/17, up about fifteen percent from last year. Due to domestic inflation of ten percent and the 25 percent devaluation of the Turkish Lira since the beginning of the season, farmers are requesting a further increase of the bonus for MY 2017/18 crop (US\$ 1 = TL 3.75 as of March 10).

Overall, yields and quality have been improving in recent years because farmers who continue planting cotton are the most efficient, and have modern equipment and larger fields. Increased utilization of certified seeds, estimated to be about 95 percent of total seeds, has also helped increase yields. Mechanical harvesting is reported to have increased field and ginning yields as well.

In general, high production costs and competition from other crops are having an adverse effect on cotton production. The main initiative that will increase cotton production in Turkey is the progress of the Southeastern Anatolian Project (GAP) project. The GOT's commitment to the project is continuing by allocating large sums annually to the GAP project to finalize the construction of dams, irrigation channels, and other infrastructure in the Southeast Anatolian region. The target is to bring irrigation water through the project's efforts to a total of 780,000 hectares of land by 2019. An additional amount of land is irrigated through private activities by the farmers to source water themselves through wells, pumping from main irrigation channels, reservoirs, etc. But the recent conflict along the Syrian border is adversely affecting the execution of the project and only about 30,000 hectares of new area are expected to receive irrigation in the MY 2017/18 season.

The Turkish textile industry continues to be the one of the leading sectors in the Turkish economy, accounting for 18 percent of total exports in 2016. Roughly 53,000 companies operate in the sector, providing about 400,000 jobs in garment production alone. Exports of ready-to-wear items in 2016 were \$17 billion and textiles were \$8 billion, both roughly the same as in 2015.

The stagnation in exports was due to a slow recovery in the EU market, effects of a strong dollar that caused shrinkage in margins, and continuing political problems in the Middle Eastern market. As a result, the EU's share of Turkish exports decreased to 72 percent in recent years for ready-to-wear, down from 80 percent in 2012. The EU has been the leading market for Turkish textile and garment exporters as buyers prefer to work with low stocks - hence they prefer to work with Turkey due to geographical proximity, short response time, and quality. Domestic consumption is expected to decline to 1.4 MMT (6.4 million bales) in MY 2016/17.

Despite the three percent antidumping surcharge, the United States continued to be the leading cotton supplier to the Turkish market, supplying 41 percent of imports during the first five months of MY 2016/17. Available information suggests that despite the antidumping duty, the U.S. cotton share will be above 50 percent by the end of the marketing year, with exports of 88,000 MT (0.4 million bales) during the first five months of MY 2016/17.

Production

Turkish cotton planting area is forecast to increase about 15 percent in MY 2017/18 to 460,000 hectares and production at 820,000 metric tons (MT), which 3.76 million bales. Good returns on cotton during MY 2016/17, lower than expected returns on alternative crops such as corn, an increased production bonus, recent high world cotton prices, and new areas that received irrigation water in the GAP region will all have positive impact on cotton planting.

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MY 2017/18 Production and Area by Region

Region	Area (thousand ha.)	Production (thousand MT)
Aegean	100	180
Cukurova	80	130
GAP	280	510
Total	460	820

Source: Post Estimates

Turkey used to be a world leader in organic cotton production, but increasing global production has reduced margins, and domestic production has declined in recent years. MY 2016/17 organic production is estimated at 12,000 MT compared to 30,000 MT in MY 2006. MY 2017/18 organic production is expected to be about 15,000 MT.

Turkey became part of the Better Cotton Initiative (BCI) four years ago and is estimated to have produced about 32,500 MT of BCI cotton in MY 2016/17. BCI cotton production is expected to increase in the coming season, reaching 40,000 MT since higher profitability generated interest among the farmers in all regions.

