

Trade opportunities for Dutch agribusiness in Turkey and Israel

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This study analyses the agricultural trade relations of the Netherlands with Turkey and with Israel, and investigates the present market positions of the Dutch agribusiness in the two countries. Based on a review of market and agri-food supply chain developments, opportunities for expansion of trade and strengthening of Dutch positions in these two countries are evaluated. The study points at the many export and/or investment opportunities in Turkey for Dutch agribusiness in food products and input supplies and services. At the same time, basic conditions in Israel are not conducive to booming export prospects for Dutch agribusiness companies. The study, conducted at the request of the Ministry of Agriculture, Nature and Food Quality, may help the Ministry's desk in Ankara prioritising its activities in Turkey and Israel.

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Preface

Research into market opportunities for the Dutch agribusiness is highly relevant to the Ministry of Agriculture, Nature and Food Quality (LNV), as it aims at facilitating the Dutch agribusiness in their process of strengthening their competitiveness at the domestic and the international level. The Dutch agri-food sector is strongly outward-oriented, either through exports or through foreign direct investment. Turkey is a large market with large potential to expand business activities. Israel is a much smaller and more mature market, but may offer opportunities for increasing business relations as well. Both countries are under the responsibility of the LNV Desk in Ankara.

The LNV Desk in Ankara provides services to the support of the Dutch agribusiness. In its countries of operation - Turkey and Israel - the Desk establishes priorities on agricultural sectors and product (groups) with most favorable outlook. The identification of market perspectives for Dutch agribusiness' companies is largely based on practical market signals, own observations and statistics. To improve guidance and to better prioritize the opportunities that might come up, the Desk requested LEI to conduct an analysis of ongoing trends in the agrifood supply chain, Dutch market positions and prospects for the opportunities of the Dutch agribusiness in the two countries.

The authors of the study are Siemen van Berkum and Henk Kelholt. The research has benefited from a Round Table meeting with Dutch representatives of agrifood companies to discuss preliminary outcomes. The authors thank the participants who openly and readily gave their views and opinions. The Agricultural counsellor in Ankara- Mrs. Carla Konsten- and her staff, as well as Mrs. Gaby Blom of the Department of Industry and Trade, LNV, are much appreciated for their substantive feedback and assistance throughout the duration of the study.



Dr. J.C. Blom
Director General LEI

Summary

This study analyses the agri-food markets and supply chains in Turkey and Israel, as well as the agricultural trade relations of the Netherlands with the two countries in order to evaluate opportunities for expansion of trade and strengthening of Dutch positions on these markets. The study, conducted at the request of LNV, may help the Ministry's desk in Ankara prioritising its activities in Turkey and Israel.

Major findings from the analysis of ongoing trends in the agrifood supply chain, markets and trade relations, and their implications for opportunities of Dutch agribusiness are summarised in bullets below.

Turkey

1. Turkey's economy has shown rapid development in recent years. The country has a large population (around 70 million), is in the process of negotiating EU membership and shows increased economic and political stability. These developments may offer many trade and investment opportunities to the Dutch agri-food sector.
2. Turkey's main trade partners are the EU, Russia, the USA and the Middle East. The EU is by far dominating Turkey's trade relations.
3. On 1 January 1996, a customs union between the EU and Turkey came into force. The scope of this customs union covers trade in manufactured products between Turkey and the EU. Agricultural products remained outside the customs union, although both the EU and Turkey awarded significant trade preferences to each other's agricultural products.
4. While diets of low-income groups, which comprise the majority of the Turkey's population, are largely made up of bread, rice, potatoes and pasta products, there is an increasing part of the population that has the income to afford and accept Western, imported and processed food products.
5. Modern supermarkets and discount stores are increasingly replacing traditional stores. Turkey's foodservice industry is also expanding as a result of investment in fast-food establishments, young consumer eating habits and its growing tourism industry. A major target group for imported food and beverages are hotels and holiday resorts.
6. Turkey has a fairly developed food processing industry, yet in most sub-sectors small-scale firms using modest technology dominate in number.
7. The processing industry has a rich agricultural base with diversified agricultural production. However, some structural problems of quality, sustainability, and efficiency in agricultural production have repercussions on the food-processing sector. One of the biggest problems of the food-processing sector is the sustainable production of standardised raw materials and the volatility of production levels. This is due to the generally small-scale nature of production at primary level and the strong impact of climate (temperature, drought) on agricultural crop and livestock production.

8. The shortcomings and problems in the Turkey's agricultural and food industry offer the Dutch agribusiness trade and investment opportunities:
 - a. in *livestock farming*, where products and services in the field of livestock improvement (semen), compound feed and feed additives, grassland seeds and veterinary medicines, extension and technical assistance are strongly needed to increase agricultural productivity and quality of the raw material (meat and milk);
 - b. in *meat processing*, where the (red) meat industry is much in need of upgrading its equipment and technical assistance to improve economic performance and comply with relevant EU rules;
 - c. in the *dairy supply chain*, where the majority of the milk produced is still for own consumption and/or sold in the streets without proper processing and hygienic control. On the verge of EU entry and with a better enforcement of food safety rules, business opportunities will emerge in hygiene control of raw milk collection, processing, machinery and consultancy for production and marketing of dairy products;
 - d. in the *fruit and vegetables production and distribution*, where the more commercial type of farmers are keen to invest in quality (certified) seeds, and in greenhouse production and technology. Furthermore, the sector's performance would improve importantly if post-harvest measures are taken, such as grading and storage facilities (cooling etc.). Following evolving consumer preferences to (more) fresh and frozen products, companies offering packaging, freezing, and/or preserving technology, and provide handling services will find good prospects in Turkey. As Turkey produces a wide variety of fruit and vegetables, Dutch trading companies could use Turkey's produce to ship to EU or to other markets (e.g. Russia);
 - e. in the *food ingredients* markets, where quality additives are in short supply and are mainly imported. Companies active in food additives, preservers, thickeners and sweeteners may find an attractive market in Turkey, where due to further income growth and the increase in the tourism industry demand for semi-final or ready-to-eat food items is increasing;
 - f. in the *consumer ready products*, as an increasing share of the (especially young and well-earning) Turkey's population is willing to pay a premium for imported quality products, that fit to its changing (more westernised) lifestyle. The growing tourism industry also contributes to increasing demand for western, processed food items.
9. Turkey is a net-exporter of agricultural products. The trade balance shows a surplus of USD2.5 billion in 2005 and has been growing in recent years.
10. Turkey's main export product categories are (hazel)nuts, fruits, cereals, tobacco (unmanufactured) and citrus. EU countries are important destinations for Turkey's agricultural exports, accounting for half of total agricultural exports in 2005.
11. Turkey's top-three import products are (unprocessed) cotton, animal and vegetable fats and oils, and oilseeds. These three product categories account for some 40% of the import value of all agricultural imports in 2005.

12. Agricultural trade relations between the Netherlands and Turkey have expanded in recent years. Dutch imports from Turkey show increasing values since 2003, with an annual growth rate of 10-20% between 2003-2005. Exports went up from €70 million in 2001 to €170 million in both 2005 and 2006.
13. Next to the wide category of 'Miscellaneous', Dutch exports are largely tobacco, coffee etc., cereal preparations (mainly modified starch) and horticultural products (seeds and ornamental plants/'cuttings'). Strongest export growth in recent years is registered in the latter group of products. Dutch imports from Turkey are mainly fruits (mostly citrus, other tropical fruits and nuts), preparations of fruits and vegetables, tobacco and fish.
14. The Netherlands is among the larger suppliers of agricultural products from the EU, yet several non-EU countries (USA, Ukraine, Russia) have higher shares in Turkey's agricultural imports than the Netherlands.
15. Dutch positions on agricultural (import) markets in Turkey improved for tobacco, horticultural seeds, chocolate, enzymes and sugar.
16. Major obstacles in bilateral trade are the relatively high protection rate in terms of tariffs (especially for dairy and meat products) next to inconsistencies and juridical gaps between EU and Turkey's legislation in the field of food, feed, veterinary and phytosanitary issues.
17. Adverse factors to increased trade relations are the huge informal economy, the still rather low income levels and the uneven income distribution. Furthermore, market opportunities for Dutch agricultural input products and services may be limited as investments in productivity growth and quality improvements at primary agricultural level depend strongly on government funds and financial means from international organisations.

Israel

1. Israel is a rather small economy, with nearly 7 million inhabitants, yet a high income country. The Israeli economy has returned to a path of rapid growth since 2003.
2. The country's trade relations indicate its strong orientation towards the USA and some West European countries. Main trading partners in the EU are Belgium, Germany, UK and Switzerland.
3. Free trade agreements and the presence of a highly-skilled and qualified workforce are two reasons for a large inflow of foreign investments.
4. Food consumption pattern is a mixture of European and Mediterranean habits and tastes. The diet contains much fruit, vegetables, dairy and poultry meat products.
5. The food retail sector is increasingly concentrated and dominated by supermarkets and convenience stores. The HRI market is growing, also due to tourism.
6. The food processing sector is among the most competitive sectors in the Israeli economy-characterised by technological innovations and the ability to provide a wide range of products.
7. The primary agricultural sector in Israel is a technologically advanced sector, generating high yields and products of high quality. The sector benefits from close interaction between farmers and government sponsored researchers. The upstream industries (large net-exporter) provide the agricultural sector with high quality inputs.

8. Imports from the Netherlands account for 8% of Israel's total agricultural imports.
9. The Dutch position on the Israeli market has strengthened, at the expense of the USA and UK. Yet, with Switzerland both latter countries are still Israel's main foreign suppliers of agricultural products.
10. A major part of the increase of the imports from the Netherlands is due to the fact that the Netherlands is a large trading centre with many international trading companies.
11. Major Dutch exports of agricultural products are sugar, beverages, cereal preparations and horticultural seeds. The major Dutch import products are ornamental plants (cut flowers) and horticultural seeds.
12. Dutch agribusiness opportunities identified are largely in the trade (= mainly imports) of cut flowers, fruit and vegetables, and horticultural seeds. Technological inputs to solve natural bottlenecks to efficient production and/or aimed at environment-friendly production may be an area with good prospects, too, as well as companies focused on supplying retail chains and the HRI foodservice industry with semi-final and consumer products.
13. The basic conditions in Israel are not conducive to booming export opportunities for Dutch agribusiness in food products or input supplies. The local market is relatively small, with less than seven million consumers and a small agricultural sector. Both are well supplied by the local, competitive food and input supplying industry. Moreover, Israel's agricultural and food sector is strongly supported through government intervention, including tariff protection.
14. As place of business location Israel has the huge benefit of highly-skilled work force. Dutch agribusiness companies keen on R&D investment could therefore find very useful partners in Israel. Yet as a hub to other countries, Israel does not offer much opportunities; exports of food products from Israel to neighbouring countries are (very) small. Israeli foods are perceived throughout the Western world primarily as niche goods targeted at the kosher or natural food sectors.

1. Introduction

Background

Turkey's economy has shown rapid development in recent years. The country has a large population (around 70 million) and is in the process of negotiating EU membership. These developments give rise to a reassessment of the Dutch agri-food sector trade and investment opportunities and its strategies for the medium term with respect to this foreign market. Israel, on the other hand, is a rather small economy, with nearly 7 million inhabitants, yet a high income country. Located in the Middle East, Israel is very much oriented at Western-Europe and the USA, politically, culturally as well as economically. Trade relations between Israel and the Netherlands have been in existence for many years already but could get an important incentive when negotiations on deepening agricultural trade liberalisation in the framework of the Euro-Mediterranean Partnership result into a free trade area between the EU and Israel by 2010.

Research into market opportunities for the Dutch agribusiness is highly relevant to the Ministry of Agriculture, Nature and Food Quality (LNV). The Ministry aims at facilitating the Dutch agribusiness in their process of strengthening their competitiveness at the domestic and the international level (LNV, 2005). The Dutch agri-food sector is strongly outward-oriented, either through exports or through foreign direct investment. Turkey is a large market with large potential to expand business activities. Israel is a much smaller and more mature market, but may offer opportunities for increasing business relations as well. Both countries are under the responsibility of the LNV Desk in Ankara.

Objectives of the study

The purpose of this study is to analyse the agricultural trade relations of the Netherlands with Turkey and with Israel, and to investigate the present market positions of the Dutch agribusiness in the two countries, in order to evaluate opportunities for expansion of trade and strengthening of Dutch positions on these markets. The study will provide the LNV Desk in Ankara with a market review that may help to prioritise its activities. These activities aim at contributing to the expanded trade relationships in agricultural and food products and services between the Netherlands and Turkey, respectively Israel.

Scope of the study

As the scope of the study is broad, dealing with primary agriculture, upstream and downstream industries in two countries, the report has a rather general nature. Indeed, the report is meant to provide an overview of important developments in the food supply chain in Turkey and Israel. It gives comprehensive insights in the bilateral trade flows between the Netherlands and the two countries. Conclusions on business opportunities for the Dutch agrifood sector are derived from both the food supply chain analysis and trade flow analysis. Whether these opportunities are real requires however more in-depth market research, specifically pointed at companies' profiles and interests.

Approach and structure of the study

The study is a desk research, largely based on the analysis of international trade data, data on agricultural (supply) and market (demand) developments in Turkey and Israel, and other relevant literature. Next, consultation of Dutch companies already active in one of these two countries or companies considering to start up business activities in or with these countries has been useful input for evaluating the opportunities for the Dutch agribusiness in Turkey and Israel. This study—which consists of two country reports—comprises the following steps.

First, literature review and secondary data help to sketch recent economic developments in the economy. Next, structural features of the agri-food supply chain are presented and the performance of the supply chain is assessed. This part is followed by a description of the country's agricultural trade relations, focusing on rather aggregate agricultural product categories, which gives a first impression of the country's comparative advantages in agriculture. Then, more detailed insights of the Dutch trade relations with Turkey/Israel are provided. This part is showing recent trends in agricultural trade of the most important products at this moment. The country reports conclude with evaluating market opportunities for the Dutch agribusiness. A final chapter summarises these assessments and gives some notions on the role of the Dutch government supporting the business community to successfully use the opportunities identified. The desk study results were discussed during a workshop with Dutch companies. Remarks and suggestions made during the workshop are integrated in the final version of the report.

2. Turkey

2.1 General economic overview

2.1.1 Introduction

Turkey is a geographical and cultural bridge between Europe and Asia. Geographically the country is in two parts: Tracia, the Mediterranean part west of the Bosphorus and Anatolia, east of the Bosphorus. Turkey counts around 72 million inhabitants (2005). The population is relatively young: 30% of the population is younger than 15 years old, while the population over age of 65 is only 6%. The population is largely of an Islamic religion and 80% lives in urban areas. Main cities are Istanbul (10 million), Ankara (4 million) and Izmir (3.3 million). Major economic activities are concentrated in the west part of the country. Regional differences in terms of income are huge, with the highest per capita income rate in the Marmara region (Istanbul and surrounding area) and the lowest in the Eastern Anatolian region (CIA, 2006).



This chapter outlines the main features of the macro-economic situation in Turkey, providing the macroeconomic context in which the present agrifood trade relations between Turkey and the Netherlands are analysed and trade and investment opportunities in Turkey for the Dutch agribusiness are evaluated. Section 2.2 presents an economic

overview, with some macroeconomic indicators such as GDP growth, inflation rates, exchange rate and external trade positions. Moreover, a general evaluation of the business climate is presented.

2.1.2 Economic features and developments

Turkey is according to the classification of the World Bank a middle income country. The average income level in 2005 is USD4,710 per capita¹, which is close to levels in new EU members like Latvia and Lithuania, but well over the per capita income levels in Romania and Bulgaria (which are just below USD3,000). Main economic activities are in the services sector, in which two-third of Gross Domestic Product is generated. Agriculture generates around 11% of GDP, but the agricultural sector's share in the total employment is about one-third or around 7 million in absolute numbers (World Bank, 2006b).

Economic growth

Turkey's recent history shows large fluctuations in national income and high inflation rates (see figure 2.1). Economic crises caused severe recessions in 1994, 1999 and 2001. Following the severe 2001 economic crisis, the government took far-reaching policy and reform initiatives, initially motivated by the IMF support programmes, later reinforces by an action plan of the current government. As a result of these reforms and helped by a favourable international environment, the Turkey's economy regained momentum and has become one of the fastest growing economies of the OECD (OECD, 2006).

Over the period 2002-2005 output increased by a third. In the same period annual inflation fell steadily, reaching single digits in 2004 for the first time in three decades (see figure 2.1), while sound fiscal and monetary policies improved confidence and reduced risk premia, thereby enhancing business investment and FDI inflows.

In early to mid-2006, however, interest rate hikes in major industrial countries significantly affected the Turkey's economy: the currency depreciated significantly, long-term interest rates rose sharply and inflation accelerated. In recent months, pressures weakened and the exchange rate recovered somewhat and long-term interests declined again. Turkey's external debt is yet still around 70% of the country's gross national income, or accounts for twice the value of its exports of goods and services (World Bank, 2006b). Turkey's large and widening current account deficit and the relatively short history of responsible macroeconomic policies make the country vulnerable to external shocks.

¹ The Turkish Embassy in London estimates 2006 average income at almost US\$5500 per capita (www.turkisheconomy.org.uk).

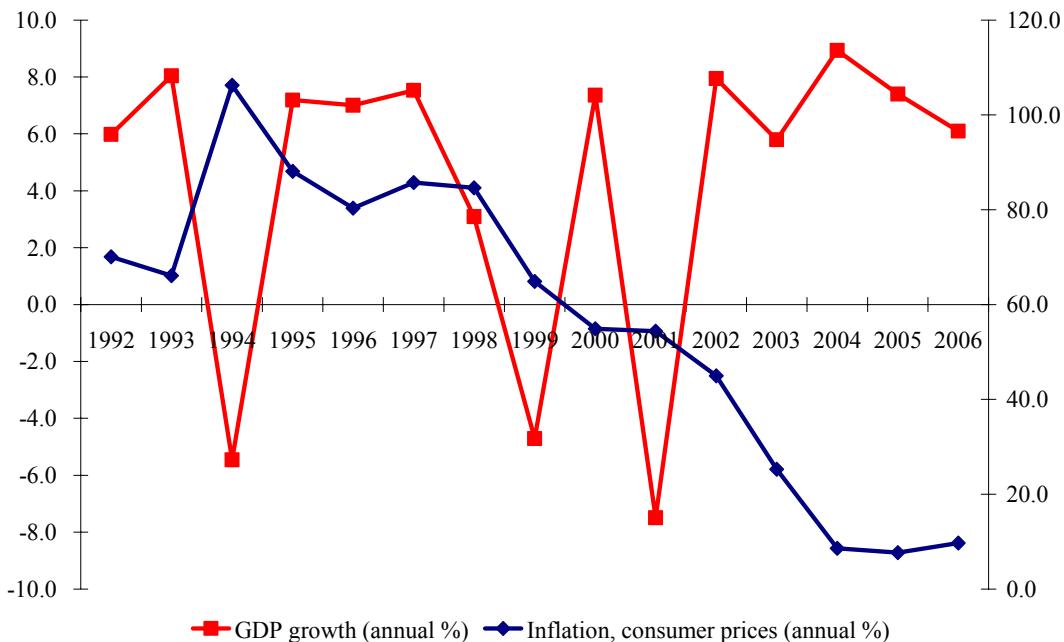


Figure 2.1 GDP growth and inflation rates, 1992-2006

Source: World Bank, 2006b, for 1992-2004; Turkey's Statistical Institute, (for 2005 and 2006).

Labour market

A key reason for Turkey's relatively low GDP per capita is its low level of productivity. However, the low average level hides a quite skewed distribution of performance across different parts of the economy. The productivity gap is particularly large between formal and informal enterprises. While informality reduces firms' costs and provides them with the flexibility to survive under difficult conditions, it also limits their access to capital markets, their capacity to invest and their ability to develop international partnerships, therefore restricting the potential efficiency gains that they could achieve. On the other hand, job creation in the formal sector has been weak, in large part because of the heavy burden of regulations (taxes, pension rules, etc., see OECD, 2006: 98-103). The inflexibility of the labour market limits the absorption of the growing number of young workers who are entering the labour market in the coming years or of those who have lost their jobs in declining sectors, notably agriculture, despite the strong increase in non-agricultural employment in recent years. As a result, the unemployment rate has stayed above 10% despite recent high economic growth rates (OECD, 2006:30).¹

¹ CIA estimates a further underemployment (hidden unemployment) of 4% in 2006 (CIA, 2006).

Trade

Turkey's main trade partners are the EU (both as import source and export destination), Russia (as import source), the USA and the Middle East (as export destination). The EU is by far dominating Turkey's trade relations. In 2005 exports to the EU were 52% of total Turkey's exports, imports from the EU were 42% of Turkey's total imports.

Turkey's main industrial imports from the EU continue to be machinery, automotive products, chemicals, iron and steel. Its main agricultural imports from the EU are cereals. Major EU industrial imports from Turkey include textiles and cloth, machinery and transport equipment (ITC/WTO trade statistics).

On 1 January 1996, a customs union between the EU and Turkey came into force. The scope of this customs union covers trade in manufactured products between Turkey and the EU. Agricultural products remained outside the customs union, although both the EU and Turkey awarded significant trade preferences to each other's agricultural products. There is surprisingly little evidence of this policy change in the figures: Turkey's exports as a share of GNP are roughly the same in 2005 as in 1995 (around 20%, see Türkstat) and the importance of the EU as a trading partner -for both imports and exports- has remained unchanged. On the export side, this is partly explained by the fact that already for many years the EU had granted considerable concessions to imports from Turkey (Burrell and Oskam, 2005:149-151).

Doing business in Turkey

Basic conditions for a favourable business environment are political and economic stability. In Turkey these two conditions have not always been met in the recent past, explaining the fact foreign companies have been rather cautious about investing in the country. Since the 2001 economic crisis and the following policy reforms, however, Turkey's economic situation and the investment climate for both domestic and foreign investors have improved. A new FDI law ratified in 2003 has further encouraged investments from abroad in the Turkey's economy, reducing bureaucratic procedures and allowing more freedom and flexibility to investments and profit transfers (Yased, 2004).

