

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY  
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT  
POLICY

Voluntary  Public

**Date:** 7/13/2015

**GAIN Report Number:** TR5035

## Turkey

**Post:** Ankara

### Turkish Exports to Russia Fail to Meet Expectations

**Report Categories:**

Agricultural Situation

Competitor

**Approved By:**

Kimberly Sawatzki

**Prepared By:**

Sophie Friedman

**Report Highlights:**

Turkey expected to benefit when Russia implemented an agricultural trade ban against the United States, Canada, European Union, Australia, and Norway in August 2014. However, exports to Russia have not increased as dramatically as anticipated, especially in terms of revenue. Furthermore, exports of most products have been sporadic and variable. The commodities that have seen the greatest boost in trade to Russia include citrus fruits (lemons, mandarins, oranges), apples, and hatching eggs.

## **Executive Summary:**

Turkey expected to benefit when Russia implemented an agricultural trade ban against the United States, Canada, European Union, Australia, and Norway in August 2014. However, exports to Russia have not increased as dramatically as anticipated, especially in terms of revenue. Furthermore, exports of most products have been sporadic and variable. In the January - April 2015 period, Turkish fruit exports to Russia increased 39 percent in volume though only 27 percent in revenue compared to the same period last year. Vegetable exports, on the other hand, actually decreased by 8 percent in volume and 13 percent in revenue compared to the same period last year. Turkey has greatly increased its export of poultry products to Russia (977 percent in the January-April period when compared with previous years), however poultry exports have declined significantly in the first quarter of 2015 compared to the dramatic increases in the third and fourth quarters of 2014 (with the exception of hatching eggs). Dairy exports to Russia have not increased significantly and have experienced tremendous variability.

Some of Turkey's largest companies did not try to enter the Russian market as they view the market opportunities as temporary and risky and they were not willing to make investments in sales and distribution systems. They feel that there is more to lose from investing in Russia than there was to gain. Furthermore, some companies have reported problems with collecting payments from Russian importers. While the announcement of Russia's western trade ban sparked high hopes among Turkish exporters last year, the extension of the ban has not generated the same response. Although Russia will continue to be an important export market for Turkish agricultural products, it has clearly not met the sector's hopes and expectations.

## **General Information:**

As stated in the August 22, 2014 GAIN Bi-weekly Update 16 by FAS Moscow: "On August 6, 2014, Russian President Vladimir Putin signed a decree banning a list of agricultural products from the United States, Canada, European Union, Australia, and Norway as a result of the implementation of economic sanctions against Russia due to events in the region. The ban takes place immediately, according to the decree, and will be valid for 1 calendar year. The list of agricultural products includes beef, pork, poultry, fruits, vegetables, fish, seafood, cheese, milk and a variety of other products." On June 25, 2015, Russia extended the agricultural products ban for another year in retaliation to the recent EU decision to extend economic sanctions against Russia. Additionally, Russia amended the list of banned products to exclude a few select fish and seafood but to include some additional dairy products.

As a result of the EU economic sanctions and Russia's initial trade ban, Russia began to expand domestic production of agricultural products, as well as turn to other markets to replenish the deficits of imports and exports. Turkey and Russia already had strong trade relations, with agricultural bilateral trade exceeding \$3.2 billion in 2013. Russia's agricultural exports to Turkey exceeded \$2 billion in 2013, with wheat as the largest export item, followed by other grains and oilseeds, vegetable oils, and forest products. Turkish exports to Russia exceeded \$1.2 billion in 2013, including \$888 million of fresh fruits and vegetables. The fruit and vegetable sector expected a 30-40 percent increase in exports to Russia as a result of the ban, while the level of increases in dairy, eggs, and meat exports depended largely on ongoing market access negotiations between Turkish and Russian authorities.

In the early days of the ban, EU exporters were reportedly looking for alternative routes for their products to enter Russia. For example, some European apple and pear traders reportedly asked to send their products via Turkey so the products would still make it to Russian markets. In order to do this, Turkey would first have to import the products so that the country of origin would change to Turkey. Given Turkey's import duties of 62 percent on apples, pears, and kiwis, transshipment through Turkey was not a viable option.

