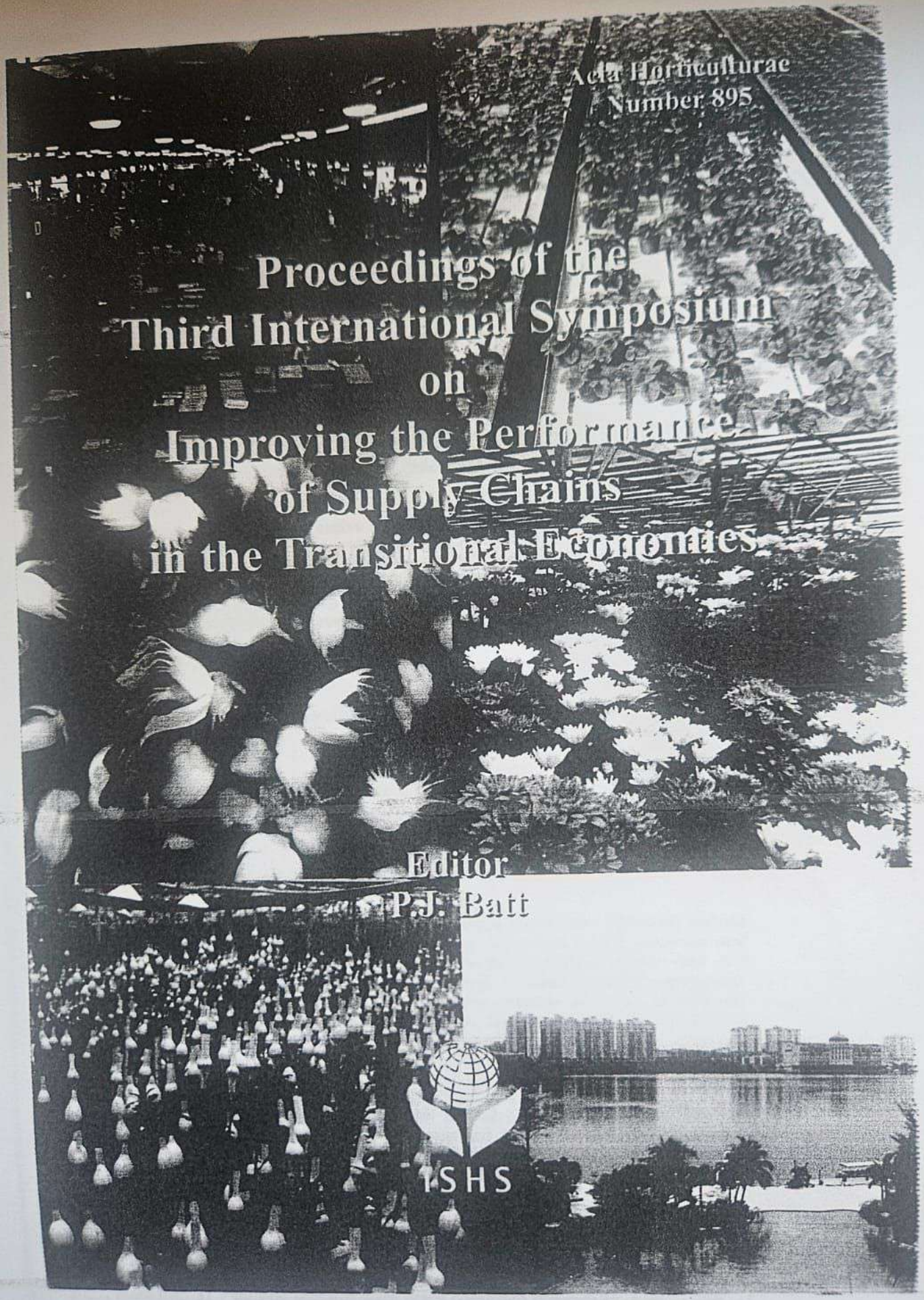

Acta Horticulturae
Number 895
Proceedings of the
Third International Symposium
on
Improving the Performance
of Supply Chains
in the Transitional Economies
Editor
P.J. Batt
ISHS