Prior to 2005, Turkey's FDI averaged less than USD1 billion annually, but due to further economic and judicial reforms and prospective EU accession foreign investment has been strong in recent years. In the first half of 2005, Turkey attracted almost USD3 billion, an increase of more than 50% on the 2004 year-end total of USD2.9 billion for 2004. Total FDI in 2005 recorded USD9.8 billion while FDI inflows doubled in 2006 compared to 2005 and increased to USD20.2 billion (see figure 2.2). Large investments have been made in the banking sector (among others by Dutch-based ING and Fortis) and real estate sector. Data released by the central bank of Turkey showed that non-residents net direct investments in Turkey recorded an inflow of USD10 billion in the period January-April 2007 compared to USD1.7 billion in the same period in 2006.

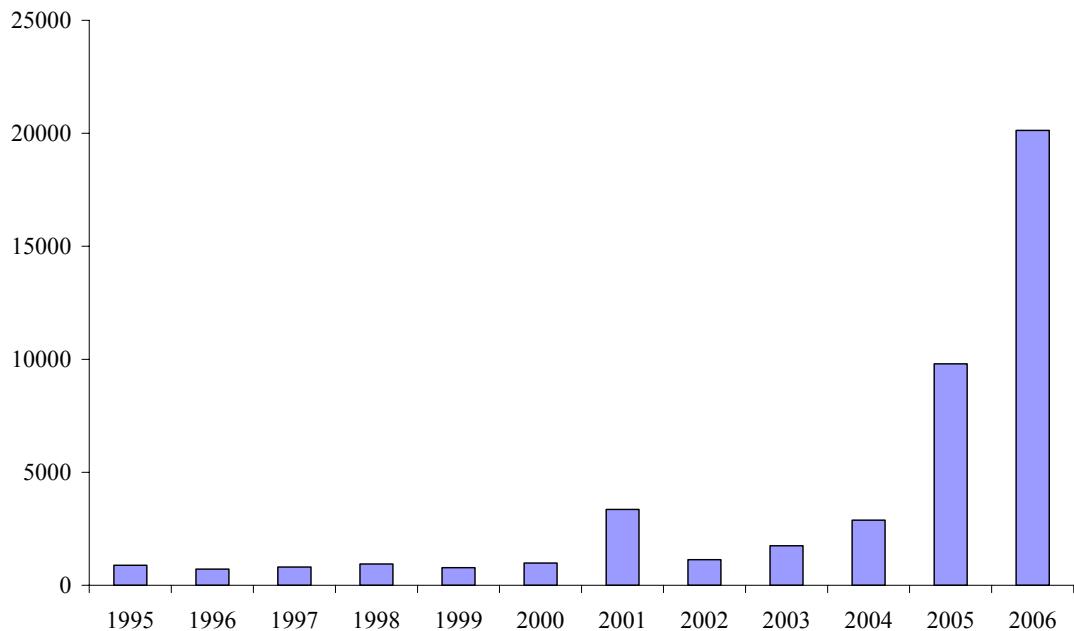


Figure 2.2 FDI inflows in Turkey, 1995-2006 (in million USD)

Source: Central Bank of Republic of Turkey, www.tcmb.gov.tr.

However, despite the strong increase in FDI inflows into the country, the World Bank has concluded little or no improvements in the Turkey's business climate in 2006. The Bank ranks the country on a list of 175 countries on place 91 in 2006, compared to place 84 in 2005 (World Bank, 2006a). The country's aggregate ranking on the ease of doing business is based on ten topics, such as starting a business, dealing with licenses, employing workers and paying taxes. Especially with respect to dealing with licenses and employing workers Turkey scores very much below average. The number of procedures and the time that these procedures take are high. Subsequently the costs are relatively high. Also, the enforcement of commercial contracts is assessed as more time consuming and costly than in other countries in the region. On the positive side are the relatively (compared to other countries in the region) low costs of trade across borders and reasonable (corporate income, VAT and labour) tax rates. This picture may be even more positive for food products in Turkey: where in most cases VAT is 18%, VAT on (essential) food products has been lowered in 2007 to 8% for food products and for some products even to 1%.¹

¹ See for up to date information on taxation issues for instance:
<http://europa.eu/scadplus/leg/en/lvb/e10113.htm>, where the European Commission reports on alignment of Turkish taxation legislation with the *acquis communautaire*.

2.2 The agri-food sector

2.2.1 Introduction

This chapter presents structural features of the Turkey's agri-food sector. Section 2.2.2 describes the main characteristics of the food consumption patterns and the major food purchase channels. Section 2.2.3 looks into structural features of the food processing industry and sketches the present competitive position of the industry through some performance indicators. The primary agricultural sector and some characteristics of the agricultural related input industry are described in section 2.2.4 and 2.2.5.

2.2.2 Consumption and distribution

Consumption trends and developments

The majority of consumer expenditure in Turkey is allocated to food and beverages, making up 28% of spending (CIA, 2006). Food consumption patterns differ strongly between income categories and between the urban and rural population. This affects also the (development of the) structure of the (food) retail sector.

For low-income groups, which comprise the majority of the Turkey's population, it is estimated that around half of the diet is made up of bread with an additional 15% consisting of rice, potatoes and pasta products (AAF Canada, 2004).¹ People used to buy food products mainly on open markets (bazaars) and in local neighbourhood stores where the majority of products are made with local ingredients, but this is rapidly changing as modern retail stores are increasing their market shares (see table 2.2).

Processed products are becoming an increasing share of total food consumption and are mainly bought in the supermarkets, which are situated in urban areas and cater to those who have benefited most from Turkey's rising prosperity. Now that they have the income to afford it, this clientele has developed a penchant for Western, imported products. Single-person households -in particular working women in the large cities- are driving Turkey's acceptance of Westernised, processed foods, but this group represents only a small part of the population. While an increasing variety of products are finding their way onto the shelves, import food products still have a minor position in the consumers' food expenses, accounting for only about 3% of retail food sales.

Some of the trends in the consumption of packaged (preserved, processed) food are presented in table 2.1. The annual growth rate of this type of food was over 18% for the period 2001-2006. Now this high percentage may be the result of a low starting value in 2001 (due to the economic crisis), the annual growth rate of consumption indeed showed robust over the last recent years, and reported a 9.5% increase in 2006 (compared to 2005 levels). Bakery products was the largest sector in 2006. The high consumption of artisan bread and pastries -a large part of the Turkey's culture- was the reason for such high sales of bakery products, yet also the increasing demand for biscuits, cakes, and breakfast cereals were reasons for the growth of the sector. Baby food showed the most growth in value sales. This is due to the increasing number of working mothers who do not have time

¹ Turkey claims the world's highest per capita wheat products consumption of about 160 kg/year.

to feed their babies. Also the increased number of products on the market and better awareness of the nutritional benefits of baby food drove growth.

Projections for confectionery indicate continuously strong growth in the years to come. Sugar and chocolate confectionery both contribute to this. The projected increase in consumption of dairy products is modest, due to a decline in the sales of drinking milk products and cheese (both due to decreasing unit prices following heavy competition with substitutes and/or among). Yet, the increase of ice cream consumption -although still well below the Western European average- has been substantial. Ice cream consumption is highly seasonal. Expectations for further sales growth are positive, especially in ice cream deserts although the product faces tough competition from the traditional Turkey's deserts.

The dried packaged food consists mainly of rice and dried pasta. New regulations and lower taxation will make themselves increasingly felt because of new entries. Products will become cheaper and of higher quality. Demand is expected to increase in volume but not in value. Same trends are expected for chilled processed food, dominated by chilled processed meats. Increased purchasing power and the decrease in sales tax will have a positive impact on sales. This will lead to more competition and greater product quality at lower prices (Euromonitor, various market reports, 2007).

Table 2.1 Retail sales of packaged food: trends and developments

Sector	2006 sales value (YTL million)	Average annual value growth 2001- 2006	Average annual value growth, prospects 2006- 2011
Confectionery	1,881	22.9	7.4
Bakery products	22,226	22.2	2.0
Ice cream	636	18.7	5.2
Dairy products	2,434	12.6	0.7
Sweet and savoury snacks	1,663	10.0	0.4
Snack bars	-	-	-
Meal replacement products	-	-	-
Ready meals	55	10.2	0.9
Soup	113	12.5	3.9
Pasta	511	12.4	1.8
Noodles	-	-	-
Canned/preserved food	76	10.7	-1.1
Frozen processed food	69	10.6	0.4
Dried processed food	1,885	12.9	0.1
Chilled processed food	648	12.6	1.0
Oils and fats	3,639	15.1	1.8
Sauces, dressings and condiments	843	10.5	-1.1
Baby food	287	18.7	6.3
Spreads	477	15.7	1.4
Packaged food	36,765	18.7	2.0

Euromonitor, Packaged Food,-Turkey, 22 February 2007.

Notes: Sum of sectors does not equal total packaged food because of double counting (for example canned soup is included in soups and canned foods) Volume sales cannot be consolidated due to different unit measurements (e.g. confectionery in tonnes and ice cream in litres).

The packaged food market has great potential for growth over the next 5 years. Drivers are the young population of the country, rapid urbanisation and increasing disposable incomes. The dynamism in the market will be fuelled by product innovations, investments in production and marketing, and improved retail systems (Euromonitor, 2007).

Trends in food distribution

The first modern supermarkets in Turkey date back to the mid-1950s, but the true take-off of super-markets occurred in the country only in the 1980s. Since then, the retail sector has developed rapidly with a sharp increase in the larger supermarkets and discount segment from the mid-1990s onwards. The share of these modern food stores (super- and hypermarkets) in the overall food retail market is expected to grow from 45% (2005, see table 2.2) to over 60% by 2010 (AAF, 2007:5).

Modern supermarkets and discount stores are increasingly replacing traditional stores. The latter includes the small grocery retailers, called *bakkals*, that up to 1999 had a 50% market share in the food retail sector (see table 2.2). This transformation has mainly occurred in the larger cities, but recent investments have targeted medium-sized cities where shopping habits are changing or in cities where tourism is intensive. In the future, hypermarkets, supermarkets and hard discount chains are expected to dominate the sector in the wealthier and larger urban areas of the country.

Table 2.2 Retail food sector trends (market share in % according to outlet)

	1999	2001	2003	2005
Hypermarkets (over 2,500 m ²)	6.5	9.5	10.0	8
All supermarkets (100-2,500 m ²)	17.0	25.0	31.0	37.5
Markets (50-100 m ²)	12.5	9.5	9.0	8
<i>Bakkals</i> (< 50m ²)	49.5	42.0	36.0	35.5
Others (convenience stores, kiosks, gas stations)	14.5	14.0	14.0	11

Source: Sirtioglu, 2004:3 and Sirtioglu, 2007:4.

Until a few years ago, the involvement of foreign investment in the retail sector was rather limited, leaving retail chains largely in the hands of Turkey's investors (like the companies Migros SOK, Gima, BİM, Tansas Makro, Yimpas), with only some investment from Germany (Metro, Real), UK (Booker) and France (Carrefour). Yet, the economic recovery and increased food sales (in real terms) since 2001 also attracted investments from new international chains buying local chains. For example, Tesco (UK) bought majority shares in Kipa in 2003. Carrefour already entered Turkey in 1993 but was not very aggressive in gaining market share until 2001 when it rose to be a leader in the Turkey's market. Currently, and as a result of a rapid consolidation process (largely in 2005 and 2006), Migros and Carrefour are Turkey's largest retail grocery chains, with 22% and 15% market shares respectively (see figure 2.3). The hard discount store BIM follows taking up 10% of the market. The share of small and medium-sized local and national supermarkets is around 40%.

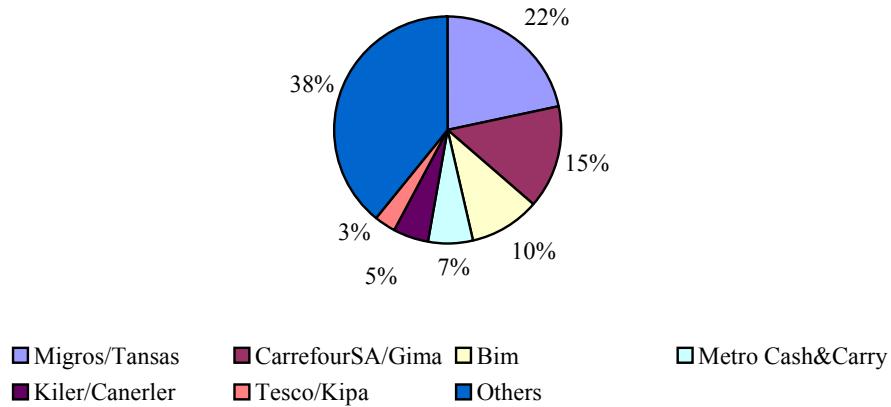


Figure 2.3 Market shares of major supermarkets in Turkey
Source: Sirtioglu, 2007:9.

Although distribution options vary depending on the product involved, the typical product goes through the following stages to reach the consumer: manufacturer/importer-distribution company/department-large-scale wholesaler-wholesaler/distributor-retail unit. Typically, an importer or agent may also be a wholesaler and/or distributor of import products. A significant number of distributors offer nationwide service. National distributors distribute the majority of the total food and other consumer goods. Most hypermarkets import only a fraction of their total imported products directly; they generally purchase through other distribution channels. Imported goods constitute around three percent of the total food products turnover of the retail sector (Source: Sitioglu, 2007: 11).

Box 2.1 Distribution channels

Turkey's foodservice industry is also expanding as a result of investment in fast-food establishments (in many cases in the new retail or shopping centres in the larger cities), young consumer eating habits and its growing tourism industry. The following facts illustrate the importance and potential as outlet for food and drinks in Turkey:¹

- Turkey has become a major world tourist destination, seeing more than 20 million tourists each year and an increasing presence of luxury hotel development year to year;
- the hotel sector is estimated to comprise about 25% of Turkey's total food service sales. From 2001-05, the hotel sector grew about 20% per year parallel to the growth in the tourism industry. Tourism sector income was expected to reach USD21 billion in 2006;
- in 2005, the Turkey's foodservice industry recorded positive growth for the first time over the 2000-05 review period. Currently, there are roughly 50,000 restaurants in Turkey;

¹ Mainly based on AAF Canada, 2007.

- the foodservice industry, typically fast-food outlets and cafeterias, benefits from the growing number of people working in a more fast-paced and modernised work environment. Café chains, such as Starbucks, are also a high growth area in Turkey;
- modern fast-food outlets (including McDonalds and Burger King), are mainly located in larger urban areas. In 2005, fast-food became a USD1.5 billion industry and is expected to see a 10% growth rate over the next five years

In recent years Turkey saw a large number of new business and retail or shopping centres. The expectation is that the number of shopping centres will increase rapidly, also in medium-sized cities. The opening of fast food outlets in the shopping centres means that the demand for food in foodservice outlets increases. In particular, products such as bread, oils and fats, and dairy products (milk shakes, ice cream) will benefit from these developments (Euromonitor, 2007).

The major target group for imported food and beverages items are hotels with four to five stars and holiday resorts with foreign cuisine restaurants, catering not only foreign but also domestic tourists, business meetings and conference. Hotels and also the more luxury restaurants contact importers and distributors for their imported food and beverages needs. It is rare for hotels and restaurants to purchase imported items from cash and carry outlets or hypermarkets since these businesses work on cash payment and do not offer delivery services. Expected further expansion of this segment of the foodservice industry offers good prospects for increasing imports of semi-final and consumer food products.

2.2.3 Processing industries

Data on the size of the food industry differ according to the source of information. While the State Planning Organisation (a Prime Ministry staff agency) estimates the food sector employment at more than 100,000 registered workers and technical staff in more than 28,000 enterprises (SPO, 2004), MARA states that approximately 25,000 companies and 400,000 people are working in the food sector. Most of the companies are small to medium-sized enterprises and only around 10% of these enterprises are relatively modern and large. According to the Turkey's Chamber and Commodity Exchange Union the number of facilities, registered to their related sub-chambers and which employ over 50 people are around 1,000 and the total employment in these more professional companies is around 175,000. Out of these 1,000, most companies are in the flour and flour processing sub-sector (30%), processed food and vegetables (21%) and dairy (11%) (Somer, 2006:15). More details of some selected sub-sectors are presented below.

Meat processing industries

There are many (around 900) largely small-scale companies active in the red meat sector. Products are fresh meat -beef, veal and sheep meat, but no pork!- frozen meat, processed meat products (smoked, canned, ready to eat), prepared meatballs, and cured meats (sausages, salami). The most significant problems of this sector are the low quality of breeding stocks and the import bans which are preventing the improvement of meat

quality.¹ Like most products in the processed food sector, the unregistered economy is a serious problem. However, as the sector has a great improvement capacity, the high profit rates and geographical closeness to the Middle East market is attracting investors. Demands for more technically efficient meat processing plants, establishing of modern slaughterhouses, consultancy, machinery, modernization will increase especially due to the necessity to comply with EU regulations in relevant areas (TAIK, 2007).

Poultry production is mostly from integrated modern plants, and the sector is dominated by around 20 companies. Some of the major players are foreign owned or with foreign investment involved. Especially following cases of Avian Influenza in 2006, informal 'backyard' production has largely disappeared. The annual volume of the sector approaches USD 3 billion. The major problem of the sector is expensive input prices, as significant amounts of animal feed (especially protein-rich animal feed and feed additives) must be imported (AERI, 2007b). At the same time import duties on soybeans and soybean meal increased in 2006 from being 0 to 10% and from 8 to 15% respectively, mainly to protect the national cereals industry. Turkey exports poultry products to neighbouring countries.

Dairy processing

Turkey is the largest producer of milk and dairy products in the region. Milk production is close to 10 million ton per year. According to the sector organisation, SETBIR, close to 60-70% of all milk production is not sold to milk plants, but consumed/sold locally without any proper processing. There are around 2100 enterprises processing milk but only 35 to 40 larger and more modern dairies process around 80% of the cow milk supplied for processing (AERI, 2007a). The so-called Mandiras, small-scale labour-intensive processing units operating on an informal basis would, according to several sources, process between around 20% of the milk produced. The majority of milk produced in Turkey is still sold in the streets without any hygiene control. On the verge of EU entry, there will be more business opportunities in hygiene control of raw milk collection, processing, machinery and consultancy for production of dairy products, etc.

Since the privatisation of the dairy industry started in the mid-1990s, some conglomerates have entered this industry either alone or together with foreign investment and the industry has grown albeit in a slow pace. Today, the major companies in this field are Danone, Pinar, Ülker, Sütaş and Yörsan. Multinational companies hold weak positions compared to local companies as dairy products are traditional products and locals have a long history of producing and vast wealth of knowledge of the local taste. The final products of the industry are packaged milk, yogurt, traditional yogurt drink 'ayran', cheese, creams, butter, milk powder, and flavoured dairy products. A majority of finished product imports are in cheese; some imported varieties are cheddar, mozzarella, ricotta, Edam, Gouda, Roquefort, and Parmesan.

¹ Since 2001 the Turkish government does not allow red meat or its by-products to be imported from any country including the EU countries because of BSE.

Processed Fruit and Vegetables

Facilities active in this field are generally producing pickles, tomato paste, and canned fruits and vegetables. Turkey is one of the world's largest fruits and vegetables producers. There is also a rich variety of fruits and vegetables in Turkey. Approximately 80 different varieties of fruits and vegetables are produced and around 50 are exported. Highest export volumes are in pickles, followed by olives and capers. Also the tomato processing industry-some 100 companies of which the 13 largest produce two-thirds of tomato paste production in 2005-is highly export-oriented (AERI, 2007c). Imports are insignificant, and are only products that are not grown in Turkey like canned pineapple. Canned fruits and vegetables present good opportunities for investors due to Turkey's rich sources in variety. However, the gradual change of preferences to frozen products, rather than canned products and lack of high technology in production are threats to the sector (Somer, 2007).

Flour and flour based industry

There are many small-scale operating food processors in Turkey producing flour products, largely as bread, pastry products such as cakes, biscuits and other flour products. Overcapacity is a problem in the sector. Flour production in Turkey is more than sufficient in quantity, however, quality can be insufficient (Somer, 2007). Although the additive industry is developing in Turkey, imports of enzymes, vitamins and minerals are significant (among others from the Netherlands).

Turkey's biscuits sector enjoys constant growth since the economic recovery, triggered by the demand from newly independent states of the former USSR. The young population also brings in dynamism to this sector. The consumption of sweet biscuits, plain biscuits and new products such as chocolate-coated biscuits is growing, and currently reaches 5 kg, well below the European average of 10-12 kg. The imported biscuit volume is insignificant and mostly from EU countries due to the lifting of customs taxes after the Customs Union agreement. Many ingredients of the biscuit sector, such as milk powder, enzymes and aromas are imported.

There is a growing research and development aspect in this sector resulting in new product developments. The local brands usually tend to copy the products of market leaders; they use very similar names and packages. Ülker Gida, the leader in packed food, is also leader in product development.

Sugar and Confectionary

Currently there are approximately 200 companies active in confectionary and 35-40 companies active in the chewing gum sector. Business companies, of which some are operated by foreign firms, differ in size and technology level. Smaller companies generally produce traditional products like Turkey's delight and helva, while larger-scale companies produce more value-added products. Currently there are 11 multinational companies in Turkey in the confectionary business (Somer, 2007). The chewing gum, chocolate and cookies industry is well developed in Turkey, with modern facilities. The production of confectionary, chocolates, and cocoa products show great dynamism and potential considering the young population, increasing incomes, current low consumptions and increasing tourism. The local industry is developing new products and improving quality. Local packaged food giant Ulker Gida's main production area is biscuits, chocolates and

other confectionary products. Ulker has by far the most developed distribution channels within the processed food producers, has established widespread brand recognition and has the biggest market share in biscuits and confectionary sales. Importers of these products are facing thus tough competition from local suppliers. Moreover, imports feature high import duties of 135%.

