

Turkish Grain Board restructuring

by David McKee

Harmonizing its policies with those of the European Union is among the important changes taking place within the organization

Cereal crops have been sown in Turkey longer than possibly anywhere else. Recent archaeological discoveries in the country's central Anatolian plateau have pushed back the existence of the first permanent agricultural settlements to 13,000 years ago.

The grain sector, and particularly wheat, still play a key role in Turkey's economy. There is 33 million tonnes of cereals production including over 20 million tonnes of wheat. About 23 million tonnes of this output now enters commercial channels, with the rest kept for local consumption. Wheat is ground by 715 milling companies. There are high levels of per capita bread and pasta consumption and major exports of wheat-based products.

Since its founding in 1938, the Turkish Grain Board, or TMO, as it is commonly known after its Turkish name Toprak Mahsulleri Ofisi, has been the main organization providing stability to grain markets while promoting modernization of the sector. Today it operates as a semi-autonomous state enterprise under the Ministry of Agriculture and Rural Affairs with a staff of nearly 3,500, including almost 600 at its headquarters in Ankara.

TMO is now undergoing a period of change as its restructures to harmonize its policies to those of the European Union as well as to the free market principles that have driven Turkey's rapid economic growth over the past decade and longer.

TMO's main role is to intervene in the market, buying grains from farmers when market prices fall below a predetermined floor level based on production costs. Its purchases vary widely from year to year, depending on market fluctuations. In 2007 and 2008, while prices were moving upward, it bought only 122,000 tonnes and 40,000 tonnes, respectively.

However, after prices collapsed during the global financial crisis, TMO stepped in to buy 3.77 million tonnes of wheat from registered farmers in 2009.

WHEAT IMPORTS AND EXPORTS

In 2008, TMO accounted for about 710,000 tonnes or 19% of Turkey's 3.71 million tonnes of wheat imports. To prevent prices from going too high when the harvest is poor due to drought, TMO imports to supply mills and to build its reserves. About 80% of these purchases originate from the Black Sea region.

When its stocks are in excess, TMO sells them off to the international grain trade for export. In 2010, TMO sales accounted for about 200,000 tonnes of Turkey's total wheat exports of 1.16 million tonnes.

Just as important to removing surplus wheat stocks from the market are flour exports to scores of countries by dozens of Turkish milling companies, many of which may have obtained wheat at favorable prices from TMO. In 2010, Turkey exported 1.85 million tonnes of wheat flour, mostly to Iraq, Indonesia,



Turkey is known for its brightly painted grain elevators such as this one outside of Istanbul. Photo by Morton Sosland.

Libya and sub-Saharan African countries. The country's 22 pasta producers also sold nearly 300,000 tonnes of their products abroad.

In wheat equivalent, total exports of wheat products totaled 3.4 million tonnes in 2010. Coupled with raw wheat exports, the total wheat equivalent exports exceeded 4.5 million tonnes.

Despite the size of its bureaucracy, TMO was able to react quickly to the ban on Russian wheat exports in August 2010 and subsequent price spikes. TMO Deputy General Director Kayhan Unal stated in a recent meeting that TMO took 35 separate measures that contributed to limiting the increase in Turkey's wheat prices to just 20%. These measures included rapidly permitting wheat milling companies to increase their direct wheat imports.

To accommodate its import and export operations, TMO possesses 528,000

tonnes of port silo and warehouse storage capacity together with ship unloading and loading facilities at a number of ports on the Black Sea, Sea of Marmara and the Mediterranean.

PURCHASING AND STORAGE OPERATIONS

TMO's network of 28 regional offices operates a range of grain storage facilities at sites throughout the country with total capacity of about 4 million tonnes, including ports. The core storages are 1.3 million tonnes capacity of concrete elevators and steel silos, some built as early as the late 1950s when the transition away from bags to bulk storage and handling was already mostly complete.

There are also mechanized flat warehouse bulk storages. For overflow situations, TMO could put into use 645,000 tonnes of "modern open bulk storage units."

Turkey's wheat harvest runs from May to early August. During this period and until November, TMO takes in grain only from its 2.6 million registered farmers, 1.6 million of whom grow wheat, at over 203 of its own purchasing centers including temporary seasonal facilities as well as permanent storage sites.

TMO sets its price for sales to the market in November or December. Usually this price allows a sufficient margin over the minimum purchase price to cover all operating costs of the organization. Market sales can begin as early as September, however.

Since 2009, TMO has begun buying from traders from November onward at its permanent facilities to meet supply needs unmet by farmer purchases. Such a practice and timing is in line with the European Union's Common Agricultural Policy.

