

Positioning Turkey's Fruit Industry for the Future

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Abstract

This article discusses how changes in world fruit production and in market demand have lead to major changes in the structure and operations of fruit producers in leading fruit exporting countries. Consumers are becoming more sophisticated in their demands. Large retailers are placing increasing requirements upon their suppliers. In many countries, numerous, small producers are being replaced by larger firms that can better meet consumer and retailer demands. Many of these firms are also integrated forward into fruit packing, storage and marketing activities. Firms that can gain economies of scale and rapidly introduce new products and new technologies will have a distinct advantage in the future global marketplace. The Turkish fruit industry will have to make major adaptations if it is to compete effectively in global markets.

Key Words: Marketing, supply-demand, fruit, global competition

Gelecek İçin Türkiye Meyve Endüstrisinin Konumlandırılması

Özet

Bu makalede, dünya meyve üretimi ve pazar talebindeki değişikliklerin, meyve ihracatında önde olan ülkelerdeki meyve üreticilerinin yapısı ve faaliyetlerinde ne gibi önemli değişikliklere yol açtığı ele alınmaktadır. Tüketiciler taleplerinde daha seçici hale gelmektedirler. Büyük perakendeciler tedarikçileri üzerine artan ihtiyaçlarını koymaktadırlar. Birçok ülkede çok sayıda küçük üreticinin yerine, tüketici ve perakendeci taleplerini daha iyi karşılayabilen daha büyük firmalar geçmektedir. Bu şirketlerin çoğu aynı zamanda meyve paketleme, depolama ve pazarlama faaliyetlerini kendi içinde gerçekleştirmektedir. Ekonomilerinin büyüklüğünden kazanç sağlayan, yeni ürünler ve yeni teknolojilerle hızla tanışan şirketler, gelecekte küresel pazarlarda belirgin bir avantaja sahip olacaktır. Türkiye meyve endüstrisi, küresel pazarlarda etkin rekabet etmek istiyorsa önemli uyarlamalar yapmak zorunda kalacaktır.

Anahtar Kelimeler: Pazarlama, arz-talep, meyve, küresel rekabet

1. Introduction

In this first issue of the Fruit Science journal, it appears appropriate to examine how the Turkish fruit industry might best position itself for future success. This article looks at how global supply and demand for three major deciduous fruits grown in Turkey, apples, pears and sweet cherries, is changing. It evaluates where the Turkish fruit industry stands relative to its global competitors. Finally, it analyzes changes that will be needed in the Turkish fruit industry if it is to remain profitable and sustainable in the next two decades.

2. World Supplies Growing

World supplies of all fruit, and of apples, pears

and sweet cherries have grown more rapidly than world population in the last two decades (Figure 1) (FAO, 2013). Forecasts developed by our company, Belrose Inc. (2013), indicate that

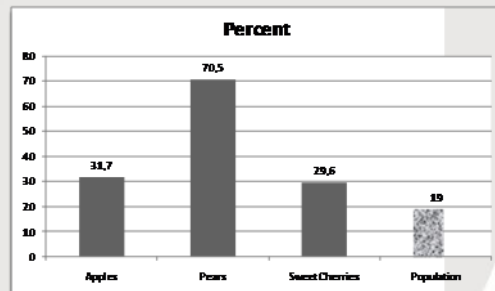


Figure 1. Increase in production of apples, pears and sweet cherries, and of world population, 1995-97 to 2009-11

between 2010 and 2020, world apple and pear production will grow more than twice as fast as world population (Figure 2) while that of sweet cherries is forecast to grow four times as fast (Belrose Inc., 2013 a, b, c). This will mean increased competition in these fruits, and downward pressure on prices, unless ways can be found to stimulate demand.