Beverages

Liberalisation has been completed in Turkey's alcoholic beverages production and foreign trade channels, although high taxes remain a challenge. The state-owned TEKEL alcoholic beverage producer was privatised in 2003 and the alcoholic beverages unit of the giant government monopoly was sold to Mey İçk a Turkey's joint venture company. Mey is Turkey's leading producer of raki and other spirits with an approximate 80% market share in raki, and is also one of the largest producers of wine in Turkey. Wine consumption per capita is increasing but per capita consumption is still around 1 liter. Beer consumption is increasing too; its value sales reached USD4 billion (+14%) in 2005, out of the USD7 billion for all alcoholic drinks. The arrival of multinational brands such as Carlsberg, Beck's, Miller, Grolsch and Fosters also created interest, as they are considered premium products that attract the attention of young people, who represent big part of the population. Euromonitor International (2006) forecasts that the total value sales in alcoholic drinks will reach over USD10 billion by 2010. Alcoholic drinks has great potential for growth, as the country's population is young and growing, the number of on-trade outlets rise, and tourism grows, while religious reasons for refrain from drinking become less important, particularly under young people.

Imported alcoholic beverages are taxed by heavy import duties: for wine, for instance, imports from EU are subject to 50% import duty and non-EU wines face a 70% import duty. Moreover, there is a 63.3% special consumption tax (SCT) for all wines as well as an 18% Value-Added Tax. Local producers also suffer from these high taxes, which increase the share of the unregistered economy in the beverage sector.

Specialized food ingredients

There are several local and international firms in Turkey active in food additives, preservatives, thickeners and sweeteners industries, with high technology production capacity, employing around 10,000 people (Somer, 2007). With the implementation of the Turkey's Food Codex in 1997, the regulations for the production and usage of additives in food processing are identified, deterring the unregistered economy in the sector. However, there is still a significant presence of unregistered economic activities which creates unfair competition for professional companies. The majority of the industry has focused on producing food additives for flour processing products due to the increasing demand. Most ingredients in the food additives are imported. On the other hand, the developed nature of the industry shows a potential for export of end products to neighbouring countries.

2.2.4 Primary agriculture

Farms in Turkey are generally family-owned, small and fragmented. The 2001 agricultural census recorded 3 million farms, against 4 million in 1991 (Cakmak, 2004). The average cultivated area per holding increased during the 1990s to reach about 6 ha in 2001, which is well below the EU average of 16.5 ha. About 65% of agricultural holdings are smaller than 5 ha. The majority of these holdings are vegetable producers, which typically cultivate an area of 0.2-1 ha. Only 6% of holdings are larger than 20 ha.

Land fragmentation is a serious drawback to mechanized agriculture and to increasing production (57% of the enterprises have over 4 plots). One of the major reasons of the land being small in size and fragmented is the (article 589 of) Civil Law about Inheritance and Transition section. Due to the inadequacy of Inheritance Law and budget insufficiency, agricultural lands are divided into small pieces and fragmented. That causes agricultural holdings operating under economical optimum point.

Turkey's farms are typically of a mixed type: the number of farms which produce both crop and animal products comprise 70% of all farms, and contain 30% of all land in farms. A relatively high number of more specialised farms are located in the Aegean and Mediterranean regions. These two coastal regions focus largely on fruit and vegetable production while the predominantly rural and mountainous areas in the central and eastern parts of the country specialise in livestock and animal products (See appendix for an overview of the geographical distribution of agricultural production in Turkey).

Subsistence and semi-subsistence farming is an important characteristic of Turkey's agriculture, which is similar to the situation in some regions in the new member states of the EU-25 (e.g. Poland), as well as in Bulgaria and Romania.¹ This type of farm is characterised by very low productivity, high hidden unemployment and low competitiveness. These farms, however, are crucial for providing income security and livelihood for millions of the rural population in Turkey. Subsistence farming in Turkey, though, should not be confused with small-scale farming: the agricultural sector is characterised by a relatively large horticultural sub-sector, where production for the market on relatively small plots can be profitable.

Turkey is one of world's most important producer of fruit and vegetable products, i.c. citrus fruits, water melons, tomatoes, cucumbers, eggplant and green pepper. An important share of each of these products production is exported. Greenhouse production (cultivation under glass or under plastic) can be found especially in the Mediterranean region where most of the specialised, commercial farmers produce for export.²

Low quality breeding stock and expensive feed are problems for the dairy sector as well as for the red meat and poultry sector (AERI, 2007b). The majority of livestock are low yielding local breeds. Because of fear for importing BSE, currently there are only three countries from which import of dairy and beef breeding cattle are allowed: Australia, New

¹ Compared to Bulgaria and Romania, there seem to be more medium-sized farms in Turkey, which generally have better development perspectives than the very small-scale farms.

² Horticultural crops are cultivated at around 800,000 ha in Turkey. Some 5% of this area (40,000 ha) are under glass and plastic. The area for cut flowers are 1,200 ha, of which some two-third under plastic and glass (ZMP).

Zealand and Uruguay. Import possibilities from EU countries are, thus, subject to policy changes in this respect.

In the crop production, cereals and horticultural products dominate. Yields in crop production are generally low (compared to EU averages) due to lack of good quality (certified) seeds and limited use of other yields increasing inputs (fertilisers, plant protection products) due to high prices of these inputs (AERI, 2007c). Furthermore, poor technical (cultivation, farm management) skills of many farmers affect yields negatively. Most farmers also have limited post-harvest facilities (such as storage) while the quality and quantity of produce marketed is also negatively affected by insufficient road infrastructure and transport means.

2.2.5 Upstream industries

The agro-chemical industry (fertilisers, pesticides and other agro-chemicals) is dominated by a small number of companies (Burrell and Oskam, 2005). Whether these large firms have market power is difficult to say without having company and sector-specific information on, for instance, price margins. Such information is not available. Yet, it seems that the import regimes of these inputs allow foreign suppliers to come in on competitive terms. This would imply a competitive market without price-setting dominance by any individual company with activities in these input markets.

Since the government sold the state-owned feed mills in 1994, the feed industry has been privately owned. The number of feed mills increased to over 350 in the mid-1990s but apparently, there has been a rather rapid process of concentration in recent years as according to SIS (State Institute of Statistics) in recent years the animal feed industry counts 130 companies. Still, there is much scope for further concentration as most of the feed mills have little production capacity: the 8 largest feed mills account for 45% of total mixed feed production in Turkey (SIS, website).

There are 145 private firms and 27 public entities that currently produce, procure, import and distribute seeds in Turkey (Sirtioglu, 2006). Turkey exports seeds of sunflower and cotton. However, the country's domestic seed production is not sufficient in quantity nor quality to meet local demand for vegetables, fodder crops, pasture and meadow grasses and seed potatoes. Ownership of private companies ranges from 100% Turkey's-owned to 100% foreign-owned with various combinations in between. Despite increases in recent years certified seed utilisation remains far lower than in developed countries due to the lack of farmer education and low income levels reducing the ability to purchase certified seeds. Nonetheless, certified seed utilisation is expected to grow in the future in response to growing demand, especially for greenhouse vegetables, corn and cotton seeds.

Imports , though, are hindered by current regulations on plant quarantine: all imports must be tested and this takes time - usually a week, but that may become longer if there is a dispute on findings. Seed imports are restricted to those companies that produce, procure and market seeds domestically. Importers must have a import license from the Ministry of Agriculture to import. Before being imported seeds must be grown locally on trials plots and approved by the Ministry.

The food processing machinery and equipment manufacturers in Turkey range from small to medium-sized companies mainly located in the bigger cities (Burrell and Oskam, 2005).

The line of products manufactured by these companies varies substantially from highly automated equipment to manual and basic models. The Turkey's food processing machinery industry is able to produce every kind of machinery and equipment necessary for the local food processing industry. Due to the market size and the importance of agriculture, the agricultural machinery industry has grown over the years, and with advanced technology and product ranges the sector has become a primary branch of the Turkey's machinery sector. At present, a wide range of agricultural machineries are manufactured in Turkey including tractors and mowers, soil preparing/earth moving, plant protection and irrigation/sprinkling tools and equipment as well as harvesting/reaping machines, etc. While six main companies are active in the production of tractors, there are 2,800 manufacturers countrywide, which are active in the agricultural machinery area (TAIK, 2007). The sector employs about 13,500 workers. Manufacturing firms in this field are also serving export markets, mainly in the Middle East, Balkans and Central Asia, but also in France, Italy and Belgium.

2.2.6 Conclusions

Present situation

Turkey has a fairly developed food processing industry, yet with the note that in most sub-sectors small-scale firms using modest technology are dominating in number while modern and large(r) processors are relatively few (although the latter produce the largest share of production). The processing industry has a rich agricultural base with diversified agricultural production. However, some structural problems of quality, sustainability, and efficiency in agricultural production have repercussions on the food-processing sector. One of the biggest problems of the food-processing sector is the sustainable production of standardised raw materials and the volatility of production levels. This is due to the generally small-scale nature of production at primary level and the strong impact of climate (temperature, drought) on agricultural crop and livestock production. Furthermore, a large part of the Turkey's economy is unregistered, also in the food processing and trading activities, implying that officially registered companies, which obey rules on food hygiene, labour regulations etc, and pay taxes face tough competition from firms not complying with such rules and therefore producing against lower costs. At present the Turkey's government is not able to sufficiently monitor the business activities and to enforce the rules of the game. And next, in case of insufficient supply of raw material for processing, the agri-food industry faces many bureaucratic obstacles to imports, such as tariffs, duties and licenses.

Opportunities for Dutch agribusiness

In order to prepare for EU membership, complying with the internal market rules and facing competition at the EU market, the Turkey's agricultural sector needs much investment aiming at increased productivity and improved quality of the produce. Government policies-as formulated in the Agricultural Strategy 2006-2010-emphasize improved agricultural competitiveness as a crucial goal and provide the sector with income, technical and investment support. Next, the sector development will benefit from

EU support measures in the framework of pre-accessions programmes and from other (international) organisations like the World Bank.

In this context and with reference to the present situation as described in the previous subsections there is ample room for Dutch agribusiness to supply the Turkey's agricultural sector at both the primary and processing level with inputs in terms of products and services to help the sector developing. Some real opportunities are:

- in *livestock farming*, where productivity and quality of the raw material (meat and milk) suffer from low quality of breeding stock and little availability of good quality feed. Dutch companies working in the area of livestock improvement (semen), producing compound feed and feed additives, grassland seeds, veterinary medicines and so on. Furthermore, extension services and practical assistance could contribute to improved (management) skills in modern animal husbandry in order to use the inputs well and work in accordance with food safety (hygienic) standards. And when the BSE ban is lifted (which should happen some time in future), opportunities occur again to ship live animals (cattle) to Turkey;
- in *meat processing*, where the (red) meat industry is much in need of upgrading its equipment and technical assistance to improve economic performance and comply with relevant EU rules;
- in the *dairy supply chain*, where the majority of the milk produced is still for own consumption and/or sold in the streets without proper processing and hygienic control. On the verge of EU entry and with a better enforcement of food safety rules, there will be more business opportunities in hygiene control of raw milk collection, processing, machinery and consultancy for production of dairy products;
- in the *fruit and vegetables production and distribution*, where at the primary level the more commercial type of farmers would be keen to invest in quality (certified) seeds, and in greenhouse production and technology. Furthermore, the sector would improve its performance if post-harvest measures are taken, such as grading and storage facilities (cooling etc.). Next, as consumer preferences gradually change from canned to fresh and frozen products, companies offering packaging, freezing, and/or preserving technology, and provide handling services will find good prospects in Turkey. As Turkey is a net exporter of many fruit and vegetable products, Dutch trading companies could use Turkey's produce to ship to the EU or to other markets (e.g. Russia);
- in the *food ingredients* markets, such as in the flour and flour based industry, where quality additives are in short supply and are mainly imported. Companies active in food additives, preservers, thickeners and sweeteners may find an attractive market in Turkey, where due to further income growth and the increase in the tourism industry demand for semi-final or ready-to-eat food items is increasing;
- in the *consumer ready products*, as an increasing share of the (especially young and well-earning) Turkey's population is willing to pay a premium for imported quality products, that fit into its changing (more westernised) lifestyle. Per capita food consumption is increasing and there is significant room for continued growth. Consumption of meat and dairy products are particularly low in the lower income groups but with increasing prosperity this may increase in due time. Consumers show increasing interest in convenience (ready to eat, ready to cook meals), variation and

nutritional value while functional food awareness (products with special beneficial effects on health) is also increasing. Food items specially targeted at babies and infants show high potential as there is a great number of children under 5 years and a constant increase in the number of women working outside the home. Next, young and wealthy city dwellers are susceptible to more trendy and/or luxury products such as beverages (wine, beer), ice creams, and foreign foods (e.g. in restaurants) (Euromonitor, 2007; Sirtioglu, 2007). The latter categories of products are also promising because of the increase in foreign tourism.

2.3 Agri-food trade relations and Dutch positions

2.3.1 Key features of Turkey's agri-food trade

Turkey is a net-exporter of agricultural products. The trade balance shows a surplus of USD2.5 billion in 2005 (see figure 2.4). The surplus is growing over the period 2001-2005, although both imports and exports are showing strong increase. Exports rose from around USD4 billion in 2001/02 to USD8.0 billion in 2005. Imports more than doubled over the period from USD2.6 billion in 2001 to USD5.5 billion in 2005.

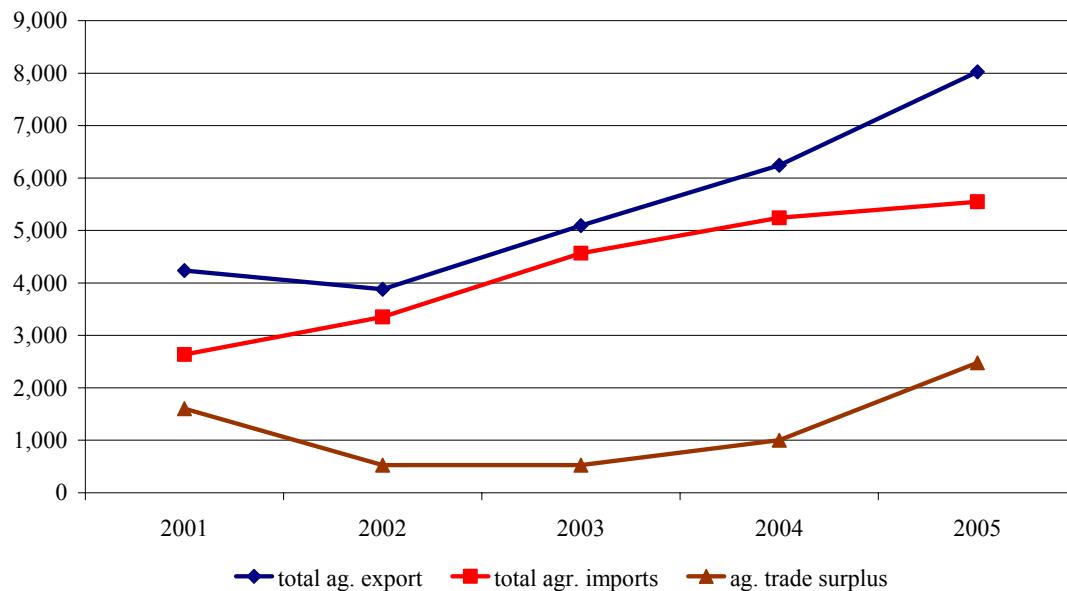


Figure 2.4 Agricultural trade balance of Turkey (x million USD)

Turkey's agricultural exports

Turkey's main export product categories are (hazel)nuts, fruits (prepared/preserved), cereals (wheat or meslin flour), tobacco (unmanufactured) and citrus (fresh). EU countries are important destinations for Turkey's agricultural exports, accounting for half of total

agricultural exports in 2005. The EU has become more important for Turkey's exports over the last five years. This holds for the EU-15 as well as for the new member states in Eastern Europe. Major countries of destination within the EU are Germany (showing a decreasing trend) and Italy (increasing trend). Other regions of major interest for Turkey's agricultural exports are 'Other Europe' (especially Russia) and the Middle East (largely Iraq and Saudi Arabia).

Turkey's imports of agricultural products

Turkey's top-three import products are (unprocessed) cotton, animal and vegetable fats and oils, and oilseeds. These three product categories account for some 40% of the import value of all agricultural imports in 2005. Import values of all three categories show an increasing trend over the last 5 years.

Almost 30% of agricultural imports in Turkey comes from EU-25, while some 15% is from 'other Europe' (figure 2.5). The share of the latter group of countries has been increasing significantly over the period. Main trading partners of Turkey in this group are Russia, Ukraine and Bulgaria. The NAFTA -in practice only the USA- had a share of 30% in 2001, but this share declined to 20% in 2005. Latin America (mainly Brazil and Argentina) has become a more important origin of Turkey's agricultural imports over the period and accounts for almost 10% of Turkey's agricultural imports in 2005.

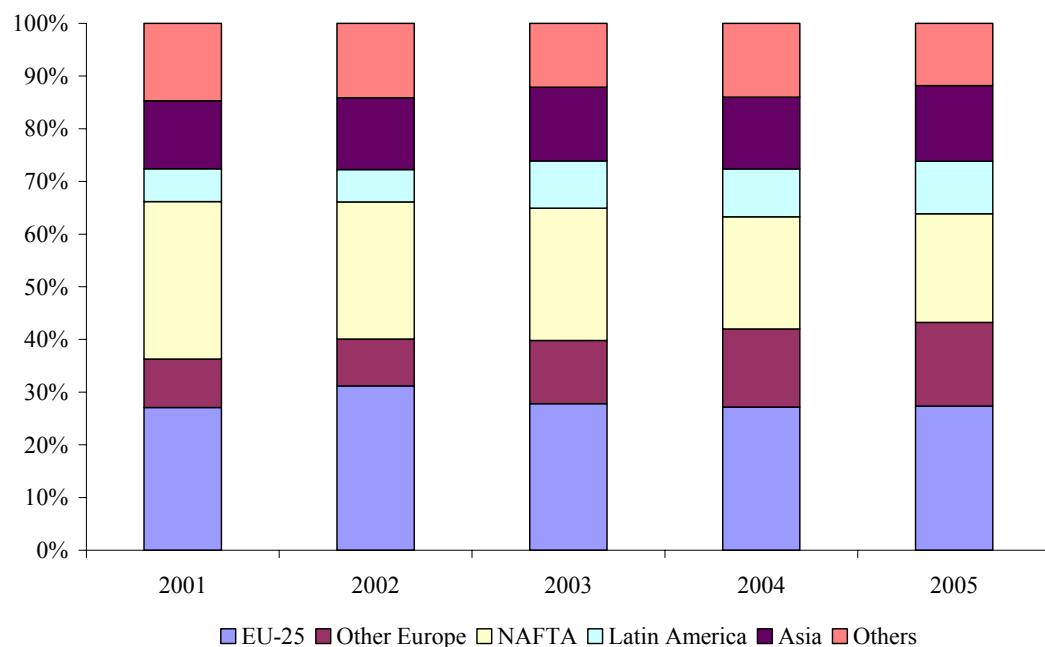


Figure 2.5 *Origins of Turkey's agricultural import, per region*

2.3.2 Turkey's agricultural trade policy measures

Turkey has been a signatory to the GATT since 1951 and a WTO member since its inception in 1995. Within the WTO, Turkey has developing country status, which means that-compared with developed countries-it qualified for a more gradual and less stringent programme of liberalisation measures for agricultural trade under the Uruguay Round Agreement on Agriculture (URAA, implemented by developing countries between 1995 and 2005), and what will be decided eventually under the (still on-going) Doha-Round.

Since the early 1990s, Turkey has entered into a number of preferential agreements with trading partners. Like the customs union with the EU, these arrangements do not cover agricultural trade and imports of agricultural products are subject to the MFN-clause.¹

MFN bound tariffs

As a result of the Uruguay Round negotiations, 46.3% of Turkey's tariff lines were bound (all tariff lines for agricultural products (WTO definition), and some 36% of the lines for non-agricultural products). In 2005, final bindings range from zero to 225% on agricultural products, and from zero to 102% on non-agricultural goods. For certain products, applied rates are well below the bound rates, and even lower than the final bound rates, thus allowing Turkey margins to increase its import tariffs. In practical terms, Turkey's tariff rates are largely bound at the same level as the EU bound rates, given that the Customs Union agreement obliges Turkey not to impose tariffs higher than the EU common external tariffs except in areas where the CU agreement does not apply (mainly in agriculture). In some cases (cereals, beef, dairy), Turkey's tariff bindings for agricultural products are higher than those of the EU

Despite the reduction in import tariffs across the board by 24% as part of the URAA, tariff protection for agriculture remains relatively high. The simple average MFN tariff in agriculture (Major Division 1 of ISIC Revision 2) is 25%. Yet there is a wide variety in tariffs applied among the product groups and within these groups of products among tariff lines (see table 2.3). For example, imports of agricultural products, such as live animals for breeding purposes are duty free. On the other end of the spectrum are tariff rates on some meat products and edible offal, which range up to 227.5%, and buttermilk, curdled milk, and cream carry duties up to 170%. Moreover, specific, compound, and formula duties apply mainly to agricultural products.

¹ MFN=most favoured nation. MFN barriers (e.g. tariffs, entry prices etc) are those facing third countries that do not enjoy any preferential treatment.

Table 2.3 Turkey import protection of agricultural products: Applied MFN tariff averages by HS2, (2003) (in %)

Code and Description	Average tariff	Range
01 Live animals	54.7	0-136.5
02 Meat and edible meat offal	140	24-227.5
03 Fish etc.	31.7	0-37.5
04 Dairy produce and eggs	91.3	0-170
05 Products of animal origin, n.e.s.	3.7	0-20
06 Live trees, other plants (bulbs, roots, cut flowers)	19.5	4-47.3
07 Edible vegetables	21.3	0-50
08 Edible fruit and nuts	43	15.8-147.8
09 Coffee, tea, maté and spices	35.7	0-145
10 Cereals	35.3	0-85
11 Products of the milling industry (malt, starches, etc)	40.5	4-82
12 Oil seeds and oleaginous fruits	16.9	0-35
13 Lac; gums, etc.	2.1	0-25
14 Vegetable plaiting materials; veg. products n.e.s	0	0-1.8
15 Animal or vegetable fats and oils	20.0	0-50
16 Preparations of meat, fish etc.	102	54.6-122.8
17 Sugars and sugar confectionery	36.5	0-136.5
18 Cocoa and cocoa preparations	12.7	0-64
19 Preparations of cereals, flour, etc.	15.4	4.5-46.9
20 Preparations of vegetables, fruit, etc.	56.6	0-137.4
21 Miscellaneous edible preparations	14.6	0-50
22 Beverages, spirits and vinegar	41	0-70
23 Residues, waste; prepared animal fodder	7.6	0-13.8
24 Tobacco and manufactured tobacco substitutes	26.9	10-75

Source: WTO Trade Policy Review, 2003, table A.III.2.