## **Fruits and Vegetables**

Even though the changes thus far have not been as dramatic as a whole as expected, Russia has remained Turkey's number one market for both fresh fruits and vegetables. Turkey has always found its most significant markets in its neighboring countries (especially Russia, Ukraine, Romania, and Iraq), however turmoil in the Middle East has greatly affected Turkish exports to countries in this region. As a result of the unrest, Turkey's custom gates on its southeast border are frequently closed, thus creating difficulties for exporters and increasing shipping costs. So, when Russia announced the conditions of its trade ban, many exporter unions expected they would be able to divert a lot of the products they could not ship to the Middle East to the expanded Russian markets. Additionally, all exporter unions thought that Turkey would be Russia's preferred trade partner for fruits and vegetables and expected to see a 30-40 percent increase in exports. This expectation, in conjunction with production shortages due to drought, led to an increase in domestic and export product prices.

Unfortunately, exports to Russia have not increased as dramatically as anticipated, especially in terms of revenue. While many specific fruit and vegetable exports to Russia have skyrocketed, others have not fared as well and in some cases exports have decreased. In the January - April 2015 period alone, Turkish fruit exports to Russia increased 39 percent in volume though only 27 percent in revenue compared to the same period last year. However, one source reported that during the January-April period, there was a 69 percent increase in volume and 58 percent increase in value for fruit exports from Turkey to Russia. These numbers are much higher than data reported in the Global Trade Atlas.

Vegetable exports, on the other hand, have actually decreased by 8 percent in volume and 13 percent in revenue compared to last year's January - April period. In both cases, revenue has not increased (or decreased) to the same degree as volume.

Although the discrepancies between volume and revenue are consistent across all products, citrus fruits exports have increased significantly with a 36 percent increase in volume and a 22 percent increase in revenue in the January-April period. Most citrus fruits have climbed comparably high individually, with: lemons increasing 38 percent in volume, though only 15 percent in revenue; mandarins have increased 49 percent in volume and 36 percent in revenue; oranges have increased 40 percent in volume and 34 percent in revenue.

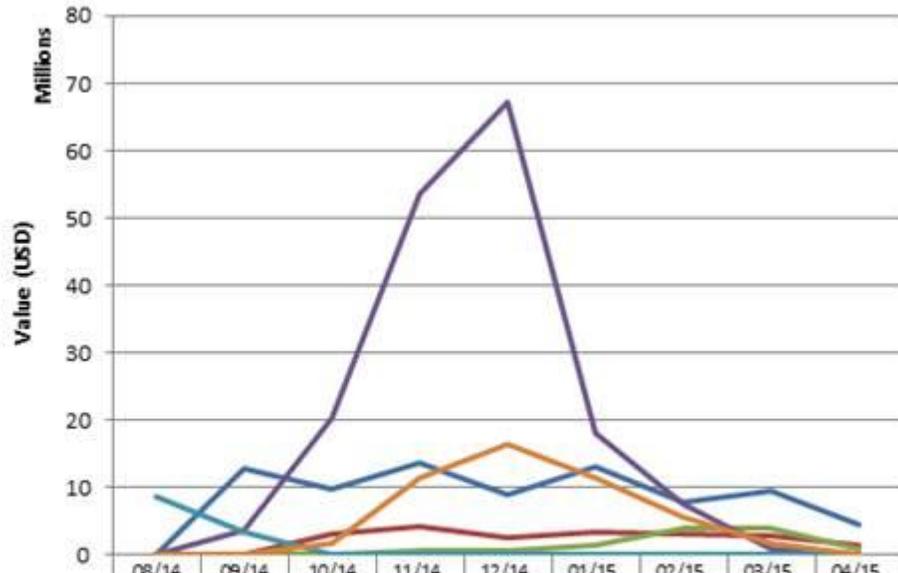
The peach and nectarine export situation is a little difficult to determine. In the initial months following the ban, Turkey saw dramatic increases in its peach and nectarine exports to Russia: a 115 percent increase in volume and 121 percent increase in revenue in the third quarter of 2014 compared with the third quarter in 2013. However, exports have decreased significantly in the January-April period compared with the same period last year. As peaches and nectarines are seasonal fruits, it is likely trade will revive in the coming quarters, but it is uncertain as to how the export numbers will compare with that of last year.

Apples have also experienced fairly large increases, with trade being nonexistent in the January-April period last year and now revived in the same period this year. In the first quarter of 2015, apple exports peaked at the highest quantity and revenue of any quarter in the most recent quarters, with a trade of 8,851 tons of apples at a value of \$9.4 million (compared to no trade in the first quarter of 2014). This is already a 496 percent increase in volume and a 580 percent increase in revenue from the previous quarter (fourth quarter of 2014) – an interesting development considering the general trend of decreases in revenue when compared with volume. Apple export volume peaked at 3,719 tons in February of this year, though revenue peaked in March at \$4 million for 3,593 tons (compared with \$3.9 million in February).

