EU Market Access: The Way Of Licensed Warehousing System For Turkish Food Producers And Exporters

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Summary

Licensed warehousing system plays a very important role in all transfers of food products from the place of origin to ultimate users in developed countries. Public warehouses, operated as an independent business offering a range of services, such as storage, handling and transportation. “Licensed Warehousing Law”, was accepted on 10.02.2005 and this is a new subject in Turkey. In this research, the licensed warehousing system in Turkey is evaluated from the point of view of industrial and agriculture officials. Confidential face to face interviews were held with the authorities of Industry and Trade Ministry in Ankara. The very new licensed warehousing law connotes many questions. Who will be getting the benefits of qualified storing, small-sized enterprises or big ones? What will be benefits to producers, product markets, and government? Are all the necessary legal, institutional, and technical enabling ready? During the study, authorities of Industry and Trade Ministry has met, qualified storing law and its system, function, benefits, world samples information were given by using literatures, then action of the qualified storing system in Turkey and its possible problems were discussed.

Keywords: Licensed warehousing, agriculture, food produce, food trade

Introduction

45 % of Turkey population lives in rural areas and this segment constitutes 13 % of the total production. Therefore, agriculture in Turkey and the related food sector has a high socioeconomic importance (Baer, 2002:2). During the integration process with European Union, improvement of product markets and related with this, enabling has to be built to support and complete all the phases from production to consumption. Licensed warehouse system is an important constitutive enabling that facilitates agriculture-based trading, expands market range, contributes to product market expansion and price consistency in these markets and facilitates raw material supply to industrial manufacturer. A common and effective licensed warehouse system in developed countries is running by private sector. Turkey’s food distribution system is still dominated by small vendors. Today’s consumers want more quality, value and convenience, and the Turkish food distribution sector must continue to adjust to these demands. The quality of agri-food products is a strategic task for agriculture and rural economic development. The food marketing and distribution sector is the critical final link in the Turkish agri-food chain between food processors and agricultural producers and consumers. In Turkey, storing activities are performed under unsuitable conditions for the companies or people’s individual needs and capacities and without audition. There is no other constitution apart from Turkish Grain Board that licensed warehouse of agricultural products.

Law numbered 5300, “Licensed Warehouse”, was accepted on 10.02.2005, which facilitates the sale of storable and standardized agricultural products such as grain, pulse, cotton, tobacco, hazelnut, oily seeds, and sugar, provides agricultural producers’ products storage under hygienic conditions without any lose in their quality (Official Paper, 2005). In this manner, business trade of standardized agricultural products will increase.

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1. Turkey’s Portion In World Agricultural Trading

Turkey is a significant producer and exporter of agricultural products in the world. (Food and Agricultural Association, 2004). Turkey’s GDP growth rate was 5.8% in 2003, 8.9% in 2004 and 5% in 2005. Agriculture contributes to 12% of the GDP and employs 30% of the population. Turkey ranks fifth and ninth in the world vegetable and fruit production. About half of Turkey’s area of some 79 million hectares is devoted to agriculture, which is roughly in line with the EU27 average (48%). Turkish accession would therefore add about 39 million hectares to the EU’s agricultural area. As a consequence of economic development, the share of agricultural products in total exports fell from 57% in 1980 to 16% in 1995. Since 1980, Turkish government has taken series of agricultural policy reforms and legislative steps for the harmonization of its law with that of the EU. As a result, the food sector is becoming very attractive for suppliers and foreign investors.

When our export’s sectoral structure is analyzed, it can be seen that pre 1980 agricultural products based export is substituted with mainly industrial based products (Table 1). In 2005, 85.4 % of our export was industrial products, 12.5 % was agricultural products, and 2.1 % was mining products (IGM 2005). Even if the decline in agriculture portion in nation income can be undertaken as an indicator of country development, the decline in sector’s portion in foreign commerce draws attention. Moreover, this case is an indication of lack of a serious agricultural policy in order to pass over the agricultural potential to food industry, correct the manufacturing, marketing, and organization problems.