Turkey's agricultural trade arrangements with the EU

In addition to non-agricultural products, Turkey and the EU have agreed to work towards free bilateral trade in their agricultural goods. In line with the Customs Union agreement, processed agricultural products imported into Turkey from the EU are subject to customs duties comprising an industrial and an agricultural component. While all industrial components enjoy duty-free treatment, few agricultural components (57 items at HS six-digit level) are subject to preferential treatment: MFN customs duties still apply to most agricultural components. The limited coverage of agricultural products under the preferential regime with the EU and under Turkey's other bilateral agreements delays their exposure to greater competition: the products are generally subject to preferential tariff quotas.

In 1998, Turkey created 39 tariff rate quotas (TRQs) for agricultural imports from the EU, for the most part with zero in-quota tariffs. In many cases, these quotas have been filled and exceeded by EU exporters. Since September 2003, the number of TRQ's are 34. These items are (at the HS six-digit level): Live bovine animals and their meat, butter, cheese, flower bulbs, live plants, fresh cut flowers, potato seed, apple, peach, tea, wheat, rye, barley, rice, cotton seed, crude and refined soy bean oil, sugar, crude sunflower oil, crude rape, colza and mustard oil, tomato paste, vinegar, dog or cat food and other animal feeds.

EU agricultural imports from Turkey

Although the customs union has not been extended to agricultural products, the EU has been granting trade preferences to Turkey for agricultural products since the 1963 Association Agreement. As part of this process, the EU abolished most *ad valorem* tariffs on agricultural imports from Turkey in 1987, and rates for some specific tariffs have also been reduced. However, there remain high specific tariffs for many of the core CAP products (such as cereals and cereal products, sugar and sugar products, or olive oil), substantial specific duties for many processed products, an entry price system for some fruit and vegetables, seasonal *ad valorem* tariffs for some fruit (four kinds) and vegetables (nine kinds), and high above-quota tariffs on TRQs.

Grethe (2003:58-59)¹ distinguishes four categories of imports from Turkey to the EU: products without any MFN barrier, products with an MFN barrier and for which Turkey receives no preferential treatment, products with an MFN barrier that is applied at a lower preferential rate for Turkey, and products with an MFN barrier that is waived completely for Turkey's exports to the EU. Grethe calculates that in 2001, the shares of Turkey's exports (by value) in each of these categories were 7, 2, 36 and 54% respectively. Product categories which fall for more than 90% in the last category include meat, dairy and eggs, plants and flowers, cereal products, meat and fish preparations, vegetable and fruit preparations, and tobacco. Among those products for which a reduced level of MFN barrier has been retained are, most notably, 59% fruit and nut imports, 76% of cereal imports, 87% of fats and oils, 53% of sugar and confectionery and 100% of preparations of cereals. The total value of imported Turkey's agricultural products in this third category amounted to €770 million.

Although only 38% of Turkey's exports are in the second and third categories (no concession or partial reduction of MFN barrier), it is not clear how much more the EU *would* import from Turkey without the remaining MFN barriers. The fact that in recent years Turkey has not filled many of its EU tariff rate quotas for agricultural products, even when (as in most cases) the in-quota tariff rate is zero, does not necessarily imply that, for products with a prohibitive tariff and no TRQ, tariff barriers have not been a strong deterrent.

The fact that, in theory, the industrial component of processed agricultural products does not face any trade barriers in the EU-Turkey customs union could lead one to expect a greater increase in processed agricultural product trade (in both directions) after the formation of the customs union in 1996. In fact, such an effect appears to have been quite weak. To the extent that this can be explained, Grethe suggests that it is partly because, in fact, most processed agricultural products are classified in annex 2 of the Treaty of Rome as agricultural products, and therefore have remained outside the customs union.

Technical barriers to trade

Trade conditions not only include tariffs, duties and levies, yet are also being made of technical barriers such as licenses or required standards, mainly related to food safety, veterinary and phytosanitary policy. In its 2006 Progress Report (on enlargement negotiations with Turkey) the EU comments that concerning bilateral trade relations with

¹ In: Burrell and Oskam (eds.), 2005.

Turkey, the main problem remains the Turkey's technical barriers on beef meat and live bovine animals (European Commission, 2006). Since 1996 the Turkey's ministry of Agriculture has refused to issue control certificates for live animals (except breeding stock) and beef from countries considered to involve a risk of animal disease (specifically FMD and BSE). Although that this measure has been challenged several times in WTO SPS Committee it appears that the situation has not been resolved. In addition to that, the Commission claims the operation of the Turkey's Grain Board (the state-owned TMO) in supporting exports of wheat flour is not consistent with Turkey's commitments with respect to export subsidies under the WTO and creates unfair competition. Moreover, Turkey has not yet aligned much of its legislation on phytosanitary issues (such as quality of seeds and propagation material) to the *acquis communautaire*, nor has it adopted much of the EU rules with respect to the food, feed and veterinary package yet. Juridical differences that imply uncertainties around trade deals (regarding ownership, benefits, securities) easily act as technical barriers to trade.

2.3.3 Trade flows between the Netherlands and Turkey

Seen from the Dutch perspective Turkey is a very small market: the share of agricultural exports to Turkey is only 0.3% of the total Dutch agricultural exports. At the import side, Turkey is a bit more important to the Netherlands: 0.7% of all agricultural imports is from Turkey. Both share (in export and import) increased by 0.1% over the period 2001-2006.

Agricultural trade relations between the Netherlands and Turkey have expanded in recent years. Dutch imports from Turkey show increasing values since 2003, with an annual growth rate of 10-20% between 2003-2005. Exports went up from €70 million in 2001 to €170 million in both 2005 and 2006. Figure 2.5 summarises the trends in recent trade flows based on monthly data, showing fluctuations within each year. Data indicate that Dutch imports from Turkey peaking in the second part of the year.

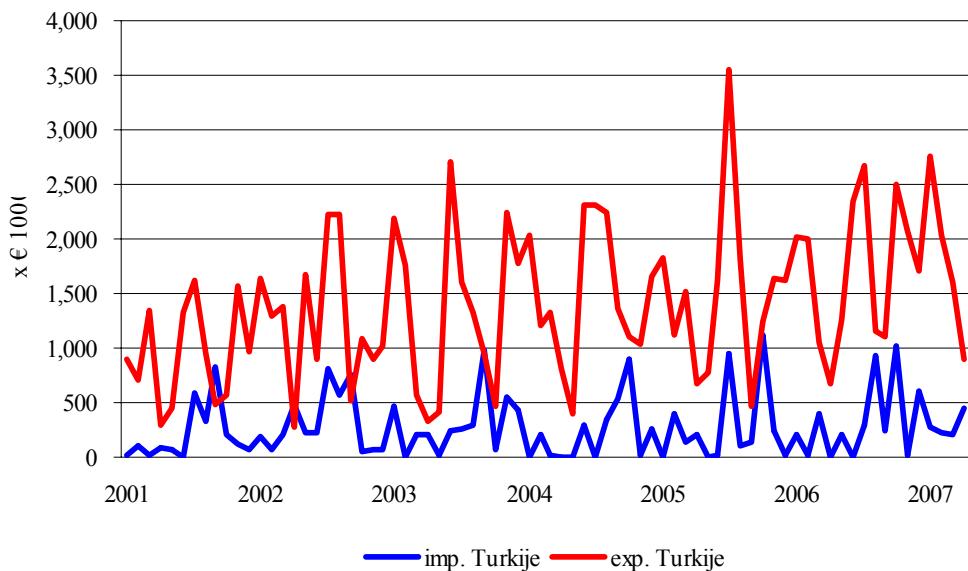


Figure 2.5 Total agricultural trade Dutch agricultural imports from and export to Turkey, monthly data, January 2001-April 2007

Source: CBS/LEI.

Major agricultural export and import items for 2006 are listed in table 2.4. Next to the wide category of 'Miscellaneous', Dutch exports are largely tobacco, coffee etc., cereal preparations (mainly modified starch) and horticultural products (seeds, and ornamental plants, in which 'cuttings' is the major export category). Strongest growth in recent years is registered in the exports of horticultural products. Dutch imports from Turkey are mainly fruits -mostly citrus, other tropical fruits and (dried) nuts- preparations of fruits and vegetables (primarily nuts, prepared), tobacco (raw, unprocessed) and fish (frozen). Total agricultural export to Turkey has shown a decline in 2006 compared to 2005 levels, yet in the January-April period in 2007 indicates that growth in exports resumes.

Miscellaneous is a wide group of products, including products considered as inputs for further processing as well as products which are (near to) consumer-ready. Dutch exports to Turkey of products in this category increased from €15 million in 2001 to around €30 million in 2005 and 2006. In this category two major export items stand out: miscellaneous products for human consumption (€15 million in 2006) and Enzymes (€18 million in 2005, €9 million in 2006). On the import side, the category of Miscellaneous products is rather small: around 5% of total agricultural imports. Total imports of items in this category vary much from year-to-year but have been always less than €8 million in previous years.

*Table 2.4 Major agricultural products in trade (value > €10 million) between the Netherlands and Turkey
(value in 2006 in million euros; growth rates 2006/2005 in %)*

Exports Product	Value	Growth rate	Imports Products	Value	Growth rate
Miscellaneous	28	-17	Fruits etc.	67	+9
Tobacco	27	+1	Fruits and vegetables preparations	51	-17
Coffee, tea etc.	22	-5	Tobacco	46	+29
Hort.seeds	20	+15	Fish	22	+51
Cereals, prep.	16	-2	Miscellaneous	11	+146
Ornamental plants	11	+33			
Total agricultural products	168	-3	Total	224	+11
Total exports	3315	+8	Total import	1779	+6

Source: CBS/LEI.

Agricultural trade between Netherlands and Turkey is only a small part of total trade between the two countries. On the export side the agricultural trade flow is just 5% of all Dutch exports to Turkey in 2006. Agricultural imports are well over 12% of all Dutch imports from Turkey. The changes in these shares over the period 2002-2006 are limited to (plus or minus) 1%, indicating that growth in agricultural trade is more or less in line with total trade developments.

2.3.4 The Dutch position in Turkey's agricultural imports

Assessing the Dutch position at the Turkey's market of agricultural imports, requires a shift from Dutch to Turkey's trade data. The latter are valued in US-dollars and even if valued in euros trade values may differ between the two sources because of different valuation (import c.i.f. and export f.o.b.) and differences in registering.¹

Positions of most important foreign suppliers at the Turkey's food market

Turkey's imports of agricultural products from the Netherlands tripled in absolute figures to reach 180 million USD in 2005. As a share of Turkey's agricultural imports the Dutch position increased from 2.4% in 1995/96 to 3.4% in 2004/05 (see figure 2.5). Other large suppliers from the EU-25 are Greece and Germany - both accounting for 3.9% of Turkey's agricultural imports. Yet, while Greece strengthened its position as a supplier at the Turkey's market, Germany lost market share over the period 1995-2005. France, a major supplier of Turkey in the 1990s saw its market share declining from over 7% to around

¹ Trade data used in this section are United Nations Comtrade data. These data allow us to compare the Dutch position at the Turkish market against positions of other foreign suppliers. LEI/CBS trade statistics provide only overviews of bilateral trade flows between the Netherlands and Turkey (or any other country). Moreover, classification of the product(group)s in the Dutch statistics differ from international classifications which makes it difficult to use the LEI/CBS data in international comparisons.

2.5% in 2004/05. Next to the Netherlands and Greece, imports from Spain and Ireland are increasing notably in the period 1995-2005 (figure 2.5).

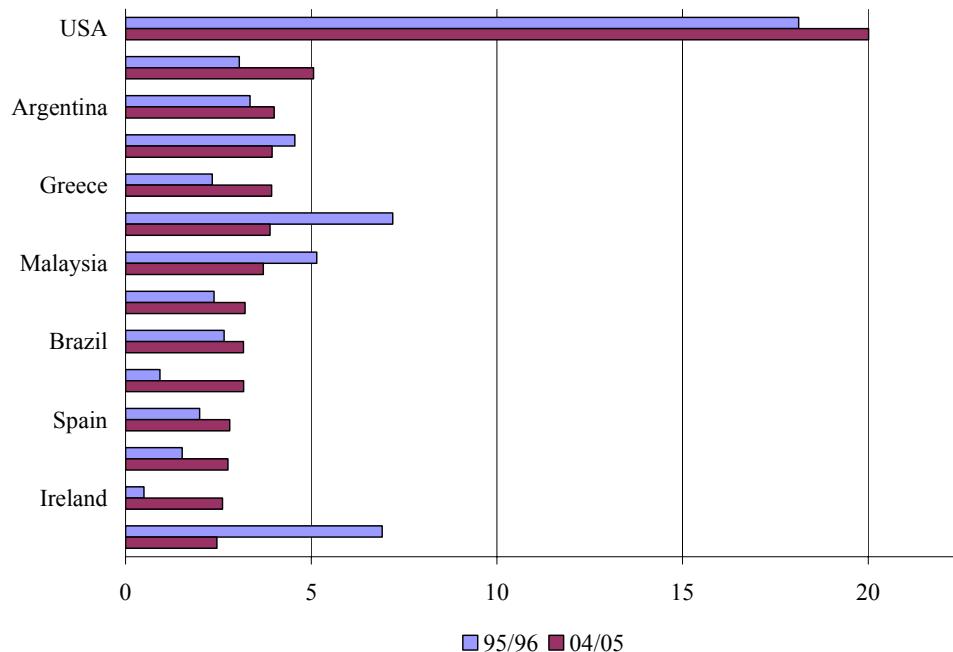


Figure 2.5 Import share of Turkey's main suppliers of agricultural products, average 1995/1996 and average 2004/2005 (in %)

Source: UNSD Comtrade.

The Netherlands is among the larger suppliers of agricultural products from the EU, yet there are several non-EU countries with higher shares in Turkey's agricultural imports than the Netherlands. The USA is by far the biggest, with a share of 20% in 2005, followed by Ukraine (4.9%) and Russia (4.0%). Other countries with shares between 3 and 4% are Argentina, Brazil, Indonesia and Malaysia.

The dynamics in the positions of the major suppliers at the Turkey's market can also be shown by the average annual growth rate of the total agricultural import flow and the respective growth rate of imports from the major supplying countries. Figure 2.6 presents an overview showing that Turkey's total agricultural imports have increased annually by 3% over the period 1995-2005. Those countries achieving a higher annual growth rate strengthened their positions at the Turkey's market, among them is the Netherlands. The figure also shows that Ireland and Indonesia gained most-although the import share of both countries remains rather modest, see previous figure 2.5.

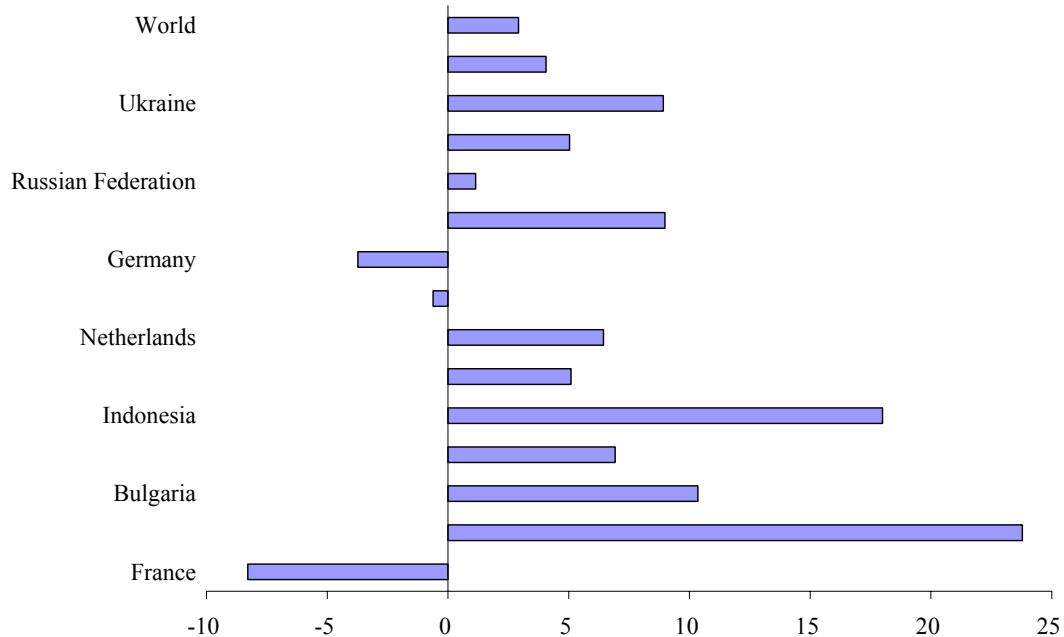


Figure 2.6 Average annual growth rate in % from 1995/1996 to 2004/2005 of Turkey's agricultural imports from the world and from the main suppliers

Source: UNSD Comtrade.

Total agricultural imports from the Netherlands increased at an annual rate of 6.4% over the period 1995-2005, to reach total import value of USD173 million (average of 2004 and 2005). Yet, this period shows years of gradual decline-namely in the second half of the 1990s-and since 2001 a year-after-year increase of the imports from the Netherlands. If one looks at the time interval 2001 to 2005, then the annual increase of the import value was around 30%.¹

Dutch positions on agricultural (import) markets in Turkey in more detail

Table 2.5 shows a list of Turkey's most important agricultural import products from the Netherlands², and the changes in the position of the Netherlands at the Turkey's market. For each product, total imports and imports from the main supplying countries are presented. For these countries market shares and average annual growth rate of Turkey's import values are shown.

Major import items from the Netherlands, for which the import value accounts for over USD10 million, are tobacco (HS-code 2403), food preparations (2106) and seed, fruit and spores for sowing (1209). For these detailed product groups imports from the Netherlands were rather modest and did not show great dynamics until 2001 or 2002 when import values increased.

¹ Total import value was US\$180 million in 2005 and is estimated US\$217 million in 2006 (CBS/LEI trade statistics). Hence, statistics indicate an ongoing increase of Dutch agricultural exports to Turkey.

² Products selected are those with over 2% share in Turkish imports in 2004/2005.

For many products presented in table 2.5, the Dutch share in total Turkey's import of the product is significant. In case of the first six product groups mentioned in table 2.5, the Dutch market share in the Turkey's import is over 10%. Although competitors differ per product (group), the countries most frequently mentioned as main foreign suppliers of the products included in this overview are Germany and France, and to a lesser extent Italy, Ireland and the USA.

For each product it can be identified whether or not Dutch market shares increase over time. Growth rates of imports from the Netherlands show above average (of Turkey's import of the product from 'World') for tobacco, seed etc., chocolate, enzymes and sugar etc. Despite substantial growth in the import flow of the categories 'food preparations' and 'live plants' from the Netherlands, total Turkey's import increased more than from the Netherlands, and the Dutch market share actually declined.

Turkey's imports of agricultural inputs

Agricultural inputs are found in several statistical product categories. Some are under the definition of agricultural products, covering inputs like young animals for breeding purposes, seeds and fodder (cereals). Inputs not under the definition of agricultural products, yet important for the sector, are for instance machineries for agricultural and food industrial use, fertilisers, insecticides etc., and vaccines for veterinary use. table 2.5 includes a number of agricultural inputs defined according to these two broad product categories, and show the data for those input products that play the most important role in the inflow of agricultural products from the Netherlands into Turkey over the last ten years.