TMO uses European Union grain quality standards for all its purchasing and trading activities.

As a strategic reserve for emergency use and in case of war, TMO maintains a minimum level of grain in storage. This may be around 2 million tonnes, though the figure is not published.

LICENSED WAREHOUSING

In years when procurement activity is low due to high market prices, existing storage capacity can exceed TMO's actual requirements.

In these times, TMO's main activity may be to provide storage services to farmers, millers and traders. Since 1993, the organization has been the sole

operator of licensed storage facilities in Turkey authorized to issue warehouse receipts which are negotiable instruments against which commercial banks will provide up to 80% financing.

Market volatility in 2011 was a factor in a record level of over 712,000 tonnes of wheat and 175,000 tonnes of barley taken in for licensed storage, as farmers

and traders delayed selling and relied on bank financing in the expectation of higher prices.

In Polatli, about 70 kilometers to the west of Ankara, the commodity exchange recently officially inaugurated a state-of-the-art 40,000-tonne steel silo storage facility to receive and store wheat and barley specifically for issuance of licensed

warehouse receipts, with the received grain either already purchased or eventually to be sold on the exchange. The 16 bins of 1,250 tonnes capacity each allow for segregation of four types of wheat into different quality grades, with eight bins of 2,500 tonnes each holding two grades of feed barley.

This facility is not intended for TMO

intervention purchases but rather to facilitate sales by farmers to the market, and in particular to enable farmers to obtain financing to hold their grain longer after the harvest until prices rise.

COMMODITY EXCHANGES

TMO holds a 48% ownership in a network of about 100 grain commodity exchanges around the country that account for a significant share of farmgate sales. Twenty of these exchange are large scale and modern with high trading volumes.

For example, the exchange in Polatli has 330 trader members with access to the trading floor. Average daily volumes after harvest are 8,000 to 9,000 tonnes, much of it in lots of 20 tonnes or less. Annual volume is about 1 million tonnes.

Farmers bring their wheat to the exchange in trailers and trucks where it is weighed while a probe automatically sends a sample in a pneumatic tube to the laboratory for immediate analysis. The quality data and weight of each lot appear on a large screen on the trading floor where traders place their bids. The farmer seated in the gallery watches as his yearly harvest is sold in a completely transparent fashion.

TMO does not operate these commodity exchanges, but it does place an employee at each one. If trading prices fall below a certain unannounced target level determined by TMO as necessary to keep markets stable, the TMO representative will declare the intervention procurement price and begin purchasing from producers. To stay in the market, traders must buy at this price as well.

RESTRUCTURING

Since 2009, TMO has been in negotiations with the European Union about reforming its organization and policies to comply with the Common Agricultural Policy. In the E.U., each country has one or more paying agencies that use E.U. funds to procure major cereals from farmers when prices drop below a certain level.

With Turkey's accession to the E.U., TMO would assume the role of a regulatory and paying agency. At the same

time, it would have to have spin off its storage and licensed warehousing operations into a separate company.

TMO also controls all purchasing of poppy capsules from farmers and their processing into raw materials for the pharmaceuticals industry. This activity would have to be taken over by a separate state enterprise as well.

THE FUTURE

Turkey's long-awaited accession to the E.U., if and when it happens, would first require some major changes for government regulation of Turkey's grain industry.

The average wheat farm in Turkey is only six hectares, half the E.U. average, and production costs are still significantly higher due to wheat yields that are also half the E.U. average.

Some of the resistance to Turkey's entry to the E.U., from countries such as France, could be due to fears of the burden Turkey's large number of farmers might impose on the budget of the CAP from which French farmers benefit the most. The average wheat farm in Turkey is only six hectares, half the E.U. average, and production costs are still significantly higher due to wheat yields that are also half the E.U. average.

Thanks to better roads and larger trucks, TMO has steadily downsized by converting a large portion of its permanent storages to seasonal ones or shutting them down entirely. Employment now is only about one-third of the peak level of more than 10,000 in the mid-1980s.

One can argue that increased reliance over a long period on the private sector for storage and trading of grains has already prepared Turkey for the challenge of E.U. entry. Milling companies and traders have been installing new storage at a rapid rate and account for 12 million tonnes of the 16 million tonnes of storage now installed. Another 6 million to 7 million tonnes is needed, according to TMO officials, and the private sector is likely to continue building at a rapid rate to be able to increase their direct purchases from farmers at harvest. At the same time, TMO has a project to add 300,000 tonnes of incremental but state-of-the-art storage at 10 sites.

There is little question that TMO has played a key role in bringing change and modernization to the world's oldest grain industry, contributing to the growing competitiveness of Turkey in the global cereals trade. **WG**

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