EU has approximately 60% of our total agricultural export shares. EU countries also have 50% of our import share. Agricultural commodity export cannot show continuity because of some structural problems. Until 1996, agricultural commodities share was 19-20 % of our total export to EU, beginning from 1996 the ratio started to decline to 16 %, then, 14 %, and 1.8 % at end of 2003 (Seki 2005). Recently, due to the increase in industrial commodities export, agricultural sector export share declines in total export. In the future, continuity in this trend is expected. Reasons of the decline in agricultural commodities in our exportation are; the characteristics of agricultural enterprises in Turkey is small and uncompetitive enterprises, not be able to use new technology, insufficient producers association, no policies in production, consumption, prices, subsidy system, and foreign trade, not any evident policy in new product development, being under world standards in terms of product quality and standards (www.dtm.gov.tr). The main Turkish agriculture issue between Turkey and EU relationships is the cohesion of Turkey’s agricultural policy with the Common Agricultural Policy (CAP). Turkey’s agricultural structure shows significant differences from EU countries in terms of agricultural population, enterprise size, organization of producers, agricultural subsidies, enterprise organization, technology usage, productivity, plant and animal health conditions, and product quality and standards (Bayraç, Yenilmez, 2004). Cohesion of Turkish agriculture to CAP is expected to happen progressively. Change actions that minimizes the governmental intervention and encourages private sector participation has started.

Several differences between Turkey and EU countries are shown in table 2 in terms of principal indicators of agriculture’s importance in economy (Olgun, İnin, 1999:76).

2. Difficulties In Marketing Agricultural Commodities

Agricultural marketing is a system containing all the steps of the product delivery from the producer to the customer. This system is categorized as collection, distribution, processing, harvesting, classification, standardization, quality control, packaging, and labeling, price formation, sales, forming demand, taking the risks. European Union put food safety law into force that has high standards in terms of food manufacturing, delivery, and storage at New Year. Necessary measures have to be taken while launching the EU banned
import commodities, because of their low health level, to home market. In this context, operators should fulfill HACCP standards and take the compulsory controls. Briefly, our country’s agricultural commodities marketing problems are following (http://tarimsurasi.tarim.gov.tr/6.komisyon.pdf).

1) Could not be able to break the conventional storing habit,
2) Could not be able to generalize the usage of warehouse receipt, which provides easy and cost-effective transfer of goods,
3) Generally, the enterprises that perform in agriculture have mainly limited marketing possibilities.
4) Performing the commodity trade at local level, could not be able to expand to foreign markets.
5) No common standards in some commodities, insufficient laboratory system that tests quality standards.
6) As a result of subsidy policies, assuming the inventory cost by government and producer organizations.
7) There are major problems arise from lack of information, legal enabling, and actions in standardization, packaging, labeling, quality management systems, and HACCP of agricultural commodities marketing.

Besides agricultural manufacturing, their storage also creates problems in Turkey. For example, Turkey’s yearly grain production is 31 million tones where 21 million tones of this is wheat production. However, storage capacity is not more than 13 million tones in Turkey. Turkish Grain Board’s capacity is around 5 million tones and is not adequate (www.kobifinans.com.tr/sektor/011303/9852). This is resulted with leaving the product under the soil. In this study, licensed warehouse system is suggested as a solution to the agricultural commodities producers’ and exporters’ mentioned problems.

3. Main Person, Institution, And Cooperation In Licensed Warehouse System

Public warehouse is a storage facility operated by an independent warehouse company on its premises. Public warehousing and storage includes establishments engaged in the warehousing and storage of farm products. The standard way of starting a public warehouse company is either by buying, building or leasing a warehouse and then looking for customers who require storage of products to fill it. Licensed warehouse system consists of following institution and organizations.

1- Producers/Merchants:

2-Licensed Warehouses: Facilities where the agricultural commodities will be kept under healthy conditions. Company that will perform as a licensed warehouse should be approved by Industry and Trade Ministry for a certain fee, own a storage to be able keep the commodities under healthy conditions, insure the stored commodities, and legally has a joint stock company structure that is set up with minimum one million YTL paid-in capital. Its storage capacity for grains should be minimum 40,000 tones, and 15,000 tones for cotton and hazelnut, should have sufficient ventilation, fire fighting system, dust absorption, depending on the product’s characteristics sifting, drying, foreign materials sorting machines, also should contain tool, equipment, and instruments to meet with side services. In order to functioning of the system, mentioned sized warehouses have either to be built or hired. The ones, who can perform as licensed warehouses, are the big-sized enterprises (Official paper: 17_ubat 2005).