PSD, Turkey, Bales (1000 Hectares/1000 bales)

Cotton	2015/2016		2016/2017		2017/2018	
Market Begin Year	Aug 2015		Aug 2016		Aug 2017	
Turkey	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	0
Area Harvested	370	370	400	400	0	460
Beginning Stocks	1596	1050	1583	926	0	1019
Production	2650	2662	3200	3236	0	3764
Imports	4218	4215	3250	3557	0	3328
MY Imports from U.S.	0	1512	0	1836	0	1744
Total Supply	8464	7927	8033	7720	0	8111
Exports	231	231	325	275	0	298
Use	6650	6770	6300	6426	0	6656
Loss	0	0	0	0	0	0
Total Dom. Cons.	6650	6770	6300	6426	0	6656
Ending Stocks	1583	926	1408	1019	0	1157
Total Distribution	8464	7927	8033	7720	0	8111
Stock to Use %	23.01	13.23	21.25	15.21	0	16.64

Yields are continuing to improve because farmers who continue to plant cotton are the most efficient, experienced, well-equipped, and have larger fields. The GOT is also increasing its efforts to combine small, fragmented, and divided lots which make up many Turkish farms. Therefore, better planting techniques and economies of scale are helping farmers achieve higher yields. Increases in the use of certified seeds over the years have also helped increase yields. The increase in certified seed use is driven by a 10 percent higher production bonus for certified seed users. It is estimated that 95 percent of the seeds used for cotton planting are certified seeds. Additional information can be found in the latest Planting Seeds Report.

Harran region is an example of the goals of the GAP project. It is at the heart of the cotton growing area in the GAP region, and 140,000 hectares are under irrigation there now. The GOT also provides technical and financial assistance to farmers to build modern drip irrigation systems to prevent ecological problems and the waste of water resources. There are also studies and efforts in the area to move away from open canal irrigation systems to closed systems to prevent water loss during transport.

Pests, including budworm and bollworm, are a problem for cotton producers, particularly in the Aegean and Çukurova regions. Producers are opposed to the continuing government ban on aerial pesticide spraying, as they assert that there is no other cost-effective way to control infestations in traditional varieties. Turkey does not permit planting of genetically engineered crops, including cotton.

PSD Metric Tons

Turkey Cotton (HECTARES)(MT)						
	2015/2016		2016/2017		2017/2018	
		Revised		Estimate		Forecast
	Post Old	Post Estimate [New]	Post Old	Post Estimate [New]	Post Old	Post Estimate [New]
Market Year Begin		Aug 2015		Aug 2016		Aug 2017
Area Planted	3700 00	370000	4000 00	400000	0	460000
Area Harvested	3700 00	370000	4000 00	400000	0	460000
Beginning Stocks	2288 30	228830	2018 10	201810	0	221810
Production	5800 00	580000	7050 00	705000	0	820000
Imports	9183 07	918307	8250 00	775000	0	725000
MY Imp. from U.S.	3293 84	329384	3500 00	400000	0	380000
TOTAL SUPPLY	1727 137	1727137	1731 810	1681810	0	1766810
Exports	5032 7	50327	5500 0	60000	0	65000
USE Dom. Consumption	1475 000	1475000	1475 000	1400000	0	1450000
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	1475 000	1475000	1475 000	1400000	0	1450000
Ending Stocks	2018 10	201810	2018 10	221810	0	251810
TOTAL DISTRIBUTION	1727 137	1727137	1731 810	1681810	0	1766810

Production Policy

The GOT has spent more than \$25 billion over the past three decades on a gigantic irrigation and agricultural extension project in Southeast Anatolia known as the GAP project. When finished, the ultimate goal is that some 1.5 million hectares of land will be irrigated and a total of 22 dams will be completed. So far, about 74 percent of the hydroelectric projects are completed, but only 26 percent of the irrigation projects. During the last three years, the GOT dispersed allocated funds for the project to

vitalize some of the irrigation projects. In a few years, a total of 1.04 million hectares of land will be irrigated (both through the project and through the private sector's independent efforts), which could eventually increase cotton planting and production in the region.

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, Çukurova (near Adana on the Southern Coast), and Southeastern Anatolia. Small amounts of cotton are also produced around Antalya.

The most popular varieties in the Aegean region are "Claudia", "Gloria" and "White Gold"; in Çukurova they are "Delta Pine-SG 125" and "BA 119" and "Gloria"; and in the Southeast "Stone Mill ST 468" and "Candia" and "Diyarbakir Gold".