Table 2.5 Turkey's main agricultural imports from the Netherlands and main competing countries for that product

	Import value (1000 USD) avg. 95/96	Import value (1000 USD) avg. 04/05	Share in import value avg. 95/96	Share in import value avg. 04/05	Average annual growth rate
<i>2403-Tobacco, tobacco substitute products nes</i>					
World	27,260	83,385	100.0	100.0	13.2
Netherlands	50	47,225	0.2	56.1	114.1
France	9,436	16,177	33.9	19.2	6.2
Germany	28	7,176	0.1	8.7	85.6
USA	1,681	6,755	6.2	8.6	16.7
<i>2106-Food preparations, nes</i>					
World	34,396	188,107	100.0	100.0	20.8
Ireland	230	66,424	0.8	35.2	87.7
Germany	3,559	33,477	12.3	17.8	28.3
Netherlands	7,168	24,543	27.4	13.0	14.7
USA	430	20,660	1.1	11.1	53.8
<i>1209-Seed, fruit and spores, for sowing</i>					
World	27,555	58,963	100.0	100.0	8.8
Netherlands	8,659	22,234	31.7	38.2	11.0
Israel	7,123	6,873	26.1	11.8	-0.4
France	1,371	6,567	4.9	11.2	19.0

Table 2.5 Turkey's main agricultural imports from the Netherlands and main competing countries for that product (continue)

	Import value (1000 USD) avg. 95/96	Import value (1000 USD) avg. 04/05	Share in import value avg. 95/96	Share in import value avg. 04/05	Average annual growth rate
<i>8438-Industrial food and drink preparation machinery nes</i>					
World	78,208	105,904	100.0	100.0	3.4
Germany	26,735	37,832	30.8	34.6	3.9
Italy	11,782	14,891	17.9	14.8	2.6
Netherlands	11,858	9,739	16.0	9.2	-2.2
Switzerland	4,494	7,855	6.9	7.2	6.4
<i>1805-Cocoa powder, unsweetened</i>					
World	9,015	17,394	100.0	100.0	7.6
Netherlands	3,448	6,963	37.5	40.8	8.1
France	780	5,807	9.5	32.2	25.0
<i>3808-Insecticides, fungicides, herbicides etc (retail)</i>					
World	101,489	147,512	100.0	100.0	4.2
Germany	11,546	33,270	11.4	22.7	12.5
France	18,161	21,754	17.9	14.7	2.0
China	953	17,592	0.9	11.9	38.3
Netherlands	6,518	6,362	6.6	4.3	-0.3
<i>0602-Live plants nes, roots, cuttings, mushroom spawn</i>					
World	12,207	25,963	100.0	100.0	8.7
Italy	5,284	12,160	40.9	46.5	9.7
Netherlands	3,634	5,991	31.4	23.2	5.7
<i>1806-Chocolate and other foods containing cocoa</i>					
World	10,550	38,841	100.0	100.0	15.6
Italy	2,861	8,737	26.3	22.9	13.2
Germany	1,886	6,215	18.8	16.0	14.2
Netherlands	468	5,961	4.4	15.4	32.7
<i>3507-Enzymes, prepared enzymes, nes</i>					
World	23,547	59,142	100.0	100.0	10.8
Denmark	8,505	22,670	36.3	38.2	11.5
Finland	1,128	6,602	4.7	11.0	21.7
Netherlands	1,256	5,276	5.2	9.2	17.3
Germany	4,032	5,239	17.1	8.9	3.0
<i>330210-Mixed odoriferous substances-food & drink industrie</i>					
World	47,835	80,047	100.0	100.0	5.9
Ireland	1,244	50,186	2.6	62.8	50.8
Switzerland	2,638	8,951	5.6	11.1	14.5
Germany	1,989	8,057	4.2	10.0	16.8
Netherlands	5,503	4,902	11.8	6.2	-1.3
<i>1702-Sugars nes, lactose, fructose, glucose, maple syrup</i>					
World	4,108	15,160	100.0	100.0	15.6
Netherlands	985	4,105	23.8	27.2	17.2
Italy	217	2,182	5.2	14.5	29.3
Bulgaria	20	2,064	0.2	13.6	67.4

Table 2.5 Turkey's main agricultural imports from the Netherlands and main competing countries for that product (continue)

	Import value (1000 USD) avg. 95/96	Import value (1000 USD) avg. 04/05	Share in import value avg. 95/96	Share in import value avg. 04/05	Average annual growth rate
<i>1901-Malt extract, flour, dairy preparations, low cocoa</i>					
World	10,546	37,264	100.0	100.0	15.1
Germany	5,410	14,613	53.1	39.1	11.7
France	1,932	5,658	17.8	15.8	12.7
Netherlands	1,771	3,948	17.4	10.7	9.3
<i>0701-Potatoes, fresh or chilled</i>					
World	5,452	6,775	100.0	100.0	2.4
Netherlands	3,334	3,146	59.7	48.3	-0.6
Germany	992	1,662	16.6	23.0	5.9
United Kingdom	179	665	3.3	9.7	15.7
Cyprus	47	1,117	0.3	7.3	42.2
<i>8436-Machinery for feedstuffs, poultry, beekeeping</i>					
World	7,386	10,205	100.0	100.0	3.7
Netherlands	1,011	2,369	12.9	23.3	9.9
Germany	1,924	2,006	24.5	19.5	0.5
Belgium/Luxembourg	1,765	1,625	23.5	15.7	-0.9

Source: UNSD Comtrade.

Following the broad definition of agricultural inputs, Turkey imported over USD1.8 billion in 2005 (ITC/WTO). The value of these imports has increased rather strongly since 2003 from a range between USD600-900 million to USD1.6-1.8 billion in most recent years. The items contributing most to the increase in the import value were animal fodder, fertilisers, harvesting machinery (combine harvesters) and tractors.

Russia and Ukraine, followed by Italy and Germany are the major suppliers of Turkey's imported agro-related inputs. The Netherlands only account for 3-5% of Turkey's imports of agricultural related inputs-USD50 - 55 million in most recent years. Over a longer period, the total value of this trade did not increase much, although the value was around USD40 million in the years just before and after 2000 (with USD26 million as lowest value in 2001). Yet, the Dutch export value of agricultural inputs to Turkey in the most recent years is much similar to levels in the mid-1990s. A major item in the Dutch list of agricultural inputs exported to Turkey is seeds etc. (USD22 million), which are mainly vegetable seeds (see also table 2.4). An other important item of the Dutch input supplies to the Turkey's food and agricultural industry is the industrial food and drink preparation machinery, worth USD10-12 million in 2003/2005. The Netherlands is only a small supplier of inputs like insecticides (4.3% of Turkey's imports, see table 2.5) in Turkey. Imported industrial food and drink preparation machinery from the Netherlands valued almost USD10 million, which 9% of all Turkey's imports of this item. Inputs like vaccines and machineries for feedstuffs valued only USD2 million or less in recent years, yet Dutch market shares are around 20% in the Turkey's imports of these items. Trade in greenhouse construction material and equipment has been very modest according to the statistics: Dutch exports of these items to Turkey never exceeded USD2 million in the period 2001-

2005. Yet, 2006 data (from Eurostat/EU) show Dutch exports of €5.6 million. This could indicate at significantly increased trade in this item.

2.4 Opportunities and threats

Overall assessment

Opportunities for increasing trade and investment flows between Turkey and the Netherlands in the field of agriculture and food were identified in this chapter. The conclusion is that there are good prospects for expanding trade. The Turkey's economy has shown rapid development in recent years and has significant growth potential. This chapter also shows that although bilateral trade expands, the absolute level of Dutch exports to Turkey is still rather low (in terms of share of total Dutch exports), while except for the horticultural products, growth rates of exports are modest. At the same time, however, figures show that Dutch market shares in Turkey's total imports of agricultural products are increasing. This indicates that the Dutch agribusiness has a strong competitive position vis-à-vis other foreign suppliers at the Turkey's market.

Beneficial conditions

On average, European countries have a two-third share of total Turkey's retail food imports. This relatively strong competitive position vis-à-vis other foreign suppliers is due to Turkey's membership in the EU Customs Union (allow for quota free access and lower duties for agricultural and food products), the geographic proximity, the large number of European tourists and favourable cuisine tastes from countries such as France and Italy. Furthermore, it is likely that investments of major European hypermarket chains such as Carrefour SA of France, Metro and Real of Germany, and Tesco of UK have also played a role in the dominance of European countries in Turkey's imports of retail food products. The majority of imported dairy products, snack foods, cheese, processed fruits and vegetables is traditionally sourced from EU countries. The main orientation towards the EU and the aspects maintaining this may benefit the Dutch agribusiness in its efforts to further explore market potential in Turkey.

Import protection and informal economy affect competitiveness adversely

Good prospects exist for foreign suppliers to increase exports of many (consumer-ready and semi-manufactured) food items to Turkey. Yet, high import protection and distinct cost advantages of local competitors due to consumption taxes and distribution costs create strong competition to imported food items. Despite the significant economic growth in Turkey in recent years, low per capita income and uneven income distribution still may restrict the (increase in) import demand of consumer ready food items. At present, imported food items represent only a fraction (3%) of the domestic food market. Industry sources estimate that only the top ten percent of the Turkey's population could afford imported food items (Sirtioglu, 2007). Moreover, part of the Turkey's processed food sector is modernised and developed, and capable of manufacturing high quality in large quantities in various sub-sectors. The more entrepreneurial Turkey's food producers are flexible and innovative and tend to produce products similar to imported ones when they

see a good opportunity to increase sales. Foreign suppliers, therefore, may face tough competition from local suppliers.

Border protection is still an important policy instrument in Turkey. Turkey maintains high tariff rates (25% average MFN rate) on many food and agricultural products to protect domestic producers, but for some food items import tariff rates are significantly higher and/or import quota are applied (e.g. cheese). The Turkey's government often increases tariffs on grains during the domestic harvest in an effort to maintain stable (and relatively high prices for cereal farmers. Yet, this policy has not only negative implications for cereal exporters to Turkey but also harms Turkey's livestock industries - particularly the beef and poultry sector - as it implies increased feed prices.

Next to tariffs, imports may be hampered by non-tariff issues such as sanitary and phytosanitary conditions. Turkey is in the process of rewriting its import regulations for agricultural products in order to comply with EU regulations. However, some new regulations do not appear to be fully consistent with those of the EU. For instance, for many products, such as red meat and wine, no written standards on quality exist.

Reducing the unregistered economy is currently getting more serious as European Union accession talks continue. Considering the very high ratio of the unregistered economy in most food products and agricultural commodities sales; the volume to be replaced by modern facilities is significant. This may offer opportunities for foreign investors in local production.

Government support for agricultural development creates chances for Dutch agribusiness
Medium term perspectives for foreign trade and investment depend also on government policies towards the Turkey's agricultural sector. In its Agricultural Strategy Paper for 2006-2010 the government outlines its policies with the general objective to increase the sector's market orientation and competitiveness (Screening document January 2006). WTO commitments and the prospect of future EU membership are reasons for shifting from price support to direct income support. Import protection, until recently an important instrument in most agricultural support schemes, will gradually be reduced and lined up with EU levels. To prepare for increased foreign competition, the sector needs restructuring and modernisation, investing in up to date technologies aiming at improving productivity, production processes and quality of the produce. The Dutch agribusiness has a wide variety of input supplies -in terms of 'hardware' (products) and 'software' (knowledge and know-how)- to offer to the Turkey's agricultural and food industry to help improve its performances. Market potentials exist for animal feed, feed additives, mineral additives, vegetable seeds, live animal exports (if the current ban is lifted), horticulture technology (cultivation, climate control, etc.) and many others. Market perspectives, though, may be restricted to a rather small group of farmers and/or investors due to the low-income levels of the majority of farmers. The latter probably will prefer to stick to cheaper local suppliers.

3. Israel

3.1 General economic overview

3.1.1 Introduction

Located in Asia (Middle East) at the Mediterranean Sea Israel is a westernised country, having many cultural, political, socio-economic and trade relations with Europe and the United States of America. The country's population totalled 6.9 million in 2005, of which 80% Jews, 15% Muslims and 5% other minorities. Most people are living in the low coastal plain zone. Main cities are Tel Aviv-Yafo (population 380,000), Haifa (population 265,000) and Jerusalem (capital, population 720,000 and the government's seat). The climate is varied from subtropical to arid with in the south the Negev desert (CIA, 2006).



3.1.2 Economic features and developments

Israel is according to the classification of the World Bank a high-income country (World Bank, 2006b). The average income level in 2005 is USD17,800 per capita. Israel is primarily a service economy; its main economic activities are in the service sector, accounting for 67% of the country's GDP. The industry sector generates almost 31% of GDP and the agricultural sector only 2.5%. The agricultural sector's share in the country's total labour force is 1.8%, indicating the sector is highly productive.

Economic growth

Macroeconomic circumstances in Israel improved a lot since 2003, benefiting from the (relatively) calm security situation and the rise in the world demand. Data on GDP growth (see figure 3.1), combined with other indicators (among others fixed capital formation, exports) show that Israel's economy returned to a path of rapid growth in recent years (Bank of Israel, 2007).

Due to the response of supply (using much idle production capacity together with modest growth in fixed investments) and the strengthening of the shekel against the US dollar, the rise in demand in the recent years was not accompanied by a rise in the consumer price index, a proxy for inflation. Inflation rates remained below or within the range targeted at 1 to 3% at an annual basis. Nominal interest rates gradually declined to reach 4% in March 2007 (Bank of Israel, 2007).

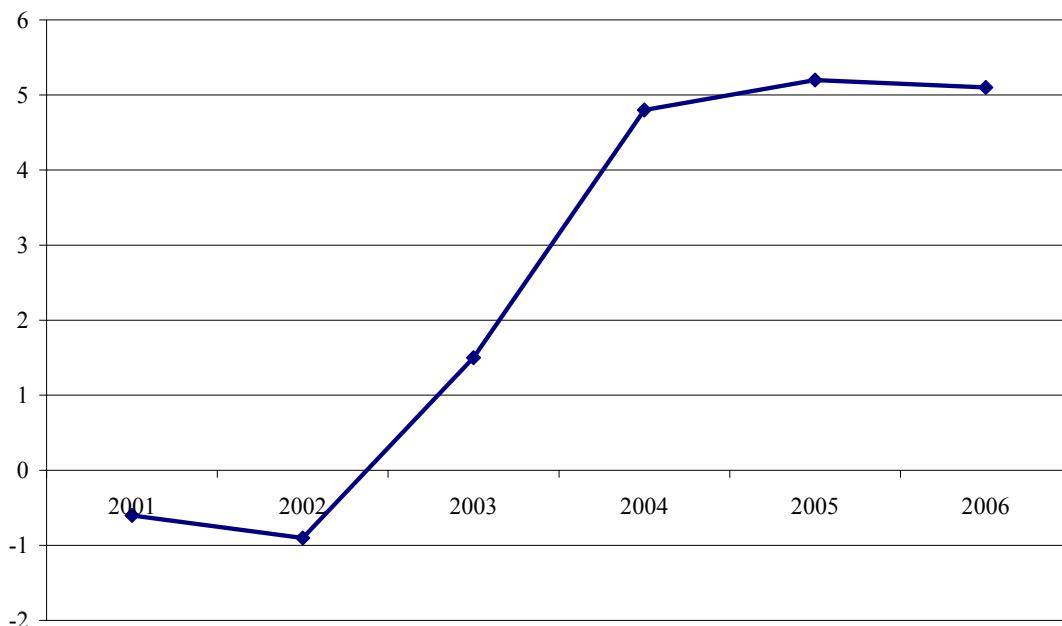


Figure 3.1 Annual GDP-growth (in %), 2001-2006

Source: CBS, Israel.

Labour market

Israel has one of the most educated workforces in the world; it has the highest ratio of university degrees to the population in the world. Twenty-four per cent of Israel's workforce holds university degrees, ranking third in the industrialised world, after the United States and the Netherlands and 12% hold advanced degrees. The country is one of the most important technological centres in the world. Hi-tech industries account for almost 15% of GDP. Israel has the highest rate of Research and Development investment per GDP in the world: Israel spends a record of 5% GDP on R&D and has more Nasdaq companies than any other country outside North America. Israel has more U.S. registered patents than China, India and Russia combined (www.optin.nl/general economy).

Unemployment rates have been around 10% over the last decade. This rather high level is only coming down slowly in the recent past to reach 7.7% -the lowest level since 2000- in the fourth quarter of 2006. Especially the lower-skilled part of the labour force continues to have difficulties in finding employment. Yet, with the upturn of the economy and the decline in unemployment rates, wages in the business sector rise and unit labour costs start to increase after a fall in recent years.

Trade

Israel's export value is estimated at USD43 billion in 2006. Its main export commodities are machinery and equipment, software, cut diamonds, agricultural products, chemicals, textile and clothing. Main export markets are USA (one-third), Belgium and Hong Kong. Imports of goods (such as military equipment, fuels, grain) valued close to USD48 billion in 2006 (CIA, 2007). Imports are mainly from USA (13%), Belgium (10%), Germany, UK and Switzerland (5-6%).¹ This trade overview indicates the country's strong orientation towards the USA and some Western-European countries.

This orientation is also illustrated by Israel's trade policy. In 1985 Israel signed a Free Trade Agreement (FTA) with the USA. As a result, by 1995 nearly all tariffs on trade between the two countries were eliminated. Under the agreement each side is allowed limited protection of industries considered sensitive. Israel also has free trade agreements with Canada, Bulgaria, Jordan, Romania, Turkey, Mexico, and the European Union. The EU and Israel signed the European-Mediterranean Association Agreement, which entered into force in 2000. The Agreement provides for tariff-free exports in industrial goods to the EU. Negotiations on deepening liberalisation of trade in agricultural products are in process, in the framework of the Euro-Mediterranean Partnership². This Partnership aims at creating a Euro-Mediterranean free trade area by 2010. Israel has a customs union with the Palestinian Authority. Israel is a member of the World Trade Organisation (WTO) since 1995.

¹ See for remarks with respect to trade registering box 8.1 in chapter 8.

² See Protocol to Euro-Mediterranean Agreement (January 2005), in which the currently applicable tariffs and tariff-free import quotas are laid down in the trade between the EU and Israel.

Doing business

The free trade agreements and the presence of the highly skilled and qualified workforce are two reasons why overseas investors are flocking to Israel.¹ Especially the presence of numerous multinational IT companies in the country is striking. Yet, the country has other investor-friendly features too: a firmly entrenched parliamentary democracy, active capital markets, a strong banking system, a robust venture capital sector, relaxed currency regulations and comprehensive protection of trade marks, patents and other intellectual property (website fdiMagazine: Israel). Furthermore, the government offers concessions like significant funding of research and development projects, grants for foreign investment in fixed assets and exemption from taxation of up to 10 years. The country's ranking on the list of countries when evaluating the ease of doing business is place 26 (in 2006), among many other highly developed countries (World Bank, 2006a). In some areas, however, Israel's score is much below the OECD average, for instance with respect to the time it takes to go through procedures for starting a business, dealing with licenses, registering property and enforcing contracts in case of a dispute.

3.2. The agri-food sector

3.2.1 Introduction

This chapter presents structural features of the Israeli agri-food supply chain. Section 3.2.2 describes the main characteristics of the food consumption patterns and the major food purchase channels. Section 3.2.3 looks into structural features of the food processing industry. The primary agricultural sector and some characteristics of the agriculture related input industry are described in section 3.2.4 and 3.2.5.

3.2.2 Consumption and distribution

Consumption patterns

The Israeli diet is a rich blend of northern European, Mediterranean, and Middle Eastern dishes compared with Europe and the United States. Certain dishes unique to Israel are considered part of a healthy diet. Dishes include for instance hummus and falafel, which are reasonably priced, popular, and easily available, as are fruits and vegetables. In Israel seasonal fruits and vegetables are widely available throughout the country and at low cost. Fruits and vegetables are also of high quality because farms and plantations are spread in all regions, making transportation time short. In addition, fruits and vegetables are part of many traditional ethnic dishes of several origin groups. In contrast, prices of meat, especially beef, are relatively high. Yet, consumption of poultry meat and eggs per capita on a ready-to-cook basis is among the highest in the world. Approximately 36 kg of chicken, 11 kg of turkey and 240 eggs are consumed per capita in Israel annually. Israel is the world largest per capita consumer of turkey meat. Dairy consumption per capita

¹ Israel's FDI stocks (assets owned by foreign companies) are valued US\$36.3 billion in 2005. FDI inflows in 2005 were over US\$5.5 billion. Source UNCTAD, World Investment Report 2006, Country Fact Sheet Israel, Geneva 2006.

reached (a calculated) 180 litres of milk in 2005 (MARD/IEICI, 2006). About 2/3 of the consumers buy kosher food products¹ (USDA/FAS, 2006).

On average the Israelis spend 16.3% of their income on food purchases and consumption (compared to 13.8% in the Netherlands). Israelis are quality oriented and are ready to pay a premium for quality food products. As a result of household income increase and health food awareness, consumption of healthy food products has increased rapidly in recent years. This is illustrated by the increased sales of light dairy products and soft drinks, low calorie bakery products, and organic products.

Distribution

Food is distributed through the food retail sector and the HRI (hotel, restaurants and institutional) food service. The latter is expanding as over the last few years, Israelis have begun to dine out more frequently and choose premium food when doing so. Furthermore, tourism is an important industry in the country: in 2005 1.9 million people visited Israel, bringing tourism to its highest levels since 2001. This inflow of foreign tourism brought in an estimated USD3 billion in 2005 (USDA/FAS, 2007).

During the last decade an increased share of consumers has shown to prefer to buy their products through supermarket chains, on account of the traditional channels of open markets and small grocery stores. Figures for 2004 show that the latter captures only still 34% (10% by open markets, 24% by grocery stores and minimarkets) of the food retail market (FAS, 2007 report). The rest is taken by supermarkets and convenience stores. In 2004, the retail food market was valued at USD7.7 billion, of which 43% (USD3.3 billion) belonged to the two major retail food-marketing chains (i.c. Shufersal and Blue Square Coop), illustrating the remarkably strong concentration. The retail food sector's growth in 2004 totalled 2% (USDA/FAS, 2006), but showed in recent years a stronger growth up to 8% in 2006 (EVD-website, Israel).

The Israeli HRI market is very complex and diverse. Food service is divided into two categories: commercial and institutional. The commercial sector is divided into two sub-sectors: hotels and restaurants/bars etcetera. In 2004, the market value of this food channel was estimated at USD3 billion. The majority of restaurants, clubs, pubs and bars exist in Tel Aviv. This segment benefits much from the tourist industry, which is generally strong in Israel. Tourism is expected to grow and will continue to fuel food demand from hotels and restaurants in the years to come.

The institutional food service companies include approximately 4,000 kitchens. The Israeli Defence Forces (IDF) is the largest institutional food consumer. It is estimated that the IDF alone consumes about 4% of all Israeli food through its purchasing channels. Currently the IDF is in the process of privatising its food supply chain (150,000 meals/day). The Israeli police force will join the IDF as a consumer in the project adding

¹ Kosher foods are those that meet certain criteria of Jewish law. Invalidating characteristics may range from the presence of a mixture of meat and milk, to the use of produce from Israel that has been incorrectly slaughtered, or even the use of cooking utensils which had previously been used for non-kosher food. It typically only refers to meat. Kosher certification is not an obligatory requirement for importing food into Israel. However, non-kosher products have a much smaller market share as the large supermarket chains and hotels refuse to carry them.

an additional 20,000 meals/day. Total revenue of the Israeli HRI market is valued at USD4.42 billion (USDA/FAS, 2007).

3.2.3 Processing industries

An estimated 1,000 companies make up the local food processing industry, many of them quite small. Out of the total, 150 companies produced approximately 90% of the total value (USDA/FAS, 2006:4). The food industry recently underwent a process of concentration and is currently controlled by large corporations such as Tnuva (specialised in dairy products), Osem-Nestle (for instance pasta, baked goods and snacks), Strauss-Elite (for instance dairy products, chocolate) and Tami-Telma-Unilever (wide range of food products) that are competing against each other.

The food processing sector is among the most competitive sectors in the Israeli economy, accounts for about a quarter of the total local industry revenues and 17% of its workforce (57,000 workers). Out of the total food production, approximately 94-95% is for food processing for the local market, and the remainder is exported (CBS, Israel).