3-Product Stock Markets: Wheat, grain kind of agricultural commodities have to be traded in futures markets. Product stock markets are stock markets where authorized by ministry to trade or product specialized stock markets where product bills, which are arranged by licensed warehouse enterprise by an agreement, are quoted trading is controlled and monitored. Product Specialized Stock Market’s proper operation is very important for the functioning of the licensed warehouse system. Setting up a SME’s Stock Market is under process.
4. Banks: Banking system do not grant a loan on commodity bill to agricultural commodities. In the application it is expected that private banks grant loan (Uras 2006).

5. Insurance Companies: Licensed warehouses have to insure the related facilities and stored commodities against risks.

6. Ministry: Licensed warehouses should be authorized by Industry and Trade Ministry with a license valid for two years in order to perform.

4. Research Methology

In this research, the licensed warehousing system is evaluated from the point of view of industrial and agriculture officials. A senior executive is usually a suitable respondent, in view of his involvement in the implementation and use of warehousing system and his perspective of the performance of warehousing system. This study based on primary and secondary sources of information. With the use of deep interviewing and the previous studies made in this area, it was investigated the roles of warehousing system for Turkish food producers and exporters, warehousing system examples in some countries. The interview topics include the objectives of using warehousing, necessary structures of system, functioning of licensed warehouse system, benefits of licensed warehouse. The interviewee was given the opportunity to talk freely about events and beliefs in relation to the topic area. For the validation of the research, the opinions of other researchers that had worked in this area were taken into account. For reliability the officials word were quoted exactly and presented to the reader without making any comments.

4.1. Functioning Of Licensed Warehouse System

When we look at the properly functioning licensed warehouse systems in the world; it can be seen that they set on factors as developed and generally accepted commodity standards, laboratory organizations, proper information communication network between system tools, reliable licensed warehouses, stock markets where trading and enabling are complete and free of VAT trading. Moreover, presence a consistent foreign trading regime of export and import of agricultural products and formation of agricultural products prices in a free market without any governmental intervention come into picture as supportive factors.

At first step, warehousing is planned to perform on wheat, cotton, and hazelnut. Producers receives product bill that shows the possession, type, amount, breed, kind, and quality for each of the agricultural commodity. Warehouse receipts or product bills are documents issued by warehouse operators as evidence that specified commodities of stated quantity and quality, have been deposited at particular locations by named depositors. The depositor may be a producer, farmer group, trader, exporter, processor or indeed any individual or body corporate. The warehouse operator holds the stored commodity by way of safe custody; implying he is legally liable to make good any value lost through theft or damage by fire and other catastrophes but has no legal or beneficial interest in it. The receipts may be transferable, allowing transfer to a new holder- a lender(whose the stored commodity is pledged as security for a loan) or a trade counter-party which entitles the holder to take delivery of the commodity upon presentation of the WR at the warehouse (Coulter, Onumah 2002:323).

Product bill is given during the delivery of the products and is a document that enables the producer to contract loan by pledge his products in the warehouse as collateral, sell his products while they are in the warehouse or taking his products back as they were given to the warehouse. In laboratory, quality classification of the product will be made and a bill will be given that shows the quality, quantity, and amount of the product. If the producer cannot pay his debt, then the bank will be able to arrest the goods in the warehouse in order to pull in cash. Producer will be able to endorse this bill to someone else, the one, who owns the bill will be able to collect the products from warehouse. Therefore, the sale of the product in the warehouse will be performed on paper. Moreover, since the quality, amount, and approximate value of the product is known, it will be able to insure. When licensed warehouse is delivering the products to the producer this means the
cancellation of the bill. If the producer does not take the delivery of products on the stated term in the agreement, then the licensed warehouse will be able to sell the products.