Aegean cotton is considered the best quality and is preferred by textile producers. Aegean cotton is longer staple (1 5/32") than cotton from Çukurova (1 3/32") or the GAP (1 1/8") region, although the quality of the cotton has improved significantly in the GAP region due to improved seed quality.

The total number of harvesters in Turkey has increased rapidly to about 1,150. The great majority of them, about 800, are new modern harvesters. Roughly 250 are secondhand, and about 100 of them are old tractor-pulled harvesters. Presently about 95 percent of Aegean cotton is picked by harvester, and 80 percent of Çukurova and 65 percent of Southeast Anatolian (GAP) cotton. The demand for harvesters has increased in recent years since the high cost and scarcity of labor have caused cotton picking delays and losses.

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 Çukurova and the Southeast are roller gins and half are saw gins. However, the recent increase in machine harvesting has triggered the construction of new saw gins. The agricultural cooperatives Tarış and Cukobirlik have invested in new saw gins to meet the needs of their members. Private groups continue to invest in saw gin projects in the GAP region as well.

The ginning rate average is about 40 percent in the Aegean region, 41 percent in GAP, and 39 percent in Çukurova. Ginners generally purchase seed cotton directly from growers. Lint is graded by a gin expert and certified using a green card system.

Consumption

MY 2016/17 consumption is expected to drop to 1.4 MMT (6.4 million bales) due to economic problems in the country and at the export destinations, including slow recovery in the European Union. Increasing imports of low cost cotton yarn from Asian countries, up about twenty-five percent in 2016, also had an adverse effect on domestic consumption. Low world petroleum prices increased imports and utilization of manmade fibers, as well.

Since summer 2016, many factors started to adversely affect the Turkish textile industry. The coup attempt in July caused uncertainty in the business world. Mills were reluctant to buy foreign cotton and utilized abundant low priced local cotton during the first half of MY 2016/17. However, over the months, local prices started to increase as local supplies decreased. When mills were ready to buy

foreign cotton, the Turkish Lira fluctuated and depreciated greatly against the major foreign currencies. In the meantime, world cotton prices continued to rise. Turkish mills that could not compete with those high cotton price levels preferred to wait for the Turkish Lira to gain back some of its value. Accordingly, the lira recovered some of its value in recent weeks and mills started to place orders.

The stronger U.S. dollar against the Euro causes Turkish importers' incomes to decline. Turkish mills buy their raw material in U.S. dollars and export to EU countries (the leading market for Turkish textile exports) in Euros. Present market conditions and competition from other textile exporting countries do not permit an increase in sales prices. Political problems in the Middle East have had a negative effect on exports to these countries as well.

Due to the issues discussed above, some small mills temporarily ceased operations and large producers reduced their usage. Therefore, domestic cotton consumption is expected to decline to 1.40 MMT (6.4 million bales) in MY 2016/17, while a small increase is forecast in MY 2017/18 with recovery at home, as well as in European economies and other export markets. MY 2017/18 cotton consumption is expected to be about 1.45 MMT (6.6 million bales).

The textile industry continues to be one of the most important sectors for the Turkish economy, accounting for 8 percent of GNP, 16 percent of industrial employment, and 18 percent of total exports. Turkish textile mills continue to renew their technology with new equipment to remain competitive in international markets. Accordingly, investments by the Turkish textile industry since 1985 are estimated more than US\$90 billion. Presently, Turkey's production capacity is estimated to reach 7.5 million spindles and 700,000 rotors. Turkey ranks among the top five countries in the world in terms of yarn production capacity and number six in ready-to-wear-items production. Turkish textile exporters have the advantage of faster order response times and higher quality than their competitors.

According to the Exporter's Union data, in 2016, ready-to-wear items exports were US\$17 billion and textile exports were US\$8 billion, which is the same as in 2015. Overall, the share of textiles and products in total exports was 18 percent. Total exports of textiles and garments to the United States in 2016 were about the same as last year, US\$850 million.

Domestic 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 in the Southeast.