Tomatoes have shown a large upward trend over the months following the trade ban, however this general upward trend is consistent with the same set of months in previous years. In 2014, the second quarter was the largest in tomato exports in terms of both volume and revenue, and this year seems to be progressing toward the same results. Tomatoes dominate Turkey's vegetable exports to Russia, however even this product has not been immune to the general decrease in vegetable exports. During the third quarter of 2014, tomato exports to Russia increased by 89 percent in volume and 96 percent in revenue when compared with the same quarter last year – though these numbers are a bit misleading because trade in the third quarter is historically much less than the other quarters and so any increases appear statistically more dramatic. The fourth quarter of 2014 experienced a 2 percent increase in volume and a very minor reduction value as compared with the 2013 quarter. The first quarter of 2015, on the other hand, experienced a 1 percent decrease in volume and an 8 percent decrease in value compared with the first quarter of 2014. Overall, it does not seem that the trade ban has greatly affected tomato trade one way or another.

Turkey has faced a lot of competition from other countries supplying considerable amounts of product to Russia, which is part of the reason numbers have not increased as dramatically as expected. According to the January through April data, although Russia is Turkey's largest export market for fresh fruits, Turkey is only the third largest fruit exporter to Russia in terms of volume. Russia has in the past few years (in the January – April period) imported a higher volume of fruits from Ecuador than Turkey, but in the 2015 period Belarus has overtaken Turkey in terms of export volume of fruit to Russia. In vegetables, on the other hand, Turkey remains Russia's largest import market despite the downturn in volume, although Russian vegetable imports have vastly increased from Belarus (68 percent) and Pakistan (1,565 percent) in particular.

Turkey Monthly Exports to Russia - Fresh Fruit (Group 23) by Value



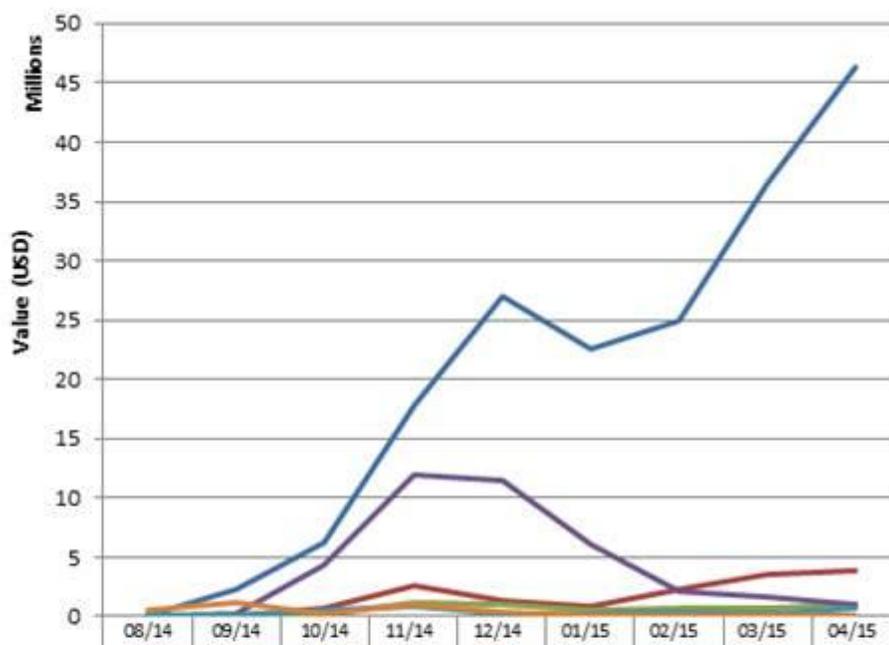
	08/14	09/14	10/14	11/14	12/14	01/15	02/15	03/15	04/15
Lemons And Limes, Fresh Or Dried	0	12850381	9825728	13707387	8936274	13097225	7767992	9601567	4526241
Grapefruit, Fresh Or Dried	7028	13393	3060357	4261158	2577543	3442530	3039709	3011082	1567782
Apples, Fresh	40956	44155	96281	691014	598439	1520079	3894630	4001443	889683
Mandarins (Inc Tanger Etc) & Citrus Hybr Fr Or Dri	0	3636350	20234575	53759392	67082390	18277259	7508494	1043456	161377
Peaches, Including Nectarines, Fresh	8739483	3380928	0	0	0	0	0	0	124245
Oranges, Fresh	0	0	1816996	11391500	16585551	11438220	5617251	1778419	79741

