

STRUCTURAL CHANGES IN FRESH FRUIT AND VEGETABLE  
DISTRIBUTION CHANNELS BETWEEN 1982-2012 IN TURKEY  
WITH SPECIFIC EMPHASIS ON THE  
ANKARA WHOLESale MARKET

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DISTRIBUTION CHANNELS BETWEEN 1982-2012 IN TURKEY  
WITH SPECIFIC EMPHASIS ON THE  
ANKARA WHOLESALE MARKET**

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## **ABSTRACT**

### **STRUCTURAL CHANGES IN FRESH FRUIT AND VEGETABLE DISTRIBUTION CHANNELS BETWEEN 1982-2012 IN TURKEY WITH SPECIFIC EMPHASIS ON THE ANKARA WHOLESALE MARKET**

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This study intends to examine the changes in the structural relations between the actors of fresh fruit and vegetable distribution process within a time scope of thirty years perspective. In summary the following questions were tried to be answered:

- Who are the actors active in the fresh fruit and vegetable distribution process?
- How these actors transformed within a time scope of thirty years and how they were effected from the changes in overall economic developments and government policies?
- What potentials do these actors have for the future and what are the key areas of development to sustain a winning environment for all parties involved: for producers, distributors and consumers?

Keywords: Fresh Fruit and Vegetable Distribution, Distribution Channels, Wholesale Markets, Contract Farming, Supply Chain.

## ÖZ

### ANKARA TOPTANCI HALİ ÖRNEĞİNDE TÜRKİYE’DE YAŞ MEYVE VE SEBZE DAĞITIM KANALLARINDA 1982-2012 YILLARI ARASINDA GERÇEKLEŞEN YAPISAL DEĞİŞİKLİKLER

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Bu çalışma otuz yıllık bir perspektif içinde yaş meyve ve sebze dağıtım süreci içinde yer alan aktörlerin yaşadığı yapısal değişiklikleri inceleme amacı taşımaktadır.

- Yaş meyve ve sebze dağıtım süreci içinde yer alan aktörler hangileridir?
- Geçtiğimiz otuz yıllık perspektif içinde bu aktörler nasıl değişmişlerdir ve genel ekonomik gelişmeler ile hükümet politikalarından nasıl etkilenmişlerdir?
- Bu aktörlerin gelecek için taşıdıkları potansiyel nedir ve ilgili tüm taraflar için; üreticiler, dağıtıcılar ve tüketiciler için her kesimin kazanacağı bir ortamı sağlayacak gelişmenin anahtar konumundaki alanları nelerdir?

Anahtar Kelimeler: Yaş Meyve ve Sebze Dağıtımı, Dağıtım Kanalları, Toptancı Halleri, Sözleşmeli Tarım, İkmal Zinciri.

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In 1982, Mr. Feyzullah zcan, the Head of the Directorate of Fresh Fruit and Vegetable Market of Ankara Municipality helped me during every step of my field study in Ankara and opened the archives of the Directorate to me. Also in 1982 Refik laŐan gave me the opportunity to use the library of MEYSEB unit of the Ministry of Agriculture, Food, and Animal Husbandary, and agricultural engineer Mrs. Fsun Taluđ from the same institution generously giving her time and assistance to my study. I would also like to thank to Mr. Murat Kaptan from Mersin branch of MEYSEB for providing me the data and very valuable information. In 2012, the Fresh Fruit and Vegetable Department Head of Migros firm in Ankara Branch, Mr. Ergin Őahintrk gave his time to my work and supported me providing information about the flow of goods in his firm.

How can I miss my wife AyŐe Eronat and my son Sinan Eronat, for their patience and encouraging me in every step of my study.

M. Âli Eronat

February 2012.

## PREFACE

The study is may be unique of its kind. The reason is that initial part of the study was made in 1982-1983 as a part of the requirements for a graduate degree as a Regional Planner from the Middle East Technical University. Although the thesis submission and jury approval was received, the thesis submission procedure was not completed because of personal reasons. The final part realized in a very limited time at the end of 2011 and beginning of 2012, utilizing a right to complete the previous work by an Amnesty granted by the Government.

The initial part which was made between 1982-1983 was on fresh fruit and vegetable distribution channels in Turkey and its impact on municipalities. When the right to complete the study granted by the proclaimed amnesty a reconstruction of the old work with new concepts in the light of contemporary discussions and provide a self critic arouse as an attractive approach. This way it will not only provide a modest time range contribution to the *academia*, but also to honor my debt to my previous work. In order to give a good picture of the distribution chain in early 1980's, the parts of the study with respect to this period kept unchanged. As for the reconstructed part, it is on the changes on fresh fruit and vegetable distribution in the period of thirty years, with focus on the actors involved in the distribution process.