Firstly, the product bills should be quoted to stock markets in order to control and sell the product bills safely. The agreement between licensed warehouse and stock market enables the stock market to investigate the products when it is needed and provides information communication between two sides. Each producer, who is suitable for storing and do not affect other products and health can be benefit from the licensed warehouse service. The system is secured by the control of Industry and Trade Ministry over the licensed warehouses and specialized stock markets.

4. 2. Benefits Of Licensed Warehouse

4.2.1. According To Producers

1) Safe, insured, and healthy storing conditions will be provided to the product owners. Warehousing system can provide increased productivity, better space utilization, reduced errors (Faber, Koster, 2002:382).

2) Producer will be able to put his products into licensed warehouses at the harvest time where the prices are low.

3) If the producer wants, he can attach his product bill that was given in consideration for his products, to a finance institution in order to take up a loan, therefore provide funding to him that he needs.

4) Standards of agricultural products will be determined. During the product marketing, since the quality of the products is not determined objectively, it is not reflecting to the prices and quality production cannot be encouraged. Produced goods quality will be determined at objective laboratories and price demand will be based on quality factors.

5) The one who has product bill will be able take delivery from the nearest licensed warehouse to their factory and enterprise, therefore unnecessary product transportation will be minimized and transportation costs will be lowered.

6) Since the product bill will be able to trade in product stock markets, product will be able sell to many buyer rather than one two merchants, markets other than the local ones will be benefited too. Requested amount, type, and quality of product will be obtained safely and electronically in short time.

7) Producer will be able focus on his specialized activities.

8) The warehouse operator is able to provide information on inventories available and on demand from major buyers at little or no cost. He also guarantees delivery commodities matching stated and against date contracts. Smallholders able to participate in a modern and efficient commodity market because the system encourages them to comply with commodity standards, which will also curtail cheating on weights and quality (Coulter, Onumah, 2002:326).

9) The use of warehousing system will allow transparent trade in agricultural commodities to develop between producers and large traders or processors thereby reducing the length of the marketing chain and narrowing distribution margins. Increased storage by participants in the commodity system will moderate seasonal price variability and reduce trade margins for the benefit of both producers and consumers (Coulter, Onumah, 2002:326).

4.2.2. According To Product Stock Markets

1) There will be increase in registration income by product bill trading.

2) With this system, buyer and seller of the product will be brought to a bigger platform to contribute formation of real price; will be an increase in trading volume.

3) E-Trade will develop to generalize product trading, turning of stock markets to their main interest, gaining of modern structure will be provided.

4) Besides having a strong and modern stock market structure in order to marketing of the products in our country, there will be a possibility to market the other countries’ products locating in the same geographical region with us and of having a bigger trading share.
5) The weak, ineffective trading stock markets in country will be encouraged to unity and transform into product specialized stock markets.

4.2.3. According To The Government

1) It is aimed to avoid governmental purchase, and provide more active private sector in product marketing by Product Specialized Stock Market Development Project and Licensed Warehouse system parallel with the ongoing Agriculture Reform Implementation Project (ARIP).

2) Product marketing problems arise from clearing off the institutions like TGB, unions, TEKEL from governmental purchases will contribute to solve the problems.

3) Governmental purchase and storage costs will decrease in some products.

4) More precise data regarding our country’s agricultural production volume and quality will be collected and agricultural policies will be able to manipulate.

5) Agricultural product trading will be registered because of the system’s advantages, tax exile will decline.

6) There will be a tendency in our country towards quality products, since the quality factors and standards were determined objectively resulted with valuable products.

7) Small portion of the agricultural products including wheat and cotton are traded in stock market sale halls, and big portion of it are subjected to unregistered trading. Unregistered trading will be prevented.

8) There will be contributions to the new employment and business fields in banking and insurance sector by the new born licensed warehouse and laboratory system.

4.2.4. Other Benefits

1) Through Product Bill, an alternative investment vehicle is provided to investors such as share, foreign exchange, gold, interest.