The food sector in Israel is characterised by advanced working methods, technological innovations and the ability to provide a wide range of food products. The innovative character of the industry is for instance illustrated by the almost daily introduction of new products on the shelves. Foreign investments-the larger ones often through joint investments with local companies-have contributed to the accelerated rate of innovation prevalent in Israel's food industry, as the penetration of multinational corporations (like Nestle, Danone, Unilever, Pepsi and others) into Israel over the past decade has increased the professionalism of Israeli companies and has enhanced centrality and competitiveness between industry leaders even further. The multinational companies have brought many new products to Israel, but more importantly, they have contributed to the advancement of Israel's manufacturing techniques and implemented structured processes for innovation management.

Israeli companies produce some foreign brands of food products under license with the rights to market within specific geographical markets. At the same time, several Israeli food companies firms have been investing in foreign markets: in 2005, for instances, Israeli companies invested in foreign countries at a value of USD200 million, mainly in East Europe.

3.2.4 Primary agriculture

Much of Israel's agriculture is based on cooperative communities (kibbutz and moshav), founded on nationally owned land provided on a long-term lease. Some of these communities date back to the early 20th century. The kibbutz is a rural community of several hundred inhabitants who run a large communal production unit. Kibbutz members jointly own the means of production and share social, cultural, and economic activities. Currently, most of the kibbutz income comes from non-agricultural activities (industrial enterprises, agro-tourism and services) and many are undergoing extensive reorganisation. Another type of cooperative community, based on 50 to 120 individual family farms, is the moshav, which is defined and registered as an 'agricultural cooperative society'. The

moshav is based on shared allocation of resources such as farm land, water quotas, and other productive inputs, as well as, in some cases, provision of packing and marketing facilities. The residents in both types of communities are provided with a package of municipal services. The kibbutz and moshav communities currently account for more than 80% of the country's agricultural produce (MARD/IEICI, 2006).

The crop sector dominates Israel's primary agricultural production: crops account for almost 60% of the country's agricultural production value, while 40% is from the animal sector (see table 3.1). The horticultural sector is by far the most important part of the crop sector, accounting for around 50% of the country's agricultural production value. Production consists of a large variety of flowers, fruits and vegetables. Field crops (such as wheat, barley, cotton, sunflower, etc.) are playing a minor part. Dairy cattle farming and poultry are the main animal production sectors.

Presently, the agricultural area is around 420,000 ha (for comparison: the area of cultivated land is 1.9 million ha in the Netherlands). The irrigated land is somewhat less than 200,000 ha. Owing to the growing shortage of water-coupled with intensive urbanisation-the area under irrigation has come down in recent years.

Table 3.1 Share of agricultural sub-sectors in total agricultural production, 2005.

	Share in agricultural production value (%)
Flowers	8
Vegetables	24
Fruits	16
Citrus	4
Field crops	7
Dairy cattle	15
Poultry	19
Aquaculture	3
Others	4

Source: based on MARD/IEICI, 2006.

Agriculture in Israel is a permanent struggle against adverse conditions, such as the hot and dry climate and infertile soils. Yet, the agricultural sector has achieved high yields per hectare and per animal according to international standards. This strong performance is largely explained by pointing at the close interaction between farmers and government sponsored researchers, who cooperate in developing and applying sophisticated production methods in all agricultural branches, as well technological advancement, new irrigation techniques and innovative agro-mechanical equipment (see Fedler, 2002; MARD/IEICI, 2006).

Agriculture's high technology level can be noticed in almost every sub-sector. The country's flower sector, for instance, may be relatively modest in scale by international standards-an average flower farm is 1.5-2 ha-yet, the sector is highly productive, produces a wide variety of flowers, generally of high quality. Some 60% of the produce is grown year-round in advanced, computerised greenhouses with most up to date technology. Exports are very important to the growers' income: 80-90% of production is exported. Most flowers are sold directly from Israeli growers to auctions in Western Europe; some

90% of Israel's flower exports is sold via Dutch auctions. The sector also exports a wide variety of plants and propagation material.

The vegetable sector has quite similar features. Production is largely grown in the open fields (50,000 ha) yet production in protected conditions, using climate and other production controlled technology, has expanded in recent years (5,000 ha in 2005). The country produces a wide variety of vegetables. Export is a main source of income for vegetable growers, too.

The varied climate lends itself to a wide diversity in fruit crops. Due to this varied climate and the advanced technologies for growing fruit trees under protected conditions (greenhouses and shade-houses) during the cold season, fruit can also be picked out of season, thereby prolonging the marketing period and improving fruit quality. Next to R&D in storage, mechanisation, new species and varieties, there is increasing effort to search for ways to minimise the use of chemicals and introduce environment friendly production methods. Many of these innovations respond to changes in the consumer demands, among other the growing awareness of the negative effects of intensive production methods in terms of environment and food safety. Yet, organic farming in Israel accounts for only 1.5% of total agricultural production.

Field crops require a high degree of mechanisation. Cotton and sunflower use irrigation, while (winter) wheat is largely a non-irrigated crop of which yields depend on the amount of rainfall and its distribution throughout the winter months.

Livestock production is mainly milk and dairy production, and poultry production. An average family dairy farm in a moshav (a cooperative of individual family farms) has almost 50 milking cows, while the average kibbutz (collective community) dairy herd has about 300 milking cows. Milk production is regulated by a planning and quota system. The average milk production per cow is exceeding 11,000 kg in 2005, which is very high according to international standards. These achievements are the result of long-term investments in genetics (Israeli Holstein cows, characterised by their adaptability to harsh and varied climatic conditions) and nutrition. The sector is producing with highly advanced technology using machinery, equipment and automation systems largely developed in Israel. The same holds for the poultry sector, aimed at maintaining optimal conditions in the henhouse in all climate conditions and improving production and efficiency performances on poultry farms.

3.2.5 Upstream industries

Israel's upstream industries are typically well-developed, technologically advanced companies. These industries benefit from the mainly government financed research and development institutes, which are internationally well-recognised. The agro-related upstream industry supplies a wide variety of inputs to the primary agricultural sector. Agricultural inputs were valued at over USD2 billion in 2002, of which 70% were exported (Fedler, 2002).

Israel has a strong fertilisers industry, selling products at the domestic and internal markets. Israel's southern region and in particular the Dead Sea area is rich in mines that provide potassium, phosphorus and magnesium for the agricultural sector. Some of the mined material is exported as raw material to fertilizer manufactures throughout the world

and some is processed in Israel as ready to use fertilisers for agriculture in the country and for export. Israel is among the largest manufacturers of potassium nitrate but also produces many other fertilisers.

New seed varieties are developed mostly by Israel's private sector seed companies but also by the agricultural research institutes. Such research is influenced by market demands (aiming at high yields, low water use, disease resistance and other specific attributes). Agricultural research has contributed much to the development of new and high added-value products, such as cherry tomatoes, greenhouse peppers and hybrid cotton. Each year Israel exports over USD100 million worth of seeds-mainly hybrid vegetable seeds (MARD/IEICI, 2006). Recent exports to the Netherlands were 5 to 10% of Israel's total exports of horticultural seeds.

Israel's agricultural engineering industry is well-known for its innovations and constant development. The industry produces specially-designed machinery for the specific conditions of Israeli agriculture. Technology development aimed at increasing the efficiency of water utilisation has had major attention over many years, focusing at improvements in irrigation systems, recycling drainage water, desalination of brackish water and high-level water reclamation.¹ In the same vein improvements in climate control and cultivation techniques in greenhouses are subject to R&D investments with many innovative applications.

3.2.6 Conclusions

Present situation

Israel is a high income country, with a small and highly productive agricultural sector and a technological advanced food processing industry. Food retail chains and distribution channels are in a process of further concentration, implying that this part of the market chain becomes more powerful and sets conditions with respect to price, quality, delivery services etc. in the agricultural and food market. In many respects, the context of the Israel's agricultural and food market is similar to the Netherlands and other high-income countries.

Opportunities for Dutch agribusiness

Horticultural products dominate Israel's agricultural sector. Fruit, flowers and vegetables are Israel's major agricultural export products. Major part of the fruit and vegetables products are not directly competing with Dutch produce (such as citrus fruits, watermelons) and/or not available during the Dutch production peak. Israel's fruit and vegetable products could thus supplement the Dutch product range, offering Dutch traders the opportunity to supply their customers with a full range of products all year round. Hence, prospects are largely in the imports of Israel's products into the Netherlands and/or transhipping these products to other markets. This also holds for the flower trade. Israel's

¹ For instance: investments in a fertigation method has increased the efficiency of fertilizer application very much. The fertigation method implements the simultaneous use of (mostly drip) irrigation and fertilisation which is applied on about 80% of the irrigated land in Israel.

flower export is largely through Dutch auctions. The continuation and possible expansion of the direction of this trade is a main future challenge for Dutch flower traders.

Other Dutch business opportunities may be in the area of technological inputs, largely (again) with respect to the horticultural sector. Horticulture in Israel is a technologically advanced sector, yet farming faces many difficulties with natural conditions (dry/hot climate, water shortage, infertile soils). Moreover, consumer awareness of negative effects of intensive production methods on environment and food safety is increasing in the country. These challenges may offer the Dutch agribusiness opportunities to offer their technological expertise and products with respect to cultivation under protected conditions (e.g. greenhouses, climate control systems, etc.), improving water use efficiency, biological crop protection, seed improvement, and so on. The already high standards of research and technological centres in Israel offer opportunities for increased co-operation in the field of agricultural technology development in its broadest sense.

The food sector in Israel has increased in recent years: sales have grown 8% in 2006. Expectations are that this growth will continue. Although still keen at low prices consumer demand increases for quality and healthy products. Also, the HRI food service is a market segment which shows positive developments, through increasing income levels and the growing tourism industry. The Israeli's food market is a highly competitive market, yet with its ample export experience and flexible attitude Dutch food processors and traders-both of semi-final and consumer-ready products-should be able to be successful at this dynamic market.

3.3. Agri-food trade relations and Dutch positions

3.3.1 Key features of Israel's agri-food trade

Israel is a net-importer of agricultural products. The trade balance shows a deficit of USD1 billion in 2005 (see figure 3.2). The deficit is rather stable over the period 2001-2005. Both imports and exports are showing a robust growth. Imports rose some 30% from around USD2.1 billion in 2001/02 to USD2.7 billion in 2004/2005. Exports increased almost 55% over the period from USD1.1 billion in 2001 to USD1.7 billion in 2005.

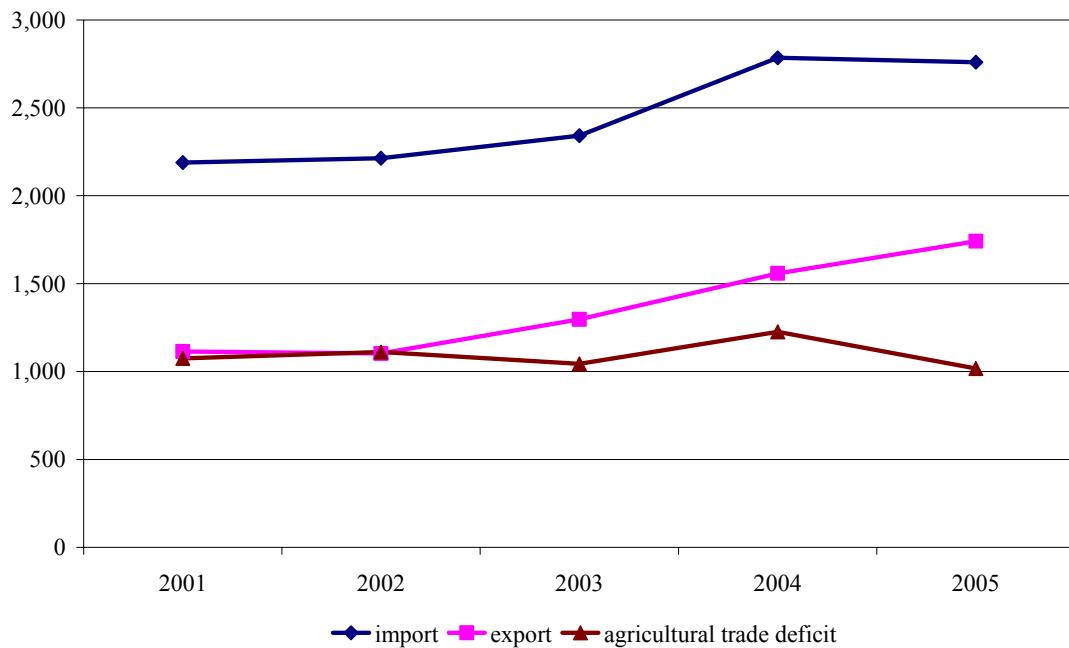


Figure 3.2 Agricultural trade balance (in million USD)

Israel's agricultural exports

Israel's main export product categories are (fresh and chilled) vegetables, citrus and other tropical fruits, cut flowers, vegetable seeds, potatoes and tomatoes. EU countries are by far the most important destinations for Israel's agricultural exports, accounting for 68% of the country's total agricultural exports in 2005. This share of the EU in Israel's exports has been rather constant over the last five years. EU-15 is Israel's main market: Netherlands (19%) and UK (14%) are the largest markets, followed by those in Germany and France (both 8% of Israel's total agricultural exports). USA (with 11%) is also a significant market for Israel's agricultural export. Exports to Russia, yet still no more than 4.5% of all agricultural exports, are increasing. Israel has practically no exports to neighbouring countries.

Israel's imports of agricultural products

Israel top-three import products are cereals, oilseeds and miscellaneous edible preparations (which is a broad category of products including among others extracts and concentrates of tea and coffee, sauces and soups). These three product categories account for one-third of total agricultural import value in 2005. All three categories have been Israel's major import products over the last decade.

Over 40% of agricultural imports in Israel are from EU-25. Major countries of origin are the UK (some 9%) and the Netherlands (almost 8% in 2005). While UK's share is fluctuating closely around 9% in recent years, the Dutch share in Israel's agricultural imports has been increasing constantly over the last five years. Imports from 'other Europe' are largely from Switzerland-10% of all agricultural imports in 2005. Switzerland saw its

share in Israel's agricultural imports doubled in five years time. The USA lost market share from 28% in 2001 and 2002 to 15% in 2005. 10% Of Israel's agricultural imports are from Latin America and another 10% from Asian countries. No single country from these two regions has a market share of more than 3% of Israel's agricultural imports in 2005.

3.3.2 Israel's agricultural trade policy measures

The Israeli agricultural sector is largely supported through various government interventions, including subsidies and tariff protection, mainly in favour of commodities such as dairy products, fruit, and vegetables. Israel is member of the World Trade Organisation (WTO) which provides the framework of the country's trade rules and conditions. The average applied MFN¹ tariff in agriculture is 41%, with high tariffs of up to 560% on certain products. Nonetheless, domestic support to agriculture, as measured by the current Total Aggregate Measurement of Support (AMS), as well as export subsidies actually granted by the Government, has remained below Israel's WTO commitments.

Date of agreement: 20 November 1995.

Entry into force: 1 January 1996.

Major provisions on trade in goods:

- Duty free on all industrial products and some agricultural products since 1 January 1989 with further concessions in agricultural products since 1 January 2004;
- Tariff quotas on some agricultural goods.

Major cooperation in other areas: Competition, state monopolies, intellectual property rights, government procurement, and dispute settlement.

Box 3.1 Israel's preferential trade agreement with the European Union

While the average MFN applied tariff on agricultural products is 41%, around 40% of agricultural goods enter Israel duty free. MFN applied tariffs are higher than the overall average rate in six sub-sectors: live animals (with an average tariff of 29.0%), meat products (64.6%), dairy products (120.6%), edible vegetables (63%), edible fruit (87.1%), and preparations of cereals, flour, starch or milk products (42.3%). Imports of some products are also submitted to tariff peaks of up to 560% (for fresh and dried dates) on some edible fruits and nuts.

Tariff quotas apply to 12 product groups. However, for most of these products (a.o. sheep meat, bovine meat, prunes, citrus juices) the in-quota tariff rate is above the MFN applied rate, thus rendering the quota redundant. As a result, these tariff quotas are in general overfilled. Tariff quotas for dairy products (milk powder, cheese) and wheat, though, are effective. The tariff quota system is administered by the Ministries of Agriculture and Rural Development (for agricultural products and fresh food) and Industry,

¹ MFN=most favoured nation. MFN barriers (e.g. tariffs, entry prices etc) are those facing third countries that do not enjoy any preferential treatment.

Trade, and Labour (for processed food). An administrative directive governs the administration of tariff quota. There are no licensing fees.

Seasonal tariffs are applied to 21 fruit and vegetable products during their harvest seasons (a.o. potatoes, tomatoes, onions, carrots). Israel imposes sanitary and phytosanitary controls on imports and exports of live animals and animal products and plant products. The Ministry of Agriculture and Rural Development is in charge of sanitary and phytosanitary measures and regulations. Imports of several agricultural products are subject to licences issued by the Ministry of Agriculture and Rural Development, the Ministry of Health and the Ministry of Finance for sanitary, phytosanitary health and fiscal reasons, or in order to ensure correct classification. Moreover, Israel prohibits imports of wine, spirits products and grape juice in case of incorrect or misleading geographical indications, and of non-kosher meat.

Table 3.2 Israel import protection of agricultural products: Applied MFN tariff averages by HS2, 2005 (in %)

Code and Description	Average tariff	Range
01 Live animals	29.0	0-170
02 Meat and edible meat offal	64.6	0-190
03 Fish etc.	11.1	0-15
04 Dairy produce and eggs	120.6	0-255
05 Products of animal origin, n.e.s.	3.9	0-34.4
06 Live trees, other plants (bulbs, roots, cut flowers)	14.2	0-30
07 Edible vegetables	63.0	0-344
08 Edible fruit and nuts	87.1	0-560
09 Coffee, tea, maté and spices	7.3	0-15
10 Cereals	10.0	0-114
11 Products of the milling industry (malt, starches, etc)	5.8	0-38
12 Oil seeds and oleaginous fruits	10.9	0-114
13 Lac; gums, etc.	4.8	0-12
14 Vegetable plaiting materials; veg. products n.e.s	15.2	0-170
15 Animal or vegetable fats and oils	5.5	0-50
16 Preparations of meat, fish etc	13.7	0-50
17 Sugars and sugar confectionery	7.4	0-35
18 Cocoa and cocoa preparations	2.3	0-25
19 Preparations of cereals, flour, etc.	42.3	0-127
20 Preparations of vegetables, fruit, etc.	15.0	0-50
21 Miscellaneous edible preparations	16.5	0-85
22 Beverages, spirits and vinegar	10.3	0-13.4
23 Residues, waste; prepared animal fodder	1.4	0-8
24 Tobacco and manufactured tobacco substitutes	3.4	0-12

Source: WTO Trade Policy Review, 2006, table A.III.1.

Tariff rates on imports of *fruit* (87.1% on average), *vegetables* (63%) and related products are relatively high (table 3.2). Within these groups there is also high dispersion due to tariff peaks on certain fruit (344%) and vegetables (560%). Imports of most fresh fruit and vegetables are subject to seasonal tariffs, generally specific with relatively high AVEs (an amount per kg); variable import levies (a percentage of the value) are also

applied to some of them. Applied MFN tariffs range from 10 to 20% on flowers. Imports of prunes, walnuts, sweet corn, and concentrated citrus fruit are subject to tariff quotas. These quotas have been largely over-filled in recent years. The 600-tonne tariff quota on prunes is allocated first to imports under the free-trade agreement with the United States; the remainder is available to all supplying countries. The out-of-quota tariff rate for walnuts equals to the in-quota rate, therefore the tariff quota system is redundant and not used. For sweet corn, the quota is allocated on a pro-rata basis, while for citrus, licences are issued according to past performance. The applied MFN rate on concentrated citrus juice is 19%, which is lower than the in-quota rate of 26%; the tariff-quota system is therefore redundant and not used. Imports from the U.S. are duty free.

Applied MFN tariffs are generally relatively low on *cereal and oilseed* products (average of about 10%), with the exception of wheat (50%) and certain vegetable seeds (tariff peaks of up to 114%). Imports of oil are subject to variable levies and safeguard levies; tariff quotas regulate imports of wheat and meslin, and edible fats and oils. The tariff quota of 450,000 tonnes of wheat has been largely exceeded in recent years. The in-quota rate was lowered to 85% by 2004; the out-of-quota rate was 128% in 2004. Licences are issued by the Ministry of Agriculture and Rural Development to all importers of feed wheat upon request; licences for non-feed wheat are allocated to importers once they have purchased the emergency stock constituted each year for food security reason. Alternatively, any type of wheat can be imported without licence at the 50% tariff rate, which explains why the tariff quota is over-filled.

Tariff protection for *dairy and meat* products is relatively high. Applied MFN tariffs on meat average 64.6%, while those on dairy products are over 120%. Tariff quotas on live bovines and their products amount to 37,250 tonnes annually. However, in most cases, the applied MFN rates are lower than the bound in-quota rates of between 15% and 120%. As a result, actual imports have largely exceeded the quota volumes.

Under the Kosher Meat Import Law, Israel prohibits the importation of non-kosher *meat and meat products*; stringent certification procedures are in place for foreign firms wishing to export their kosher meat to Israel. Nonetheless, the Government allows limited domestic production, sale, and consumption of non-kosher meat.

Imports of *sheep and goat meat* was 480 tonnes by 2004, the bound in-quota rate of 100% being twice the applied MFN tariff of 50%. Import licences for these products are issued by the Ministry of Industry, Trade and Labour to all applicants on a pro rata basis. As the in-quota rate exceeded the applied MFN rate, the tariff quota system has not been used.

Imports of *milk products* are still subject to high applied MFN tariffs of between zero and 212%. The milk industry is also protected by a tariff-quota system. Two different tariff quotas have been established for milk and cream, were the fat content exceeds 1.5% (a quota of 100 tonnes in 2004 with an in-quota tariff of 215%) or not (a quota of 1,200 tonnes with an in-quota tariff of 85%). Both quotas have been considerably over-filled in recent years. For milk and cream with fat content not exceeding 1.5%, the bound out-of-quota tariff rate was 162% in 2004; on milk and cream with fat content exceeding 1.5%, the 2001 tariffication led to an out-of-quota rate of 212%.