The Role of Wholesale Markets in the Supply Chain for Fresh Fruit and Vegetables in Turkey

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Keywords: supply chain management, distribution, domestic market, wholesale market, producer unions, European Union

Abstract

Turkey produces around 4% of the world's fresh fruit and vegetables. In the distribution of fresh produce in the domestic market, the wholesale market system dominates. The distribution of fresh fruit and vegetables, other than organic products, food industry ingredients and export product, is subject to regulation. The Wholesale Market Law requires all fresh fruit and vegetables to both enter and exit a wholesale market before reaching retailers and the final consumer. This paper discusses the operation of the wholesale markets in Turkey and with the help of a SWOT analysis, identifies areas for improvement for the distribution of fresh fruit and vegetables.

INTRODUCTION

Turkey is very suitable for fruit and vegetable production. In 2006, almost 8% of the arable land was devoted to fresh fruit and vegetable production (TURKSTAT, 2006). More than 23 million tonnes of melons and almost 15 million tonnes of fruit were produced, including olives. Turkey has the capacity to produce around 45 million tonnes of fresh fruit and vegetables per year.

In 2007, the value of fresh fruit and vegetable exports reached USD 1.4 billion (TURKSTAT, 2007). When dried and processed product is included, the value of exports rose to USD 3 billion. Some 34% of exports are made to the Commonwealth of Independent States, followed by the European Union (32%), the Middle East (20%) and non-EU European countries (13%)(Etiler, 2009).

With some exceptions, all fresh fruit and vegetables sold in the domestic market must pass through one of the wholesale markets. Therefore it is essential to understand the structure of the wholesale market system in Turkey and the actors and processes involved. Accordingly, this paper provides an overview of the wholesale markets, with reference to recent legal and practical developments, and the general situation in the EU. The strengths and weaknesses as well as opportunities to improve the system are discussed.

WHOLESALE MARKETS IN TURKEY

The marketing channel is the pathway that products pass through to reach the final consumer (Gunes, 1996; Emeksiz et al., 2005). En route, the product may be processed stored, repacked and labelled, and shipped a multiple number of times. As fresh fruit and vegetables are highly perishable, the manner in which each activity is undertaken will have some influence on the quality and the resultant shelf life of the product. Furthermore, as the marketing channel gets longer, the price to the producer declines, while the price to the consumer invariably increases (Akbay et al., 2005).

The marketing channels in Turkey are quite unique. Fresh fruit and vegetables are generally marketed through private dealers and commissioners, and local wholesale markets (Emeksiz et al., 2005; Ozkan, 2006). Producers may choose to sell their produce either directly or indirectly (Yurdakul, 2002; Akbay et al., 2005). Some producers prefer to sell their produce close to the place where it was produced or in open markets. In such markets, all transactions are made in cash and there are few records of the transaction. Others prefer to sell indirectly through a market intermediary. One of the means of indirect selling is to transact with dealers and commissioners close to the place of

Proc. III[rd] IS on Improving the Performance of Supply Chains in the Transitional Economies
Ed.: P.J. Batt
Acta Hort. 895, ISHS 2011

production without incurring transportation and packaging costs. Commissioners sell the fresh fruit and vegetables to either retailers or wholesalers, who in turn, sell to green grocers, bazaars, other retail markets and supermarkets. An alternative marketing channel is facilitated by agricultural cooperatives.

In 2005, it became a legal requirement to bring all fresh fruit and vegetables to a wholesale market before they could be sold. The primary reason for the legislation was to record the sales of all products, which until that time, was absent (Emeksiz et al., 2005; Akbay et al., 2005). Wholesale markets are physical places where suppliers and professional buyers meet, and where prices are determined. Where producers are not market-oriented, the wholesale market is an effective institution (Cadilhon et al., 2003).

Structure and Operation of Wholesale Markets

There are 180 wholesale markets in Turkey that are locally dispersed. Each operates under the authority of a local municipality. These wholesale markets are organised to receive fresh fruit and vegetables on a daily basis, enabling buyers and processors to meet with the producers.