Source

: State Institute of Statistics

*Note: Some products have been removed from this chart for the purposes of this report.*

**Turkey Monthly Exports to Russia - Fresh Vegetables (Group 22) by Value**



	08/14	09/14	10/14	11/14	12/14	01/15	02/15	03/15	04/15
Tomatoes, Fresh Or Chilled	77377	2306578	6174884	17837443	26998823	22549637	24900159	36543934	46293210
Pumpkins, Squash And Gourds, Fresh Or Chilled	0	0	666995	2624140	1278330	787174	2228712	3594952	3794340
Fruits Of Genus Capsicum Or Pimenta, Fresh/Chilled	6217	15839	251131	1093959	1008933	581373	737759	730254	1076981
Cucumbers And Gherkins, Fresh Or Chilled	0	265714	4308728	11950020	11479132	6100023	2087416	1636789	956530
Eggplants (Aubergines), Fresh Or Chilled	7342	49434	473476	805730	281157	203338	409681	168145	640674
Lettuce, Except Head Lettuce, Fresh Or Chilled	555110	1241943	167131	986611	430007	137851	5652	16841	45656

Source

: State Institute of Statistics

*Note: Some products have been removed from this chart for the purposes of this report.*

### Live Animals and Animal Products

In mid-2014, Turkey’s exports in the poultry, egg, and dairy sectors were negatively affected by the growing instability in Iraq, Syria and other parts of the Middle East. At the time of the ban, Turkish egg and dairy exports were not approved by Russian authorities, although Russian officials were visiting the Turkish Ministry of Food, Agriculture, and Livestock (MinFAL) to discuss the approval process for Turkish animal products.

In light of the ban, Rosselkhoznadzor (Russia’s Federal Service for Veterinary Phytosanitary Surveillance) sent nearly 30 health certificates for live animal and animal products to MinFAL so that Turkey could begin exporting these products to Russia. However, MinFAL determined that Turkey could not meet Russia’s health requirements for animal exports. Specifically, Turkey is not free of Foot and Mouth Disease (FMD) or Newcastle Disease (ND), rendering Turkey unfit to export live animals to Russia. Furthermore, Turkey’s supplies are too low to meet Russian demand, so the MinFAL decided to focus Turkish exporting efforts on animal products rather than live animals.

## **Poultry Meat and Products**

Turkish poultry contacts stated that Russia was seeking poultry meat from Brazil, China, Malaysia, and Turkey. Although it is tough for Turkey to compete with Brazilian prices, the Turkish sector was eager to gain access to the Russian market. Also, Turkey cannot not fully meet Russian demand due to insufficient supplies. MinFAL and other government authorities such as the Ministry of Finance and Export Unions met with Russian officials with the aim of reaching an agreement, such as decreasing the custom tariffs, and signing bilateral trade agreements with specified trade amounts/sectors.

Another setback to Turkish access to the Russian poultry markets involved Turkey's country status on Newcastle Disease. According to Russia's regulations, a country wishing to export poultry must be awarded "free status" for Newcastle Disease by the World Organization for Animal Health (OIE). Only some provinces in Turkey have this status and Turkey does not have a regionalization policy for Newcastle disease in line with the OIE, so Russia started export negotiations only at the technical level.