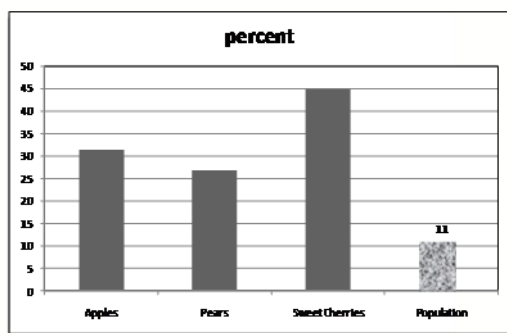


Figure 2. Forecast increase in production of apples, pears and sweet cherries, and of world population, 2010-2020

3. Shifting Structure of the Fruit Industry

The major reason for the expected growth in production of these fruits is a significant shift in the structure of the fruit supply sector. The number of small, traditional fruit growers has been falling rapidly in producing countries that are open to international competition. In many countries, most fruit production is now accounted for by very large, commercial entities. Many of these have integrated fruit growing, storage, packing and marketing operations. These large commercial entities have the capital, management and skills to employ the latest fruit production techniques. They have a heavy commitment to high-density plantings with sophisticated systems for irrigation, fighting pests and diseases, reducing weather damage and getting high, early yields of the most preferred varieties, grades and sizes of fruit. In many cases, international ownership or partnerships are involved. These large entities have had a major advantage in getting access to newer, higher-priced varieties, particularly those sold under exclusive club sponsorships. They can diversify geographically to reduce risk, and have the ability to take on the increased risk involved in new varieties.

The number of varieties of apples, pears and sweet cherries, has expanded rapidly over the last twenty years. As a result, there are now different categories of varieties competing for the attention of retailers and consumers. For example, in apples, there are older mainstream public varieties, like Red Delicious, Golden Delicious and Granny Smith that still account for one quarter of world supplies (Table 1). There are emerging mainstream public varieties like Gala and Fuji that are seeking to replace the old leaders. In addition, there are newer varieties that are sold under some form of managed system, where planting, production and marketing are controlled. These include international clubs like Pink Lady, Jazz and Kanzi that aim to become global varieties. They also include varieties that are limited to one large marketer per country, and varieties that are reserved exclusively for a single, major customer.

Table 1. Changing roles of apple varieties

Category	Examples
Old mainstream	Red Delicious, Golden Delicious, Granny Smith
New mainstream	Gala, Fuji, Honeycrisp
International clubs	Pink Lady (Australia), Jazz (New Zealand), Kanzi (Netherlands)
Exclusives by country	Ambrosia
Exclusives by marketer	Lady Alice

4. Retailers Driving Changes

One of the major forces for change in the fruit supply sector has been the growing clout of large retailers. In most major metropolitan markets in the developed world, three to four retailers control over 70 percent of total food sales, and of total fruit sales. Companies like Walmart, with over 3,000 supercenters in the U.S. alone, need suppliers that can provide a diverse array of fruit varieties twelve months a year. In order to qualify as preferred suppliers of these mega-retailers, suppliers have used mergers, acquisitions and international partnerships to secure the volume of quality fruit that they need.

Large retailers are not a new phenomenon. In the past, such retailers sought to use their buy-

ing clout to get improved quality product at lower prices. They also expected suppliers to contribute to retail promotional programs. However, modern mega-retailers now demand a wide array of standards and certifications that are not tied directly to any specific product. These include standards for generally agreed practices in the orchards, storage or packing houses, for food safety, worker safety, traceability, energy efficiency, waste reduction, environmental responsibility, etc. Only larger suppliers can afford the specialized employees and expertise needed to enforce retailer standards, and secure and maintain the necessary certifications.