The institutional structure is composed of the administrative bodies and the actors who participate in the selling process (Akkaya and Ozkan, 1998; Ozkan et al., 2005). All activities including entry and exit, storage and sales, and are supervised and audited by the coordinators entrusted by the municipalities. In addition, there is a jury board, directed by a public officer recruited by the local Directorate of Industry and Commerce, to resolve any disagreements between the parties.

Individual producers must sell their fresh produce through a wholesale market unless the amount of product is low. Commissioners, acting on the behalf of producers, collect the product from producers and sell it to retailers like shopping malls, catering firms and green grocers. For their services, these market intermediaries receive up to 8% of the sales revenue as commission (Ozkan, 2006).

Commercial traders are legal entities that buy products from commissioners and resell in domestic or foreign markets on their own behalf. These traders are entitled to charge freight to purchasers and are required to transfer 0.1% of the sales revenue to the Chamber of Commerce.

Producer unions and cooperatives are also entitled to represent their members and to facilitate sales on behalf of their members. Yet, besides being defined by the law, the number of producer unions and cooperatives is still very low within the sector. There are also civil associations representing commissioners and traders who negotiate on behalf of their members when disagreements and arguments emerge.

The sum of the deductions from the sale of fresh produce in the wholesale market often results in considerable financial distress for producers. Producers who bring their products to the wholesale markets are required to pay 8% commission to market intermediaries, 2.4% agricultural withholding tax, 2% municipality tax, 1% Retirement Agency receipt and 1% VAT. Collectively, these deductions amount to 14.4% (Ozkan, 2005, 2006).

However, another problem arises because of double taxation. If product enters the wholesale market but is transferred to another, an additional 11.44% is deducted. More recently, the legislation has been amended so that producers only pay the 2% municipality tax if they collect products from another wholesale market. However, small retailers, unable to find direct selling opportunities, still have to make double entries and thus they still pay the additional 11.44%.

Although producers and market intermediaries must transact through the wholesale market, some out of market sales options are permitted by law; (1) direct sales from producer to consumer. Producers are allowed to sell in their local area if the amount of product they intend to sell is authorised by municipal authorities; (2) sales organised by producer unions. Producer unions, which represent more than 50 producers, are authorised to sell from the wholesale market to other buyers without being charged for market services; (3) export sales; (4) sales of raw materials to the food processing

industry; (5) sales of organic products. Organic products are marketed under specific certification standards; and (6) acknowledged sales, when 15% of the sales price is prepaid to the municipal authorities as a tax.

In order to evaluate the organisation of the wholesale markets in Turkey, it is necessary to consider the situation in other countries, especially in the European Union (EU). There are many wholesale market organisations embracing processed foods as well in the EU countries. However, there is no enforcement of the need for all fresh produce to enter the wholesale market, for such enforcement is regarded as anti-competitive (Ozsu. 2005). Furthermore, the service revenues of the municipalities are decoupled from sales volume (Cadilhon et al., 2003). In addition, there is a growing demand in the EU to develop more direct channels for fresh fruit and vegetables (Bondt et al., 2005).

The experiences of Western European markets are exemplary in the sense that they gather many kinds of both primary and processed foods without the need to enforce or to demand that produce enter the wholesale market. Rather the objective is to facilitate small retailers' access to fresh produce and to consider quality standards like EUREPGAP to maintain a healthy food supply to citizens.

SWOT Analysis of the Wholesale Marketing System in Turkey

1. Strengths

- The system enables free market competition and the correct signalling of price due to the meeting of supply and demand.

2. Weaknesses

- There is a large amount of unofficial sales due to heavy wholesale market service costs;
- There are too many wholesale markets to run a separate system within provincial districts and municipal authorities have to face location-related arguments;
- The large number of wholesale markets and the lack of physical infrastructure makes it difficult to implement modern marketing techniques;
- There is limited quality differentiation;
- The system does little to assist small, individual retailers due to double taxation and high transport costs and the sales price rises in metropolitan cities, deterring the consumer from small retailers;
- Even although export products are permitted to be sold outside the wholesale marketing system, some products are withdrawn from export, creating quality and health problems in accordance with the lack of standardization.