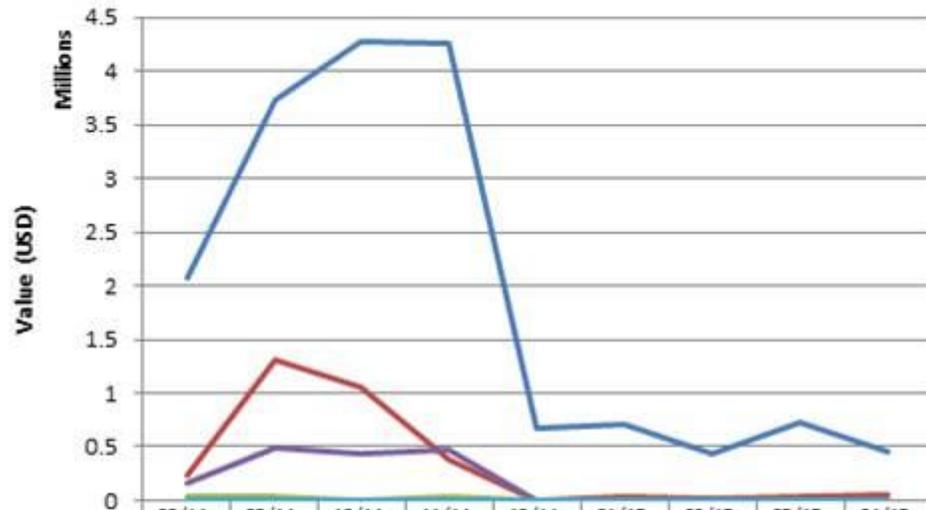
Subsequently, Turkey invited Russian experts to control the poultry producing establishments willing to export to Russia. The MinFAL created a list of suitable establishments after thorough checks for compliance with Rosselkhoznador rules and Russia's veterinary legislation. Russian experts then visited the recommended establishments and approved some of them to export poultry products to Russia: [http://www.fsvps.ru/fsvps/importExport/turkey/index.html?\\_language=en](http://www.fsvps.ru/fsvps/importExport/turkey/index.html?_language=en) Approval visits by Russian experts have been continuing in an effort to increase the number of approved establishments. At this time, Turkey is not eligible to export table eggs and related products to Russia because of salmonella concerns.

Russia first began importing Turkish hatching eggs in December 2014 with a volume of 288,000 eggs at a value of \$101,965. Trade peaked in January 2015 with a volume of 4,062,240 eggs at a value of \$1.5 million but since has tapered off. Egg trade has reduced in volume over the course of the past few months, with most recent data citing a trade volume of 288,000 eggs at a value of \$77,118 in April 2015 – the same volume but a much lower value than the initial December 2014 levels.

Beginning in April and as recently June 15 of this year, Turkey has reported outbreaks of the H5N1 strain of Highly Pathogenic Avian Influenza (HPAI or Bird Flu). Normally, Russia requires that the exporting country be free from HPAI for six months before receiving an export certificate, and Turkey does not meet this condition. However, Turkey is able to continue trade of poultry meat and products with Russia because of Turkey's regional health provisions. In order to continue trade, Turkey is required to issue an additional declaration to Rosselkhoznador with each poultry shipment stating that the products originate from a region free from HPAI.

Overall, Turkey has greatly increased its export of poultry products to Russia (977 percent in the January-April period when compared with previous years), yet Turkey's production capacity simply cannot compete with the volume of poultry exports from Brazil or Belarus. However, other factors such as HPAI, the decreasing purchasing power of the ruble, and Russia's growing poultry production have also likely restricted Turkey's poultry export potential to Russia. Turkish poultry exports to Russia skyrocketed in the third and fourth quarters of 2014, but reduced dramatically in the first quarter of 2015 (with the exception of hatching eggs).

### Turkey Monthly Exports to Russia - Poultry Meat (Group 27) by Value



	08/14	09/14	10/14	11/14	12/14	01/15	02/15	03/15	04/15
Chicken Cuts And Edible Offal (Inc Livers), Frozen	2070096	3733988	4283679	4255093	667943	714655	435715	723190	451491
Turkey Cuts And Edible Offal (Includ Liver) Frozen	235349	1312107	1061686	387320	0	26698	13260	37227	58661
Meat & Offal Of Chickens, Not Cut In Pieces, Frozen	31780	41723	0	34724	0	0	0	0	0
Turkeys, Not Cut In Pieces, Frozen	154124	483358	428590	476533	0	0	0	0	0
Chicken Cuts & Edible Offal (Ind Liver) Frsh/Chld	3531	4895	0	0	0	0	0	0	0

Source

e: State Institute of Statistics

### Turkey Monthly Exports to Russia - Eggs & Products (Group 24) by Value



	08/14	09/14	10/14	11/14	12/14	01/15	02/15	03/15	04/15
Eggs Of Chickens, Fertilized For Incubation	0	0	0	0	101965	1511496	985026	316032	77118