Imports of *cheese* are subject to relatively high tariff rates and tariff quotas. Bound rates on fresh, grated or blue cheese ranged between 157% and 247% in 2004. The applied

MFN tariff on imports of fresh cheese is 148%, while imports of grated or blue cheese are subject to specific duties (NIS 14 to NIS 15.24 per kg but not more than 247% for grated cheese, and NIS 14.15 to NIS 17.08 per kg but not more than 238% for blue cheese). Imports of processed and other cheese are subject to a tariff quota system. The tariff quota volume for processed cheese was 68 tonnes in 2004 with an in-quota tariff of 150%. The quota has been over-filled each year since 1999 except for 2001 when the fill rate was around 80%. For other cheese, the quota volume was 1,080 tonnes in 2004 with an in-quota tariff of 250%. Despite the high import rates for cheese, this quota has been overfilled since 2002.

3.3.3 Trade flows between the Netherlands and Israel

For the Dutch agribusiness Israel is a very small market: the share of agricultural exports to Israel is only 0.2% of the total Dutch agricultural exports. At the import side, Israel is a bit more important to the Netherlands: 0.6% of all agricultural imports comes from Israel. The latter share (in import) has increased by 0.2% over the period 2001-2006.

Over the period 2001-2007 agricultural trade flows between the Netherlands and Israel showed first a gradual decline and seemed to have resumed growth again since 2005. Figure 3.3 summarizes the trends in recent trade flows based on monthly data, showing huge fluctuations within each year, especially in the import flow from Israel. Data indicate that Dutch imports from Israel peak each year in March.

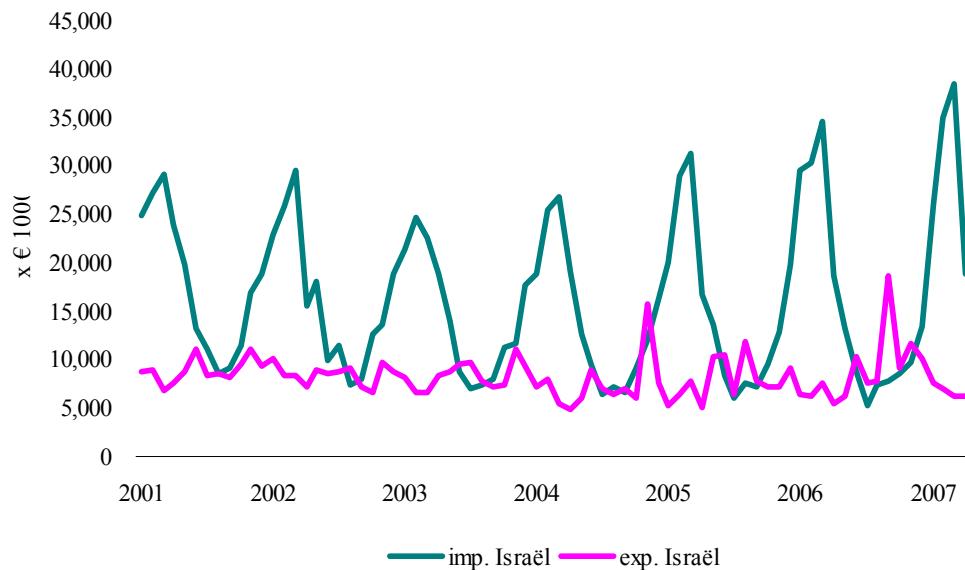


Figure 3.3 Total agricultural trade Dutch agricultural imports from and export to Israel, January 2001-April 2007 (monthly data)

Source: LEI/CBS.

Major agricultural exports and imports in 2006 are listed in table 3.3. Sugar is on top but this seems accidentally. Export of sugar to Israel fluctuates from year to year, with an average of €3 to 5 million in the period 2001-2004. Sugar export value, then, increased much to reach almost €17 million 2006, not because of increased volumes but with an export price per ton as high as the internal EU level-more than 2.5 times higher than average prices in previous years. The strong position of sugar in the Dutch export flow to Israel in 2006 therefore looks like being much of a special trade deal and, hence, as an incident.

Beverage exports are beer, spirits and other beverages. After several years of decline the trend is positive again since mid-2005. Cereal preparations are mainly bakery products and malt. The growth in 2006 in exports of these products brought back the total exports of this group of products to 2001 and 2002 levels. Export values of horticultural seeds show a large fluctuation over the year (with peaks in June) and vary year after year but demonstrate generally a steady increase since 2001 (see figure 3.4).

On the import side, most important products are horticultural products. Cut flowers is the main group of products in the category of ornamental plants. The import value of this category shows a gradual decline since 2001 (from €120 million to €70 million in 2006). On the other hand, the imports of vegetables show an increasing trend. Peppers are by far the major item in this group. The bulk of these imports are done between December and March. Imports of fruit consist mainly of citrus and other tropical fruits. The miscellaneous product category refers largely to products for human consumption. Imports of horticultural seeds declined much in 2006 but are with €6 million more or less the average in the period 2001-2006.

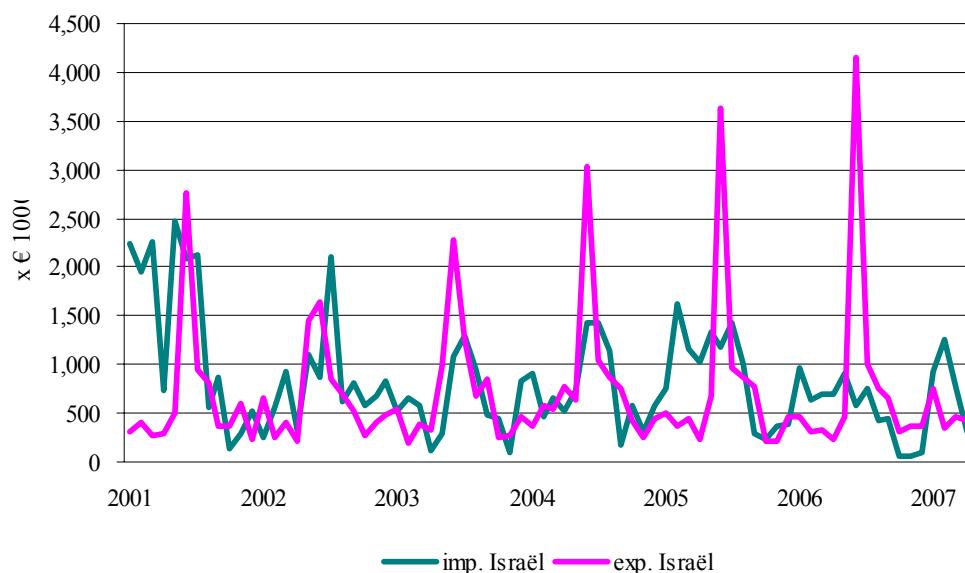


Figure 3.4 Dutch trade of horticultural seeds with Israel, January 2001-April 2007
Source: LEI/CBS.

Trade in several other products not yet mentioned show quite some dynamics. For instance, the Dutch export of seed potatoes increased strongly from some €5 million in 2005 to over €8 million in 2006. Also exports of milk powder showed a strong increase in 2006 (up to €2 million).

Table 3.3 Five major agricultural products in the trade between the Netherlands and Israel in 2006.

Exports			Imports		
Product	Value (mio euro)	Growth rate 2006/2005)	Products	Value (mio euro)	Growth rate 2006/2005)
Sugar	17	+33	Ornamental plants	70	-10
Beverages	12	+43	Vegetables	56	+29
Cereals prep.	10	+25	Fruits, etc.	27	+6
Horticultural seeds	9	-1	Miscellaneous	18	+40
Coffee, tea, etc.	9	-7	Horticultural seeds	6	-42
Total agr. Exports	108	+14	Total agr. import	187	+3

Source: LEI/CBS.

3.3.4 The Dutch position in Israel's agricultural imports

Assessing the Dutch position at the Israeli market of agricultural imports, requires a shift from Dutch to Israeli trade data. The latter are valued in US-dollars and even if calculated in euros may differ from Dutch trade data because of different valuation (import c.i.f. and export f.o.b.) and differences in registering (see footnote in section 2.3.3, and Box 3.2).

Imports of agricultural and food products by Israel from the Netherlands increased from USD110-120 million in the period 1995-2001 to around USD200 million in 2004 and 2005. The Netherlands accounts for 7.8% of all Israel's agricultural imports in 2005 against 5.6-5.8% in the second half of the 1990s, and thus has strengthened its position at Israel's market. The improvement of the Dutch position on the Israeli market is at the expense of the market position by the USA and UK. Yet, with Switzerland both latter countries are still the major foreign suppliers of agricultural and food products on the Israeli market. Figure 3.5 shows that also Argentina and Brazil significantly increased their positions at Israel's market. Market positions by German and French exporters did not change much.

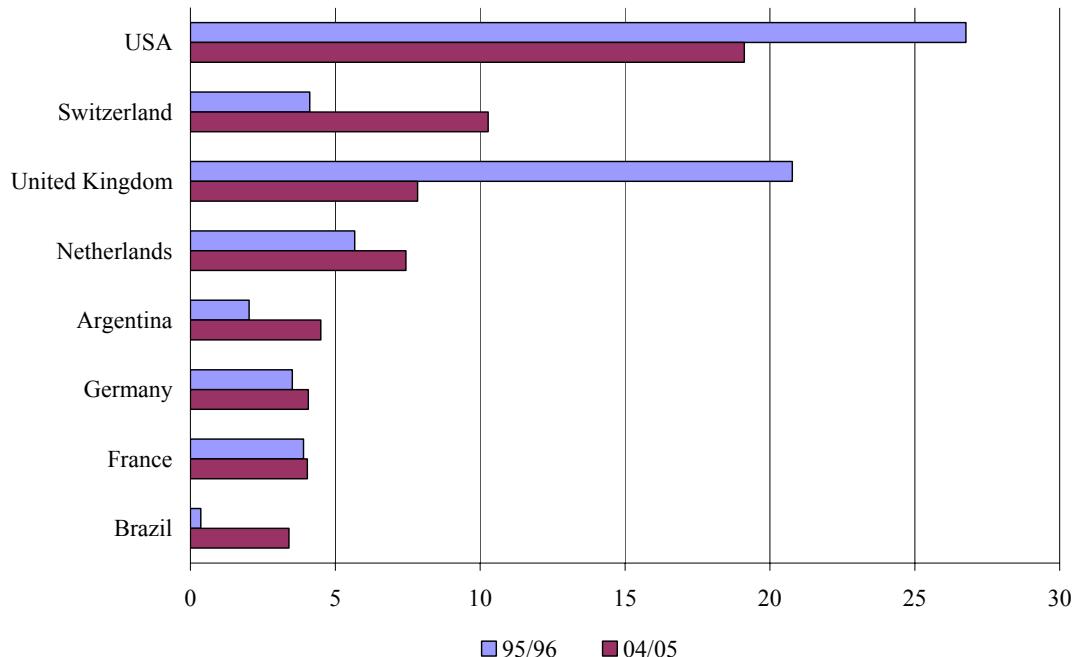


Figure 3.5 Import market share of countries supplying Israel in 1995 and in 2005

Source: USDN Comtrade.

An other way of showing the dynamics in the positions of the major suppliers at Israel's market is to refer to the average annual growth rate of the total agricultural import flow and the respective growth rate of imports from the major supplying countries. Figure 3.6 presents an overview that shows that total agricultural imports have increased annually by 2.2% over the period 1995-2005. Those countries achieving a higher annual growth rate strengthened their positions at the Israel market, among them is the Netherlands. The figure also shows that Brazil gained most-although the import share of Brazil remains the smallest of all countries mentioned, see figure 3.5.

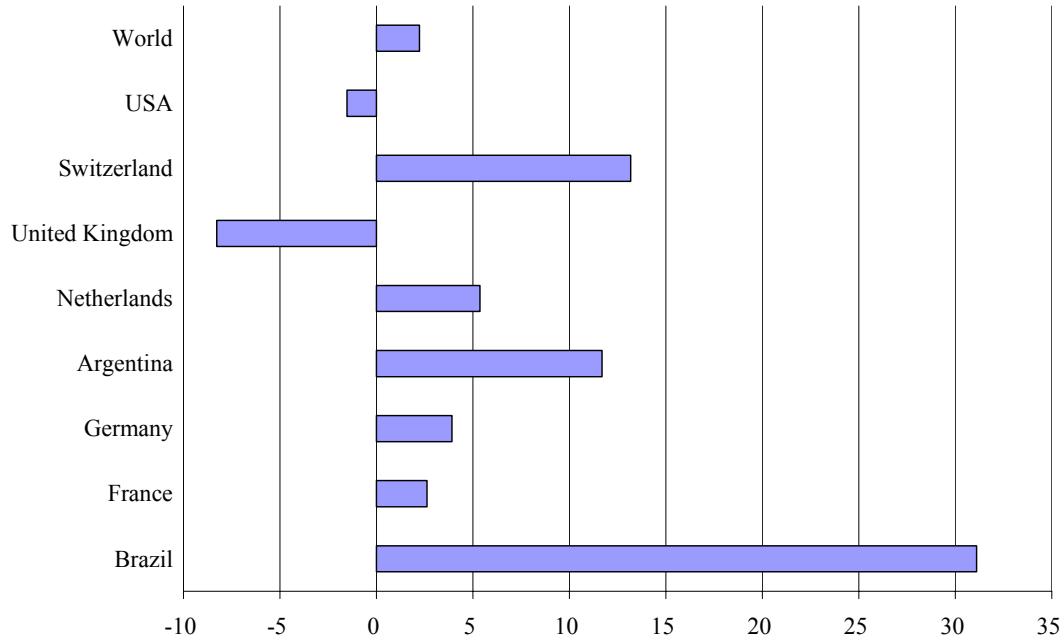


Figure 3.6 Average annual growth rate in % from 1995/1996 to 2004/2005 of Israel's agricultural imports from the world and from the main suppliers

Source: UNSD Comtrade.

Most countries classify imports by countries of origin (and exports by countries of destination). Israel, however, applies a different way of trade registering. Israel classifies imports by countries of purchase and exports by countries of sale. The implication is that trade flows between the Netherlands and Israel show different figures depending on which country's national trade statistics one looks at.

For most products the differences are not that large, yet for some they are as the Netherlands plays an important role transshipping importing goods to other destinations. Furthermore, the Netherlands is a large trading centre with offices of traders of agricultural commodities. The way Israel classifies its imports has, then, for instance the effect that the Netherlands appears in its trade statistics as a large supplier of feed and food grains, while according to Dutch trade data on export to Israel the Netherlands exports only very little grains. The reason why Switzerland is an important supplier of (a number of) agricultural products to Israel, houses many international trading companies.

The differences between the Dutch (exports) and Israeli's (imports) statistics are highest for cereals and miscellaneous edible preparations (HS-code 21).

In the text and analyses in this report we use the Israeli's import statistics as these allow us to evaluate the Dutch positions at Israeli markets by comparing (changes in) Dutch positions to those of other important foreign suppliers.

Box 3.2 Different base of trade statistics in Israel and the Netherlands

Table 3.2 shows a list of Israel's most important agricultural import products from the Netherlands¹, and the changes in the position of the Netherlands at the Israeli market. For each product, total imports and imports from the main supplying countries are presented.

¹ Products selected are those with over 2% share in Israeli's imports in 2004/2005.

For these countries market shares and average annual growth of import values from these countries are shown.

Trade flows at this (detail of) product level are rather small: the largest import flow values USD33 million and the number of products from the Netherlands with an annual import value over 10 million is only five.

The Netherlands has a considerable share in the Israel's total imports of the products presented, namely almost 6%. Main competition is from the USA, Switzerland, the UK, Germany, France. The table also presents the products' growth rates of the import value over the period 1995-2005. Except for beer these show all positive. For all products but beer, potatoes and residues (waste of food industry, animal fodders), the Dutch products gained market share over the period 1995-2005.

Israel's imports of agricultural inputs

Seeds (HS-code 1209), residues (wastes of food industry, animal fodder, code 23), insecticides etc. (3808), and industrial food and drink preparation machinery (8438) are the major import items from the Netherlands that can be classified as inputs to the agricultural sector. Import flows are typically low in value, yet especially in the case of seeds the Netherlands has a major share in these imports by Israel (see table 3.4). Major competitors in this range of products are suppliers from the USA, UK, Germany and Switzerland.

Israel's total imports of agricultural (and food industry related) inputs is valued at USD350 million in 2004/2005. Major items are Residues (HS-code 23: USD125 million) and insecticides, fungicides and herbicides (USD58 million). Only with respect to imports of the latter category of products, the Netherlands has a considerable share of almost 7%.

Table 3.4 Israel's main agricultural imports from the Netherlands and main competing countries for that product

	Import value (x USD1,000) Avg. 95/96	Share (%) avg. 95/96	Growth rate (%) avg. 04/05
<i>Total agr. products</i>			
World	2,272,113	100.0	2.2
USA	608,855	26.8	-1.5
Switzerland	93,465	4.1	13.2
United Kingdom	472,510	20.8	-8.3
Netherlands	128,749	5.7	5.4
<i>1001-Wheat and meslin</i>			
World	167,587	100.0	3.3
USA	107,753	64.8	-0.6
Switzerland	1,455	0.4	49.3
Russian Federation	523	0.2	45.8
Netherlands	1,313	0.7	29.6
<i>1005-Maize (corn)</i>			
World	112,573	100.0	4.8
Switzerland	81,276	w	45.2
USA	52,742	46.8	-4.2
Netherlands	1,651	1.4	35.5

Table 3.4 Israel's main agricultural imports from the Netherlands and main competing countries for that product

	Import value (x USD1,000) Avg. 95/96	Share (%) avg. 95/96	Growth rate (%) avg. 04/05
<i>2106-Food preparations, nes</i>			
World	106644	100.0	5.0
USA	46,686	42.4	3.1
Netherlands	6,656	6.3	19.5
Ireland	36,499	35.0	-4.7
<i>23-Residues, wastes of food industry, animal fodder</i>			
World	73,849	100.0	6.2
USA	14,230	18.7	10.4
United Kingdom	24,188	31.9	2.8
Switzerland	2,196	3.1	27.8
Netherlands	6,478	8.7	2.4
<i>3808-Insecticides, fungicides, herbicides, etc.</i>			
World	44,050	100.0	3.0
France	2,488	5.6	13.7
Germany	7,448	16.9	0.5
USA	5,482	12.4	0.7
Netherlands	3,011	6.8	7.4
<i>1003-Barley</i>			
World	69,485	100.0	-2.6
Switzerland	4,402	6.4	15.2
Netherlands	6,529	9.1	8.9
Russian Federation	4,277	6.3	6.6
United Kingdom	33,087	48.0	-18.9
<i>2008-Fruit, nut, edible plant parts nes, prepared/preserved</i>			
World	27,710	100.0	3.4
USA	2,901	10.5	9.0
Netherlands	2,198	7.9	7.7
Thailand	2,967	10.7	2.8
Turkey	1,421	5.1	10.3
<i>8438-Industrial food and drink preparation machinery</i>			
World	35,504	100.0	-1.2
Germany	11,140	31.5	-6.3
Netherlands	5,241	14.8	1.8
Italy	6,345	17.8	-1.9
<i>1209-Seed, fruit and spores for sowing</i>			
World	12,295	100.0	6.0
Netherlands	3,274	26.6	14.8
USA	2,597	21.1	-1.8

Table 3.4 Israel's main agricultural imports from the Netherlands and main competing countries for that product

	Import value (x USD1,000) Avg. 95/96	Share (%) avg. 95/96	Growth rate (%) avg. 04/05
<i>1901-Malt extract, flour, dairy preparations, low cocoa</i>			
World	12,691	100.0	5.0
Germany	6,098	48.4	1.9
Netherlands	925	7.5	18.4
United Kingdom	677	5.3	13.1
<i>2203-Beer made from malt</i>			
World	9,960	100.0	6.0
Belgium/Luxembourg	149	1.5	49.6
Netherlands	5,448	55.1	-1.3
<i>0701-Potatoes</i>			
World	10,296	100.0	2.5
Netherlands	6,162	57.6	1.7
United Kingdom	2,708	28.6	3.4

Source: UNSD Comtrade.

3.4. Opportunities

This section briefly summarises the key findings from the sector and market analysis in Israel. A number of conclusions are drawn pointing at the opportunities identified in Israel's food and agricultural market for Dutch agribusiness companies.

- The Israeli economy has returned to a path of rapid growth since 2003.
- The country's trade relations indicate its strong orientation towards the USA and some West European countries. Main trading partners in the EU are Belgium, Germany, UK and Switzerland.
- Free trade agreements and the presence of a highly-skilled and qualified workforce are two reasons for a large inflow of foreign investments.
- Food consumption pattern is a mixture of European and Mediterranean habits and tastes. The diet contains much fruit, vegetables, dairy and poultry meat products.
- The food retail sector is increasingly concentrated and dominated by supermarkets and convenience stores. The HRI market is growing, also due to tourism.
- The food processing sector is among the most competitive sectors in the Israeli economy-characterised by technological innovations and the ability to provide a wide range of products.
- The primary agricultural sector in Israel is a technologically advanced sector, generating high yields and products of high quality. The sector benefits from close interaction between farmers and government sponsored researchers. The upstream industries (large net-exporter) provide the agricultural sector with high quality inputs.
- Imports from the Netherlands account for 8% of Israel's total agricultural imports.
- The Dutch position on the Israeli market has strengthened, at the expense of the USA and UK. Yet, with Switzerland both latter countries are still Israel's main foreign suppliers of agricultural products.
- A major part of the increase of the imports from the Netherlands is due to the fact that the Netherlands is a large trading centre with many international trading companies.
- Major Dutch exports of agricultural products are sugar, beverages, cereal preparations and horticultural seeds. The major Dutch import products are ornamental plants (cut flowers) and horticultural seeds.
- Dutch agribusiness opportunities identified are largely in the trade (= mainly imports) of cut flowers, fruit and vegetables, and horticultural seeds. Technological inputs to solve natural bottlenecks to efficient production and/or aimed at environment-friendly production may be an area with good prospects, too, as well as companies focused on supplying retail chains and the HRI foodservice industry with semi-final and consumer products.