3. Opportunities

- As producer unions and cooperatives become more institutionalised, the farmers will have more opportunity to collectively bargain for price;
- Municipal revenues will help upgrade the market infrastructures, if fully utilised, and the improvement in storage facilities will lead to upgrading in service quality, storage opportunities and hygiene standards.

4. Threats

- Quality pricing and hygiene standards cannot be achieved with the current infrastructure and organisational system, which is incompatible with EU policy;
- The level of cooperation between small producers is ineffective.

PRODUCER UNIONS

Producer unions enable producers to come together in terms of specific products or product lines in order to improve product quality or to improve their competitive power within local, regional and international markets. The establishment of producer unions has accelerated since the issue of a ministerial decree in 2005, where the main objective was to collectivise smallholder producers. Today, there are 24 fresh fruit and 22 fresh vegetable unions spread throughout the country.

Producer unions can be established with a minimum 16 members on a town level. In order to strengthen the activity scope of the unions and to support rural development, the proposed system also facilitates close cooperation with the Chamber of Agriculture and extension bodies. According to the aggregate records of the Ministry of Agriculture and Rural Development, it is anticipated that farmer unions will actively participate in infrastructure and social development in the regions and contribute to rural development as well as supporting the well being of farmers.

This situation is considerably different in the EU, where the market dominance of producer unions ranges between 70-90% in Western Europe (Galnaityte et al., 2006). At the turn of the century, the total amount of fresh fruit and vegetables produced by producer organisations in the EU-15 was 35%. Producer unions have been utilised as a rural development tool across Europe, more specifically in the eastern European countries (Millns et al., 2006). These inferences suggest a similar role for producer unions in Turkey.

EXPORT UNIONS

The main fresh fruit and vegetable exports from Turkey are cherries, lemon, mandarin, grape, grapefruit, orange, tomato and potato according to Undersecretary of Foreign Trade figures. Export unions have been authorised to organise exports of fresh fruit and vegetables since the 1940s. The export unions, representing the producer in every phase of export activities, are coordinated by the Undersecretary of Foreign Trade, and membership of these unions is mandatory. There are six main export unions for fresh fruit and vegetables dispersed across the country, coordinated by the Mediterranean Export Union.

In addition to representing their members in transactions with third parties, unions inform their members on EUREPGAP, HACCP health standards, good agricultural practices (GAP) and ISO quality standards (Kalaitzis et al., 2007).

DISCUSSION AND RECOMMENDATIONS

This review of the marketing system for fresh fruit and vegetables revealed the drawbacks of the wholesale marketing system in Turkey. Even if the system is favourable on the grounds of ensuring prices are appropriately determined by supply and demand, the prices to the producers are lower and consumer prices are inflated due to the service provision fees and complexities associated with the transfer of products between wholesale markets. Furthermore, producers are seldom rewarded for the delivery of good quality product under the existing system. Besides, the infrastructure problems, the lack of storage and packaging units lead to a reduction in quality and the inability of the system to fulfil consumer desires. The lack of quality standardization results in quality discrepancies between Turkey and the EU.

The wholesale marketing system needs to be re-adjusted to ensure small retailers remain competitive with the modern retailers on both price and quality. However, such changes alone will not be enough to establish an appropriate supply management system. as the legal requirement for all produce to enter the wholesale market needs to be removed and alternative product recording schemes introduced. Indirectly, this means providing opportunities for the development of modern retail systems that embrace direct transactions between producers and retailers and empower producer organisations, as is the case in Western Europe.

The export unions should be supported to increase their cooperation with the wholesale markets in order to improve health and quality standards in production. warehousing and transportation. It is a major requirement that all actors active in fresh fruit and vegetable marketing be encouraged to work together to improve the system and increase the level of efficiency. In this process, both the wholesale markets and unions need to receive support from the central government and local policy making bodies through their respective Chambers of Agriculture.

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