Source: State Institute of Statistics

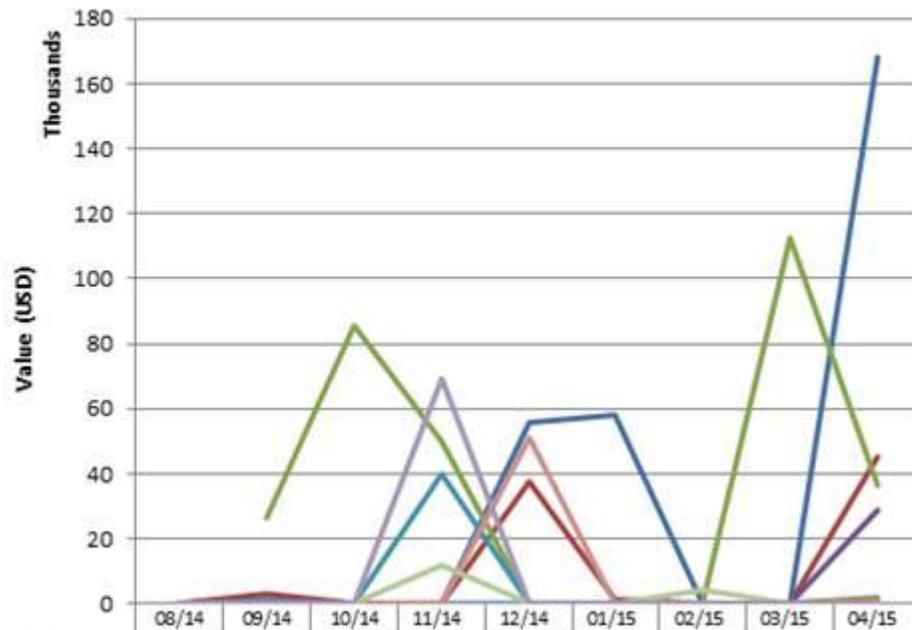
### Dairy Products

During initial dairy export negotiations, Russia was hesitant to open markets to certain Turkish dairy products because Turkey is not free from Foot and Mouth Disease. However, by the end of negotiations

Russia agreed to import Turkish dairy products, provided that exporters applied pasteurization or heat treatment to the products according to the relative OIE chapter. Russian experts have been auditing non-approved establishments according to their export capacity. The approved establishments are published here: [http://www.fsvps.ru/fsvps/importExport/turkey/index.html?\\_language=en](http://www.fsvps.ru/fsvps/importExport/turkey/index.html?_language=en)

As a whole, dairy exports to Russia have not increased significantly as a result of the trade ban. In the fourth quarter of 2014, dairy exports to Russia spiked at a volume of 202 tons valued at \$401,580, but this seems to be an anomaly rather than a trend. Dairy exports to Russia have fluctuated significantly, with all products flip-flopping each month as to whether or not they were even exported. Cheese seems to have made significant market gains with a 2000-percent increase in volume in the January to April period compared with the same period last year, however the volume is relatively unsubstantial and exports are inconsistent. Lactose, a new export, comprises the majority of volume of Turkey's dairy exports to Russia (145 of 203 tons or 71.4 percent in this year's January to April period), but even this product experiences erratic monthly fluctuations. For example, Turkey exported 50 tons of lactose in November but then did not export any again until March (99 tons, the entirety of dairy exports that month). A leading Turkish dairy company told our office that they felt Russia's market opportunities were temporary and they were not willing to invest in sales and distribution in Russia. There was more to lose from investing in Russia than there was to gain. We have heard similar comments from other major Turkish companies.

Turkey Monthly Exports to Russia - Dairy Products (Ex 04, 21, 17, 35) by Value



	08/14	09/14	10/14	11/14	12/14	01/15	02/15	03/15	04/15
— Cheese, Nesoi, Including Cheddar And Colby	0	1594	0	0	55715	57993	0	0	168094
— Cheese (Unrpd/Uncurd) Frsh Ind Whey Cheese Curd	0	3069	0	0	37343	1012	0	0	45356
— Lactose In Solid Form And Lactose Syrup, Nesoi		26479	85623	49775	0	0	0	112344	36281
— Cheese, Processed, Not Grated Or Powdered	0	0	0	0	0	0	0	0	29114
— Butter	0	693	0	40077	0	0	0	0	2030
— Buttermilk/Kephir/Curdled Fermntd Acidfd Mik & Crm	0	0	0	0	0	0	0	0	1305
— Mik & Cm,Cntd,Swt,Powdr,Gran/Solids,Nov 1.5% Fat	0	0	0	0	0	174	0	0	0
— Milk And Cream, Sweetened, Concen Or Not Nesoi	0	0	0	0	51308	0	0	0	0
— Rennet And Concentrates Thereof	0	0	0	11849	380	0	4105	0	0
— Cheese Of All Kinds, Grated Or Powdered	0	0	0	69510	0	0	0	0	0

Source

: State Institute of Statistics