2) Enabling of transition to futures market is set up by the standardized product and licensed warehouse system. Many standards have been set by TSE (Turkish Standards Institution) related with agricultural and food products, packaging, labeling, sampling, and experience methods.

3) A big potential is created for e-trade.

4) Because of the product analyze, storage, insurance, and credit usage, new income and business fields will be brought in the sector.

5) By opening branches of licensed warehouses, and product specialized stock markets domestically and internationally will facilitate product marketing and delivery activities also enabling operations.

5. Warehousing Around The World

Warehouses in Europe, especially in Germany and France are shaped by the relatively high labor costs and inflexibility of the work force. In the past, the economies of Europe were separate. More recently the economies are integrating into a common market, which will create economies of scale, which will likely lead to larger warehouses. However, urban areas, many of which have grown out of ancient towns, will still present challenges to the efficient flow of product. Warehouses in North America are generally built in the countryside surrounding major metropolitan areas, so that land is cheap but there is still ready access to large markets. Warehouses in North America are coordinated by increasingly sophisticated warehouse management systems and so very rich data sets are available. Warehouses in India distribute mainly to the local economy and so supply a market that is not wealthy. Despite cheap labor, China does have some capital intensive warehouses with the latest information technology and storage equipment (Bartholdi, Hackman 2006).

6. Licensed Warehouse Applications In Turkey

Hazelnut Licensed Warehouse Regulation has put into effect on 2 August 2006. Agricultural Sales Co-operative and TGB has increased their capacities, a project has executed in order to integrate these institutions into the licensed warehouse system. With the leadership of TOBB (Turkish Union of Chambers and Stock Exchanges), enterprises
have been initiated in order to build effective and widespread operating licensed warehouse institution to meet with sector’s needs (www.sanayi.gov.tr). In this way, hazelnut as the foremost, the necessary enabling has completed to build licensed warehouse enterprises in many products and have efficient operations of Derivatives Exchange and product specialized stock markets.

The ones, who are willing to become a licensed warehouse enterprise, have completed their feasibility study in order to determine their activity product and applications to Industry and Trade Ministry. The successful applicants will be able get their license by do their investment which 50 % of the investment cost will be covered by World Bank. TGB and TOBB (Turkish Union of Chambers and Stock Exchanges) warehouses either will be rebuilt or will be equipped in order to meet with the new technological needs and reaching the licensed warehouse statute. Turkish Unions of Chambers and Stock Exchanges will be able to operate in storage business in their related and specialized fields. For example, Fiskobirlik related with hazelnut, Taris Cotton Union, TGB storing business related with wheat, and Cukobirlik storing business related with cotton operations are planned.

7. Result

Countries, which set up licensed warehouse system, will increase their agricultural commodities share in trading. In addition to this, in order to functioning of the system there is need of several licensed warehouses, however there is none in our country. While the agricultural producer should produce in storable big-sized, small-sized producer cannot benefit from the licensed warehouse system. In banking system, granting loan in consideration of product bill has not become operative jet. Regulations of licensed warehouse system are not enough, in order to set up licensed warehouse system and function it successfully. It is necessary to perform supportive arrangements in other regulatory, which tax regulatory comes first, consisting enabling of stock market and modern agricultural commodities trading.

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TABLES

Table 1: Agricultural Products Share In Total Export ( Million Dollar)

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<td>AGRICULTURE</td>
<td>487</td>
<td>2,550</td>
<td>3,288</td>
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<td>4,071</td>
<td>3,752</td>
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<td>TOTAL</td>
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<td>5,728</td>
<td>12,959</td>
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<td>31,334</td>
<td>36,059</td>
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<td>SHARE (%)</td>
<td>83</td>
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<td>13</td>
<td>13</td>
<td>10.4</td>
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Table 2: Comparison of Several Agricultural Indicator in Turkey and EU (2001)

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<th>INDICATORS</th>
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<th>EUROPEAN UNION</th>
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<tr>
<td>Total Agricultural Field (1000 Ha.)</td>
<td>27.000</td>
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<td>Total Enterprise Number (1000 Unit)</td>
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<td>Total Population (Million)</td>
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<td>Employment in Agriculture (Million)</td>
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