The initial work which was made between 1982-1983 intends to examine the structural linkages between the distribution process of fresh fruits and vegetables, and the municipalities. The fresh fruit and vegetable distribution process has always received the attraction of the public because of the high differences between production and consumer prices. The public blames the middle-man for the high differences and demands the municipalities to impose control on the middle-man. Conversely, the

municipalities seem to be unable to find a solution to the problem. Meanwhile, the myth and the secrecy of middle-man's role manipulating the prices continues.

The importance of the issue of fresh fruits and vegetables is not solely limited to the consumers' complaints of price manipulation. Fresh fruits and vegetables are potential items of national export income. However, distribution process plays an important role on the quality and quantity of the production. This also has an indirect effect on exports of fresh fruits and vegetables.

The flow of money created from the production and distribution of fresh fruits and vegetables is also important from the national development point of view. The high magnitude of the capital involved and its re-investable portion worth's a serious discussion from the stand point of national development of Turkey.

Another crucial point is the structural links prevailing between the fresh fruit and vegetable distribution process and the municipalities. Cities are the environment of aggregation and consumption of commodities. Municipalities are assigned to establish wholesale market places for the aggregation and re-distribution of fresh fruits and vegetable, and have rights and duties to interfere and control the process.

As for these reasons the links between the fresh fruit and vegetable distribution and municipalities is the core for this process. The intention of the initial phase was to analyze these structural links.

The reconstructed part is however concentrated on the differences between the traditional and the contemporary distribution of fresh fruit and vegetables. The hub of the contemporary production and distribution of fresh fruit and vegetable is contract farming; a method of agricultural trade which has been in the agenda of world farming since the end of the 19<sup>th</sup> century, revived in a new formal form. The development of contract farming is aroused from a necessity. The chain stores and food; especially fast food chains require fresh fruit and vegetables be in conformity with their needs and strict health provisions. This has created a new line in food production: producers – farm contractors – chain store/fast food supplier – retail end of the chain – consumer. This relatively new concept of supply has its effects on the whole production and



distribution chain. The second and reconstructed part of the study aims to make a thorough comparison of the traditional line of production and distribution of fresh fruit and vegetables, with that of the contemporary one and assess the true winners and losers of the actors involving in the process.

In spite of its importance, in early 1980's the marketing of fresh fruit and vegetables have hardly its place in related literature. None of the study areas such as marketing, agricultural marketing, agricultural economics and policy, etc., has not focused on marketing of fresh fruits for the case of Turkey, except for a limited number of studies. The basic reason stems from the difficulties of collecting valuable data which has been the main handicap of this study as well. The middle-man who is pointed out the grasper of the value differences between production and retail prices of commodities remains as the secret of the trade. They can keep their trade as long as they hide the process. These attitudes of the middleman do not give a chance to collect meaningful data and applying an acceptable survey. So the characteristics and peculiarities of his trade can only be observed from the outside environment. This was the main difficulty in the initial part of the study.

Conversely, in 2010's the scope of the study area is far different. The new developments with globalization, providing free movement of goods and capital compared to 1980's, foreign direct investments made at developing and underdeveloped countries resulted a significant diversification of the study area. The study area dispersed to issues like supply chain management of multinational supermarkets, pros and cons of contract farming, flow of foreign direct investment, farmer – supply chain management relations, etc. As because of this rapid transformation of the respective environment, descriptive studies of the *academia* is diversified numerous fields to follow and interpret the recent developments.

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## LIST OF SYMBOLS AND ABBREVEATIONS

AÜ	: Ankara Üniversitesi (University of Ankara, Ankara)
AWM	: Ankara Fresh Fruit and Vegetable Wholesale Market
ÇKS	: Çiftçi Kayıt Sistemi (Farmers Registry System)
DİE	: Devlet İstatistik Enstitüsü (State Institute of Statistics)
DPT	: Devlet Planlama Teşkilatı (State Planning Office)
EÜ	: Ege Üniversitesi (University of Ege, İzmir)
FAO	: Food and Agriculture Organization of United Nations
FDI	: Foreign Direct Investment
FFV	: Fresh Fruit and Vegetable
UN-GATT	: United Nations General Agreement on Tariffs and Trade
UNIDO	: United Nations International Development Organizati



# CHAPTER 1

## INTRODUCTION

### 1.1. Aim of the Study

The aim of this study is to analyze the changes in structure of fresh fruit and vegetable (thereafter shall be referred as FFV) distribution channels thirty years apart, find the level of the current differences between the traditional and the contemporary modes of distribution and examine the effects of these changes on the actors active in the process.

As mentioned in the preface, this study is two folded: The first part was made between 1982-1983 on FFV distribution and its effect on municipalities and cities. Whereas the second section focuses on the changes realized within thirty years and examines the effects of these changes on actors active in the process. The motives behind the study arise from a series of questions, pursuing each other:

- What are the reasons of considerable differences between the producer and the consumer prices?
- What are the structure of the organizations active in the distribution process of FFVs?
- Are these organizations or the structure a handicap for better performance of the distribution channels?