5. Changing World Leadership

The world as we know it appears to be entering a new era of divisiveness that has the potential to disrupt international business norms. For much of the period after World War II, a coalition of western powers, led by the United States, the European Union and Japan, promoted a system which favored democratic institutions, individual freedom, human rights, and free movement of goods, services, capital, people, ideas and intellectual property. Under that system, the power of government was believed to derive from the people. The people could select their governments and dismiss them when they were not satisfied with performance. National governments, in turn, were empowered to establish organizations like the United Nations and the General Agreement on Tariffs and Trade (GATT) (replaced by the World Trade Organization (WTO) in 1995) to peacefully resolve global issues like freeing trade and combating climate change. That consensus is now being challenged from several sources. After three decades of spectacular growth, China has now become a leading world power in its own right. Under the current Chinese regime, all power is believed to derive from a single source, the Communist Party. While the Party's decision-making processes are obscure and its policies often opaque, its tolerance for dissent is limited. Opposing the party line is considered treasonous. Russia is moving in the same direction under President Putin. While the Communist Party is no longer a factor in Russia, a small group of insiders still decides what is best for Mother Russia, and have sought to crush all opposition. In many other countries, militant Islam has taken hold. Under that sys-

tem, all power is believed to derive from Allah. The dominant religion sets the rules. Any opposition to those rules is deemed both heresy and treason.

Those fundamental differences in governing philosophies mean that the current consensus on world issues could easily break down. In addition, it will make it much more difficult to forge new agreements on the big issues like human rights, free trade or climate change. This could create special problems for an industry like the Turkish fruit industry that is increasingly dependent on access to foreign markets for its continued expansion.

6. Economic Power Shifting

As their influence over the global agenda is waning, the United States, the European Union and Japan also see their economic clout declining. In contrast, the economic power of the BRICs countries (Brazil, Russia, India, China and South Africa) has been rising. Many other countries like Indonesia, Mexico and Turkey are becoming more important. One example of the shift in economic clout is the trend in world merchandise trade. Between 2001 and 2011, the share of world merchandise imports fell significantly in North America, the European Union and Japan, and rose steadily in the BRICs countries (Figure 3) (WTO, 2012).

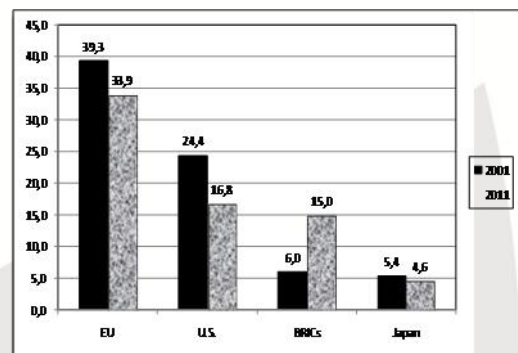


Figure 3. Evidence of economic power shifts. Share of world merchandise trade, 2001 and 2011

There are a number of reasons for these shifts in economic power. The first is the dramatic slowdown in population growth in many countries in Europe and in Japan. A related factor is the slow growth in their per capita incomes

compared to that of many of the BRICs and other developing countries. They have also had difficulty in escaping from the present, prolonged economic crisis. In contrast, many developing countries are enjoying rapid expansion of their middle class. They have been able to bounce back more rapidly from economic adversity. Many households and consumers for the first time can afford a wide array of imported products. Their access to those products has been facilitated by the rapid spread of modern retailing. They can now enjoy a diversity of products similar to what has been customary in the rich world. That changing economic clout is being reflected in global fruit markets. The European Union has long been the major import market for most fruits. However, EU-15 imports of most fruits peaked in 2008, as the Great Recession was hitting, and have not reached those levels since (Table 2) (Eurostat, 2013). Apples, pears and grapes have been hardest hit. The United States has been a declining market for apples, pears and stone fruit, but has been increasing its purchases of bananas, tropical and exotic fruits. Can the BRIC countries make up for those declines? The most recent data for 2011 suggest that the BRICs countries will be very unreliable markets (Figure 4) (FAO, 2013). Brazil has high barriers to fruit imports. Russia is highly dependent on strong oil revenues to fund imports. India con-