Concluding remarks

The basic conditions in Israel are not conducive to booming export opportunities for Dutch agribusiness in food products nor input supplies. The local market is relatively small, with less than seven million consumers and a small agricultural sector. Both are well supplied by the local, competitive food and input supplying industry. As place of business location Israel has the huge benefit of highly-skilled work force. Dutch agribusiness companies

keen R&D investment could therefore find very useful partners in Israel. Yet as a hub to other countries, Israel does not offer much opportunities; exports of food products from Israel to neighbouring countries are (very) small. Israeli foods are perceived throughout the Western world primarily as niche goods targeted at the kosher or natural food sectors. Israel does not share borders with Western countries, and its high costs of shipment and employment added to its limited production capability make it difficult to export foods from Israel competitively.

4. Conclusions

Major findings from the analysis of ongoing trends in the agrifood supply chain, markets and trade relations, and their implications for opportunities of Dutch agribusiness are summarised in following bullets. Furthermore, some thoughts are expressed about the role of the agricultural attaché in using the business opportunities identified.

Turkey

The Turkey's economy has shown rapid development in recent years. The country has a large population (around 70 million), is in the process of negotiating EU membership and shows increased economic and political stability. There is an increasing part of the population that has the income to afford and accept Western, imported and processed food products. Modern supermarkets and discount stores are increasingly important in food retail and Turkey's foodservice industry is expanding as a result of investment in fast-food establishments, young consumer eating habits and its growing tourism industry. A major target group for imported food and beverages are hotels and holiday resorts. The food processing industry is fairly developed, yet in most sub-sectors small-scale firms using modest technology dominate in number. Structural problems of quality, sustainability, and efficiency in primary agricultural production have repercussions on the food-processing sector. One of the biggest problems of the food-processing sector is the sustainable production of standardised raw materials and the volatility of production levels. This is due to the generally small-scale nature of production at primary level and the strong impact of climate (temperature, drought) on agricultural crop and livestock production. These developments and features of the agri-food supply chain offer many trade and investment opportunities to the Dutch agri-food sector.

These trade and investment opportunities may be:

- a. in *livestock farming*, where products and services in the field of livestock improvement (semen), compound feed and feed additives, grassland seeds and veterinary medicines, extension and technical assistance are strongly needed to increase agricultural productivity and quality of the raw material (meat and milk);
- b. in *meat processing*, where the (red) meat industry is much in need of upgrading its equipment and technical assistance to improve economic performance and comply with relevant EU rules;
- c. in the *dairy supply chain*, where the majority of the milk produced is still for own consumption and/or sold in the streets without proper processing and hygienic control. On the verge of EU entry and with a better enforcement of food safety rules, business opportunities will emerge in hygiene control of raw milk collection, processing, machinery and consultancy for production and marketing of dairy products;
- d. in the *fruit and vegetables production and distribution*, where the more commercial type of farmers are keen to invest in quality (certified) seeds, and in greenhouse

- production and technology. Furthermore, the sector's performance would improve importantly if post-harvest measures are taken, such as grading and storage facilities (cooling etc.). Following evolving consumer preferences to (more) fresh and frozen products, companies offering packaging, freezing, and/or preserving technology, and provide handling services will find good prospects in Turkey. As Turkey produces a wide variety of fruit and vegetables, Dutch trading companies could use Turkey's produce to ship to EU or to other markets (e.g. Russia);
- e. in the *food ingredients* markets, where quality additives are in short supply and are mainly imported. Companies active in food additives, preservers, thickeners and sweeteners may find an attractive market in Turkey, where due to further income growth and the increase in the tourism industry demand for semi-final or ready-to-eat food items is increasing;
 - f. in the *consumer ready products*, as an increasing share of the (especially young and well-earning) Turkey's population is willing to pay a premium for imported quality products, that fit to its changing (more westernised) lifestyle. The growing tourism industry also contributes to increasing demand for western, processed food items.

Agricultural trade relations between the Netherlands and Turkey have expanded in recent years. Yet, Turkey's market is still highly protected by tariffs (especially for dairy and meat products) while inconsistencies and juridical gaps between EU and Turkey's legislation in the field of food, feed, veterinary and phytosanitary issues form obstacles to bilateral trade. Other adverse factors to increased trade relations are the huge informal economy, the still rather low income levels and the uneven income distribution. Furthermore, market opportunities for Dutch agricultural input products and services may be limited as investments in productivity growth and quality improvements at primary agricultural level depend strongly on government funds and financial means from international organisations.

Israel

Israel is a rather small economy, with nearly 7 million inhabitants, yet a high income country. The Israeli economy has returned to a path of rapid growth since 2003. The country's trade relations are strongly oriented towards the USA and some West European countries. Food consumption pattern is a mixture of European and Mediterranean habits and tastes. The diet contains much fruit, vegetables, dairy and poultry meat products. The food retail sector is increasingly concentrated and dominated by supermarkets and convenience stores. The HRI market is growing, also due to tourism. The food processing sector is among the most competitive sectors in the Israeli economy, characterised by technological innovations and the ability to provide a wide range of products. The primary agricultural sector in Israel is technologically advanced, generating high yields and products of high quality. The sector benefits from close interaction between farmers and government sponsored researchers. The upstream industries (large net-exporter) provide the agricultural sector with high quality inputs.

Dutch agribusiness opportunities identified are limited and largely in the trade (= mainly imports) of cut flowers, fruit and vegetables, and horticultural seeds. Technological inputs to solve natural bottlenecks to efficient production and/or aimed at environment-

friendly production may be an area with good prospects, too, as well as companies focused on supplying retail chains and the HRI foodservice industry with semi-final and consumer products. The basic conditions in Israel are not conducive to booming export opportunities for Dutch agribusiness in food products or input supplies. The local market is relatively small, with less than seven million consumers and a small agricultural sector. Both are well supplied by the local, competitive food and input supplying industry. Moreover, Israel's agricultural and food sector is strongly supported through government intervention, including tariff protection.

As place of business location Israel has the huge benefit of highly-skilled work force. Dutch agribusiness companies keen on R&D investment could therefore find very useful partners in Israel. Yet as a hub to other countries, Israel has little appeal, as its food exports to neighbouring countries are (very) small. Israeli foods are perceived throughout the Western world primarily as niche goods targeted at the kosher or natural food sectors.

Role of the Agricultural attaché

The Dutch agribusiness that is or wants to be active in Turkey and/or Israel can use the services of the Dutch agricultural attaché and her staff, based in Ankara. Those present at the Round Table meeting in The Hague¹ indicated to be familiar with the activities of the LNV Desk in Ankara and generally showed great appreciation for the work of the attaché's office. Most of the representatives pointed out to have established own solid networks of business contacts in Turkey. Therefore, they did not rely much on the LNV Desk (anymore). Yet, in case of troubles-what ever they might be-the companies emphasised that they would contact the attaché if necessary, to see whether there is a role for the LNV Desk to intermediate and help. And for those new and exploring the market opportunities the attaché is obviously a prime contact person that can be very useful to learn about the basics *and* specifics of doing business in Turkey and/or Israel. In short, the attaché's main activities in the area of business support can be summarised under three headings:

- trouble shooting, mainly with respect to help solving business problems that occur ad-hoc and/or on short notice;
- networking: laying contacts with government officials and local businesses, match-making on business mission, fairs, et cetera;
- providing and disseminating market information: execute (or assign) market studies and statistical overviews; basic and practical information on 'doing business in Turkey or Israel' covering issues as taxes, legislation, certificates, culture, et cetera.

For each heading, the issues raised are further detailed and illustrated.

Trouble shooting

- Solve problems with imports (e.g. incomplete documents, clarify new regulations, disputes on product qualifications, et cetera), on an ad-hoc basis.

¹ Round table meeting organised by LNV on September 10, 2007. Eight company representatives joined to discuss the opportunities in both markets and their expectations with respect to support from the Dutch government in doing business in Turkey and/or Israel.

- Intermediate in business disputes, if necessary and appropriate. Important are the linkages with top business and government officials, for the attaché it is crucial to 'master' these environments.
- Raise issues for trade and policy meetings at bilateral and/or EU level to discuss persistent trade barriers and actively work on improvements.

Networking

- Good contacts at high ministerial level are important (see previous points).
- To exploit the generally good reputation of Dutch companies and entrepreneurs, the agricultural attaché should organise study tours and seminars and could play an active role in introducing Dutch entrepreneurs at foreign companies. In organizing business trips to relevant regions, the agricultural attaché is expected to ensure that key regional players will be met, and that background material such as statistics are provided.
- The PSOM- and PESP programme provides a good opportunity for small and medium-sized Dutch companies to cooperate with Turkey's partners. The agricultural attaché could act as a pro-active intermediate to match both sides.
- Relevant contacts should be provided by the attaché-concrete names of relevant people and companies, both at the Dutch side (list of Dutch companies in the country, list of Dutch companies potentially interested) and at the Turkey's and/or Israeli's side.
- The attaché should link requests of serious, reputable, strong foreign firms to the relevant Dutch companies-for specific sectors.
- The attaché could sponsor a Dutch corner at trade fairs. Interesting is an integrated chain perspective: providing all the different Dutch services and products required in the chain (integrated approach, complete package of services).

Market information

- Statistics are not always readily available, yet essential for assessing market opportunities. Statistics aimed at monitoring main agricultural and food market developments should be provided, on a regular basis and on demand by the agricultural attaché.
- Sector studies could help to orientate interested entrepreneurs. Sector studies with regional focus could provide more specific information about opportunities for Dutch companies and business contacts. The LNV Desk could execute such studies or commission them.
- The attaché could provide assistance to legal matters- e.g. providing up-to-date information on the Turkey's tax system, labour legislation, contract enforcement and import regulations (certificates/licenses, how to get them, which route to follow).
- The attaché could notify the Dutch agribusiness of most important market developments through short messages in an electronic newsletter, sent around on a, for instance, bi-weekly basis to Dutch companies shown interest in the two markets.

All the above would create an attaché that functions as a help desk for Dutch agricultural entrepreneurs in a broad sense.

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Appendix 1. Links to sources of interest to tackle access issues

Turkey's Ministry of Agriculture and Rural Affairs (MARA) is responsible for the production, import and safety of food and beverage products including packaging material, veterinary products, as well as feed and pesticide products. Within MARA, a Food Control division was recently created. This division, semi-autonomous of the Protection and Control General Directorate, performs official food control in accordance with Turkey's Law.

Turkey is working to harmonise its import regulations with EU standards. When achieved, this will bring improved access for Dutch exporters. Until then, imports of food products must conform to Turkey's Food Codex Regulations. Current Turkey's Food Codex regulations are available at: <http://www.kkgm.gov.tr/>.

Dutch exporters are advised to research importers and distributors. The following institutions may be an excellent source of information:

- TUGIDER (Turkey's All Food Importers Association):
<http://www.tugider.org.tr/eng/index.htm>
- DEIK, the Foreign Economic Relations Board:
http://www.deik.org.tr/default_eng.asp

Other useful websites (see also reference list):

Economische Voorlichtingsdienst EVD-landenpagina Turkije en landenpagina Israel
<http://www.evd.nl>

Organisation for Economic Cooperation and Development
<http://www.oecd.org>

World Bank
<http://www.worldbank.org>
World Trade Organisation
<http://www.wto.org>

Appendix 2. Geographical distribution of agriculture in Turkey

Turkey is characterised by a geo-climatic diversity which permits the production of a wide range of livestock and crops. A classification developed by State Institute of Statistics (SIS, 1994) recognizes nine agricultural zones (AZ) in Turkey; (1) Central North, (2) Aegean, (3) Marmara and Thrace, (4) Mediterranean, (5) North East, (6) South East, (7) Black Sea, (8) Central East, and (9) Central South. The main characteristics of the AZs are as follows:



AZ 1-Central North: Continental climate with annual rainfall of 375 mm/yr. Rainfed cereals, food legumes and forage legume production. Extensive small ruminants, intensive dairy cattle.

AZ 2-Aegean: Mediterranean climate with annual precipitation up to 800 mm/yr. Extensive small ruminant and beef cattle, intensive dairy cattle. Rainfed cereals, olives, figs, irrigated cotton. Vegetable production along coast.

AZ 3-Marmara and Thrace: Cereals, sunflower, olives, vegetables. Important cattle region with many pure and cross bred animals for milk and meat production. Precipitation 700 mm/yr.

AZ 4-Mediterranean: Western coastal area. Annual average rainfall up to 700 mm/yr. Rainfed and irrigated cereals, olives, cotton, citrus, maize. Livestock less important. Vegetable production along the coast.

AZ 5-North East: Hilly and mountainous high elevation area. Coldest part of the country with 100-180 days of frost/yr. Pastures occupy 75% of the total land area. Extensive livestock production. Subsistence cereal production.

AZ 6 -South East: Large fertile plains in the southern part. The biggest irrigation project (GAP Project) under process. Extensive sheep production. Rainfed cereals and food legumes, irrigated cotton. Increasing use of irrigation.

AZ 7-Black Sea: Annual average rainfall of 1 500 mm. Rainfed hazelnuts, vegetables, maize, tea. Significant local cattle production and extensive sheep raising.

AZ 8-Central East: Rain fed cereal, food legume production. Extensive small ruminant production. Local and cross-bred cattle for milk. Annual average precipitation 400 mm, days of frost 80-120. Pasture areas cover 54% of the total land area.

AZ 9-Central South: Extensive small ruminants, intensive dairy cattle. Rainfed cereals, food legumes and forage production. Annual precipitation 350 mm/yr, days of frost 80-100.

Appendix 3. Verslag van de Rondetafelbijeenkomst over Turkije en Israël

Op 10 september 2007 vond op het ministerie van LNV een Rondetafelbijeenkomst over Turkije en Israël plaats. Aan deze bijeenkomst namen deel Hans van Es (The GreenerY), H. Maters (AVAG), H. van Sluys (GMV-FME), E. Hendrikx (Elma B.V.), A. Tunali (Rijk Zwaan), M. Broeren en T. Schrover (Dalsem), S. van Berkum (LEI), H. van der Pol (VION), Sandra Poot (Plantum), Carla Konsten en Ugur Isin (LNV-bureau Ankara) en Gaby Blom-Faber (I&H).

Het doel van de bijeenkomst was met het bedrijfsleven van gedachten te wisselen over kansrijke sectoren in beide landen, de belangrijkste knelpunten in de handel met deze landen te identificeren en te verifiëren wat de verwachtingen van het aanwezige bedrijfsleven zijn ten aanzien van met name LNV-bureau Ankara.

Na een presentatie van de LNV-Raad te Ankara, Carla Konsten, over de recente ontwikkelingen op politiek en economisch vlak in Turkije en-in mindere mate-Israël en een schets van de handelsmogelijkheden- en beperkingen voor het agrarisch bedrijfsleven door LEI-onderzoeker Siemen van Berkum, is er door de deelnemers van gedachten gewisseld over de ervaringen, mogelijkheden, vragen en wensen met betrekking tot beide landen.

Impressie van bedrijven

Turkije wordt gezien als een aantrekkelijke markt met veel mogelijkheden, met name op tuinbouwgebied. Israël, daarentegen, biedt volgens de aanwezigen weinig afzetmogelijkheden voor het Nederlandse agro-bedrijfsleven.

Op de Turkse markt wordt Israël gezien als een grote concurrent op het gebied van tuinbouw, met name wat betreft de bouw van kassen en aanverwante teelt- en klimaatbeheersingstechnologie (waaronder beregeningstechnologie). Israëlische toeleveranciers zijn concurrerend in Turkije omdat ze profiteren van (tijdelijke) steun van hun overheid waardoor ze prijstechnisch veel interessanter kunnen zijn dan de Nederlandse bedrijven. Israëlische bedrijven hebben echter de naam geen goede begeleiding van de verkoop en after-sales service te geven, hetgeen bij Nederlandse bedrijven over het algemeen wel het geval is.

Grootschalige veehouderijbedrijven in Turkije bieden kansen voor de Nederlandse veefokkerijsector. Momenteel verhindert echter de beef ban de export van levende dieren. Toch lijken de krachten om import van vee toe te staan toe te nemen; de Turkse minister van landbouw heeft zich althans een voorstander getoond van het openen van de grenzen voor vee. Overigens bepaalt de Turkse overheid welke rassen wel en niet geïmporteerd mogen worden.

De Greenery importeert groente en fruit uit Antalya. De handelsstromen zijn nu nog van beperkte omvang; slechts weinig productie is voorzien van door de (internationale) supermarktketens vereiste certificaten ten behoeve van kwaliteitsgaranties en voedselveiligheid. Alleen de grotere, moderne teeltbedrijven kunnen aan de certificatenverplichtingen voldoen. De Greenery voorziet in Turkije een (noodzaak tot)

grote structuurverandering (schaalvergroting) op teeltniveau om bij de internationale markt aan te kunnen sluiten.

Turkije wordt gezien als een potentieel belangrijke aanbieder van groente en fruitproducten op de internationale markten ('a sleeping giant'), waarbij de Greenery het aanbod uit het land zou willen gebruiken om markten in de Balkan en Oekraïne te beleveren. Hierbij wordt aanbod vanuit Nederland gecombineerd met aanbod uit Turkije. Momenteel zijn er nog grote infrastructurele knelpunten waardoor de afstand tussen Amsterdam en Istanboel (en verder Turkije in) niet snel te overbruggen is. Ook dit beperkt de omvang van de huidige handelsstromen.

Phytosanitaire en veterinaire importeisen spelen een belangrijke rol bij het benutten van exportkansen. Het punt van de toegang van Nederlands plantaardig uitgangsmateriaal (groente, pootaardappelen) tot Turkije staat regelmatig op de bilaterale agenda (bv. in de landbouwwerkgroep NL-Turkije). Ook de EU pakt overigens dit punt (als onderdeel van de toetredingsgesprekken) breed op. Op veterinair gebied speelt de beef ban nog steeds. Dit verbod zou binnen afzienbare tijd wel eens opgeheven kunnen worden, maar Turkije weert ook alle vee uit gebieden met Blue Tongue. Deze laatste doet zich nu in Nederland voor, met de inschatting dat de ziekte epidemisch is en export zonder bilaterale afspraken niet mogelijk is.

Geconstateerd wordt dat er sprake is van veel dynamiek in de Turkse agro-sector. Dat is ondermeer te danken aan investeringen van branchevremde bedrijven (uit de bouw, het onroerend goed enzovoort.). Soms gaat het hier alleen om productie van agrarische grondstoffen, maar ook om geïntegreerde complexen, inclusief verwerking. De moderne supermarktketens winnen ook in Turkije steeds meer marktaandeel. Zij zijn de aanjagers van veranderingen: ze willen een kwaliteitsproduct, contact met liefst zo weinig mogelijk bedrijven/organisaties. Schaalvergroting in de productie en in de distributie/logistiek is het gevolg.

Indrukken en opinies van LNV-raad

De politieke situatie in Turkije is redelijk stabiel. De regerende meerderheidspartij AKP staat positief ten aanzien van toetreding tot de EU. Natuurlijk zijn er ook sentimenten tegen Europa-uitlatingen zoals recentelijk van de Franse president Sarkozy dat Turkije niet welkom is in de EU wakkeren deze ook aan.

De vorige (= de huidige) regering heeft de laatste jaren veel op het platteland geïnvesteerd in de vorm van infrastructuur en onderwijsvoorzieningen. De huidige regering wil de bestaande ondersteuning aan de landbouwsector voortzetten. Voorts is men van plan om de Europese Structurfondsen vanaf 2008/09 te gaan gebruiken.

Turkije maakt serieus werk van harmonisering van haar wetgeving met de EU-regels. Er ligt momenteel een wet ter behandeling bij het parlement om lid te worden van de UPOV, waarmee Turkije zich verplicht zich te houden aan internationaal opgestelde regels ten aanzien van kwekersrecht. Dit is van groot belang voor NL-zaadbedrijven.

Er heerst monetaire stabiliteit in Turkije. De inflatie is -zeker historisch gezien- laag. Op dit moment is de Lira sterk ten overstaan van de US-dollar (misschien zelfs overgewaardeerd). In de financiële sector is recentelijk een aantal banken door buitenlandse banken overgenomen. Dankzij het financiële beleid van de vorige regering Erdogan is de economische groei hoog (8%). De nieuwe regering zal het economische

beleid van privatisering van staatsbedrijven, stimulering van buitenlandse investeringen in Turkije en het wegnemen van handelsbelemmeringen voortzetten.

Rol van LNV/LbA

Het NL bedrijfsleven vindt dat LNV/LbA moet 'faciliteren', zonder nu precies te benoemen wat men daar onder verstaat. De opmerking wordt gemaakt dat het team in Ankara 'het goed doet'. Tegelijkertijd wordt gesteld dat bedrijven die actief zijn in Turkije hun eigen netwerken hebben en weinig beroep (meer) doen op assistentie van de ambassade. Als er echter problemen zijn/dreigen weet men ook de ambassade weer snel te vinden.

Men stelt het erg op prijs om via korte berichten op de hoogte te blijven van belangrijke markt- en beleidsontwikkelingen, bijvoorbeeld via een elektronische nieuwsbrief. Ook verwacht men bij de LbA een database van bedrijfscontacten te kunnen aantreffen.

De vertegenwoordigers van tuinbouwmechanisatie willen graag een analyse (laten) uitvoeren naar ontwikkelingen in hun branche met regionale specificatie, en een beoordeling van wat dit kan betekenen voor het Nederlandse bedrijfsleven. Men zou ook graag zien dat de Turkse lokale overheden zich meer bezig houden met strategische ontwikkeling van de tuinbouwsector in hun regio. De LbA zou daaraan actief kunnen meewerken door de lokale overheden te wijzen op enkele strategische keuzemogelijkheden en -dilemma's. Een manier om dat te doen is om sectorspecifieke seminars te organiseren waarvoor sleutelspelers uit bedrijfswereld en overheid worden uitgenodigd.