The Izmir Cotton Exchange formed a new company and built a large licensed storage facility where farmers can leave their cotton for future sales. Presently, there is only one such storage facility in Izmir, Turkey which has a capacity of 15,000 MT. The Şanlı Urfa Commodity Exchange in the GAP region has also built a 20,000 MT capacity licensed storage facility that will start operations in MY 2017/18. These new facilities will bring new opportunities to Turkish farmers in cotton marketing and ease early season price pressures and enable them to sell later in the season with higher prices.

Policy

Cotton imports face zero import tax. However, since April 2016, U.S. cotton is subject to a three-percent antidumping duty.

Trade

Turkey’s cotton imports were 216,000 MT (1 million bales) during the first five months of MY 2016/17, about thirty percent lower than the same period last marketing year due to increased local availability, an increase in imports of low priced cotton yarn, and lower domestic consumption. The United States was the leading supplier with 88,000 MT, followed by Greece with 33,000 MT, and Brazil with 30,000 MT. Total U.S. registered cotton for sale and commitment to Turkey during the first seven months (as of March 9, 2017) of the marketing year is 260,000 MT (1.2 million bales). Lack of cotton from other cotton exporting sources should boost demand for U.S. cotton during the second half of the MY2016/17, and year end imports from the United States are expected to reach 400,000 MT (1.8 Million bales).

Turkey also imported 178,000 MT of cotton yarn and 276 million square meters of fabric in 2016. While imports of yarn were up about twenty-five percent, fabric imports were down about thirteen percent. Turkey sourced its yarn imports from Central Asian countries, Pakistan, and India. Fabric imports were sourced from China, Pakistan, and Turkmenistan.

Turkey’s cotton exports were about 28,000 MT (128,000 bales) during the first five months of MY 2016/17. Bangladesh (10,500 MT) and Indonesia (5,000 MT) were the leading foreign destinations for Turkish cotton. About 3,000 MT of cotton was also exported to the Mersin and Kayseri Free Trade Zones with a possibility of being re-imported later. Turkey also exported about 16,500 MT (75,000 bales) of hydrophilic cotton for medical use during the same period, which added to exports in the PSD chart.

Additionally, Turkey exported 152,000 MT of cotton yarn and 432 million M² of fabric in 2016. While yarn exports were the same as last year, textile exports were up ten percent. The EU member countries continued to be the leading export markets for Turkish cotton yarn and fabric.

Turkey has a large textile industry capacity driving the demand for cotton, and due to low domestic cotton production and the slow pace of the GAP development project, the country will continue to import cotton for years to come.

Turkish Cotton Imports (in multiple units: MT and Bales)

Import Trade Matrix	Turkey		
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Commodity	Cotton	Units:	Metric Tons
Time Period	Aug/July		Aug/Dec*
Imports for:	MY 2015/16		MY 2016/17
U.S.	329384	U.S.	87587
Others			
Turkmenistan	137307	Greece	32808
Brazil	127317	Brazil	30049
Greece	104896	Syria	17318
Burkina Faso	51690	Turkmenistan	16373
Tajikistan	24523	Tajikistan	4182
Cote d'Ivoire	23602	Burkina Faso	3879
India	21241	Argentina	3437
Syria	17156	Cameroon	3250
Uzbekistan	16929	Sudan	3155
Argentina	10423	Kyrgyzstan	2647
Total of Others	535084		117098
Others not listed	53839		11271
Grand Total	918307		215956
Commodity:	Cotton	Units:	Bales
Time Period	Aug/July		Aug/Dec*
Imports for:	MY 2015/16		MY 2016/17
U.S.	1511872	U.S.	402024
Others			
Turkmenistan	630239	Greece	150589
Brazil	584385	Brazil	137925
Greece	481472	Syria	79490
Burkina Faso	237257	Turkmenistan	75152
Tajikistan	112560	Tajikistan	19195
Cote d'Ivoire	108333	Burkina Faso	17805
India	97496	Argentina	15776
Syria	78746	Cameroon	14918
Uzbekistan	77704	Sudan	14481
Argentina	47841	Kyrgyzstan	12150
Total of Others	2456033		537481
Others not listed	247121		51734
Grand Total	4215026		991239

Source: Global Trade Atlas

* Only partial data for MY2016/17