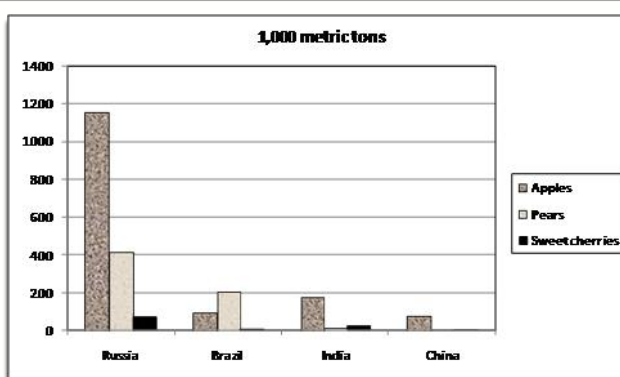


Figure 4. BRICs countries imports of fresh apples, pears and sweet cherries, 2011

tinues to have very high tariffs. And, China has huge domestic production of most temperate fruits and places arbitrary barriers on imports.

Many fruit exporting expect future growth in Asian markets to offset declines in the developed world. Indeed, there has been dramatic growth in imports of apples, pears and sweet cherries by some Asian markets. However, Asian countries vary widely in the size of their populations, level of affluence, openness to imports, and competing domestic fruit production. Each Asian market has to be approached individually. An analysis we conducted recently indicates excellent potential for increased imports of apples and pears is in South and Southeast Asia, and for sweet cherries in the more affluent countries of Northeast Asia (Table 3). (Belrose, Inc., 2013a).

Table 2. EU-15. Imports of major fruit categories, 2012 versus recent peak

Fruit	Peak year	Peak volume	2012 Volume	2012 v Peak
Bananas	2008	6,479	6,183	- 4.6%
Grapes	2008	1,879	1,628	- 13.4%
Citrus	2007	5,557	5,304	- 4.6%
Apples/ pears	2007	3,889	3,294	- 15.3%
Stone fruit	2008	1,375	1,310	- 4.7%
Other	2010	5,258	5,219	- 0.7%
Total	2008	24,155	22,938	- 5.0%

Table 3. Forecast increases in Asian fruit imports between 2010 and 2020 if per capita incomes grow at the same rate as in 2000-2010

Fruit	South Asia	Southeast Asia	Northeast Asia	16 Asian countries
Fresh apples	+ 109.3%	+ 78.2%	+ 41.5%	+ 76.3%
Fresh pears	+ 165.1%	+ 100.1%	- 43.6%	+ 90.3%
Fresh sweet cherries	+ 0.0%	+ 21.1%	+159.7%	+ 153.4%

7. Where Turkey Now Stands

Most readers of this journal will be more familiar with the details of the Turkish fruit industry than I am. However, what is presented here is an objective analysis of where the Turkish fruit industry now stands relative to its major competitors in the rest of the world. In apples, Turkey has consistently been among the top five producers in the world, with both area planted and production rising slowly. In pears, it has been among the top ten producers, with both area planted and production rising slowly. In sweet cherries, it has been consistently among the world's leading producers, and area planted and production have been growing rapidly.

sweet cherry producing countries, Turkey is joint leader in competitiveness with the United States. (Belrose Inc., 2013d). This is reflected in Turkey's export performance in the three fruits (table 4). In the case of fresh apples, almost all of Turkey's exports in 2010 went to low-priced Middle Eastern markets. For pears, the Middle East was also the dominant market, but 12.7 percent went to higher-priced markets in Western Europe. The performance of sweet cherries was more impressive. Over 44 percent of exports went to the higher-priced markets of Western Europe. However, over 50 percent went to lower-priced markets in Eastern Europe, Russia and Central Asia. Compared to the Turkish export price, the average import

Table 4. Turkish exports of fresh apples, pears and sweet cherries: Distribution, by region, and average prices, 2010

Fruit	Western Europe	Eastern Europe	Russia +FSU	Middle East	Africa	Other	Total
Distribution							
Apples	0.0	0.0	1.3	97.9	0.5	0.0	100.0
Pears	12.7	18.3	12.9	55.7	0.0	0.4	100.0
Sweet cherries	44.3	25.2	25.5	4.9	0.1	0.0	100.0
Average prices							
Apples	n.a.	n.a.	\$665	\$400	\$604	\$563	\$407
Pears	\$1,240	\$646	\$656	\$577	n.a.	n.a.	\$667
Sweet cherries	\$3,277	\$1,644	\$1,386	\$863	\$6,257	n.a.	\$2,265

n.a.; non available

In terms of trade, imports of all three products have been negligible, partly because of the exceptionally high tariffs that are still in place. Processing remains relatively unimportant. Exports have been growing, but Turkey remains a minor player in international trade except in sweet cherries.

Belrose Inc., has developed an index of competitiveness for major fruit exporting countries in apples and pears. (Belrose, Inc., 2013b,c). Of 32 apple producing countries included, Turkey ranked number 18 in 2013. Of 25 pear producing countries included, Turkey ranked number 14. So, in both products, Turkey ranked in the middle of the pack in competitiveness. In contrast, in a more limited comparison of 23 major

prices in Western Europe for fresh apples were 116 percent larger, for fresh pears 67 percent larger, and for fresh sweet cherries 43 percent larger. This indicates that Turkey still lacks sufficient volume of high-quality apples and pears to compete effectively on higher-priced markets.

It is likely that the high level of import protection for the Turkish fruit industry may have contributed to the overall mediocre competitiveness performance of the Turkish apple and pear industries in world markets. Imports help to expose a domestic industry to innovations in variety, quality, and efficiencies in production and marketing. A high level of protection helps to keep inefficient domestic operators in business longer and perpetuates the use of outdated industry practices. On the other hand, the more

an industry engages in international trade, the more incentive it has to change its products and practices in order to stay competitive. Finally, in most trade negotiations, for a country to gain increased access to foreign markets, it has to be willing to grant greater access to its markets, so high rates of domestic protection can end up reducing export opportunities.

8. Dealing with the Challenges Ahead

For the Turkish apple, pear and sweet cherry industries to have a vibrant future, they will have to make substantial changes in order to become more globally competitive. Some of the realities they face have been discussed above. World supplies of all fruit, and of apples, pears and sweet cherries, are likely to grow faster than world population for the next few years. Little growth in demand can be expected in traditional markets, but consumers are becoming more sophisticated in their needs. This means that there will be downward pressure on market prices. There will be increased political pressure on countries like Turkey to open up their markets to foreign competition. And, there will be increased efforts to expand sales in non-traditional markets, such as those in Asia and Africa. Those markets will become increasingly diverse in their product and variety preferences. They will also differ in how lucrative they are for different suppliers. It will become even more important to make sales in the more lucrative markets.

The trend in retailing towards consolidation of greater buying power in fewer hands will continue. In addition to having more leverage on price and quality, these larger retailers will be able to require suppliers to meet ever higher standards in terms of food safety, traceability, worker rights, environmental impact, etc. Large fruit suppliers will gain increased advantages over smaller suppliers in scale, adoption of new technologies, sophisticated management systems, and innovations in production, packing, storage, merchandising and promotion.

How can Turkey meet these challenges? Clearly, to compete with the best in the world on quality and price, individual growers will have to become larger, or groups of smaller growers will have to collaborate more closely, to gain economies of scale. They will have to

introduce new varieties that match the changing demands of potential markets. They will have to introduce sophisticated storage and packing systems that can meet the diverse demands of global retailers. To gain access to the best plant materials and marketing clout, they will have to establish cross-border alliances with firms in other countries. Only the most competitive firms will be welcomed into such alliances. To generate the increased revenue needed to accomplish all this, the Turkish industry will need to sell an increasing share of its production in higher-priced markets.

This short article can only hint at some of the changes that the Turkish fruit industry will need to consider in preparing itself to be more globally competitive. It still needs a more comprehensive assessment of its strengths and weaknesses, of the challenges it faces and of the opportunities that it can exploit in building up its global competitiveness. The Turkish sweet cherry industry has already shown what can be achieved. It can be an example for the apple and the pear industries as they gear up for the future.

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