- Do these organizations or people, briefly the actors have a potential of internalizing the contemporary developments?
- What are the other possible or alternative organizations?
- What are the trends in FFV distribution?
- What has been the role of the intervening bodies such as government and municipalities in the process?
- When the whole process is considered, who are the winners and who are the losers in the last thirty years of experience?

These questions built the structure of this study.

## **1.2. Changes in the Turkish Economy from 1980's to 2010**

In line with the world's economic changes the Turkish Economy has significantly changed in 1980's. It should be convenient to give a picture of the economic and social developments between 1980's to 2010's.

Until 1980 the Turkish Economy was a closed economy based on a production style that can be briefly stated as "import substitution". In other words the economy was based on mainly the agricultural products and exports, with limited domestic industrial production. The funds and foreign exchanges necessary for the industrial investments were provided by agricultural exports, and therefore the agricultural production was supported by all means. Industry on the other hand was producing to limited to domestic market with high costs and under-scale. This closed structure was continuing since early 1920's following the proclamation of the Republic and successfully led Turkey to overcome the 1929 World Crises and cope with the detrimental effects of the II. World War.

However this closed structure caused substantial domestic problems. The gap between the wages applied by state enterprises compared to private enterprises was very high. Additionally, the general level of prices of wages and domestic

inputs was not permitting the domestic industry to produce at world competitive prices. More over the substitutions applied to agricultural inputs growingly created a high burden on the government budget. Following the crises in petroleum prices in 1973 and 1978 the government faced a fiscal crises and a social unrest. The solution was formulated in the liberation of the economy as it was defined in resolutions known as “Resolutions of January 24<sup>th</sup>” referring to government decree issued on January 24<sup>th</sup>, 1980. The resolutions could only be applied under a military rule with a coupe-d’etat realized seven months later on September 12<sup>th</sup>, 1980, the Parliament abolished.

### **1.3. Changes in the world economy in 1980’s:**

After II. World War, the economic improvements in the Soviet Union between the two World Wars attracted the attention of the newly born nations, most of which are either undeveloped or developing countries, and a new approach of “import subsidized” economical development with application of heavy tariffs to import goods were accepted as the developing strategy. This Neo-Keynesian approach was implied by most under developed and developing countries but by 1980’ fiscal problems raised in those countries. The general external effect was lack of foreign currency deposits, and consecutively incurring debts and failure of these countries paying their debts.

Alongside several domestic problems following the internal financial crises, the fiscal world authorities like International Monetary Fund (IMF), World Bank (WB) and some Wall Street bankers were began to seek for prototype solutions to

the fiscal crises. The solutions they found was later formulated as the “Washington Consensus”<sup>1</sup>.

For the purposes of this study it must be understood that the principles stated above; especially trade liberalization, privatization of economic enterprises owned previously owned by the government, and progressively eliminating the agricultural subsidies under the heading of *reordering the public priorities* affected the rural structures in developing countries. The world tendency for a new liberal economy and Turkish Governments choices in line with this policy lead to a significant change in Turkish Agriculture.

### ***1.2.1. The results of the economic policy implications after 1980’s on the agriculture and the rural life:***

It must be stated that not all agricultural products were totally neglected and subsidies were eliminated. The new liberal economy necessitated exports to cope with the imports, therefore supported only the products that can compete at world market; like fresh fruits, etc. But in the overall, agriculture was liberated and opened to competition with the world market, without any precaution to support the producer and the rural life.

Supporting the rural life in Turkey was not a priority target for government applications neither before nor after 1980, except some practices. The agriculture was supported for its products and on product basis. As a result, beginning in early 1950’s a vast migration to metropolitan areas was took place. The

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<sup>1</sup> The “Washington Consensus” do not depend on a date or a declaration or an issuing of resolution etc. It is rather a process spread to period of about ten years. The name and the concept of “Washington Consensus” was later formulated by J. Williamson (ed.) (1990). The principles of the consensus were academically supported by a new concept of “Monetary Policy” formulated by the lead economist; Prof. Milton Freidman. The consensus can be summarized under the headings of i) Fiscal Discipline, ii) Reordering Public Priorities, iii) Tax Reform, iv) Liberalizing Interest Rates, v) A Competitive Exchange Rate, vi) Trade Liberalization, vii) Liberalization of Inward Foreign Direct Investment, viii) Privatization, ix) Deregulation x) Protection of Property Rights.

percentage of population living in rural areas was 80% in 1940's whereas the same number now is hardly exceeding 30%. This vast migration caused income and population polarization in the country.

The liberated and deregulated agriculture in Turkey is open to world tendencies. The policies implied by World Trade Organization (WTO) and especially after mid 1990's following the Turkey's acceptance of admission to the European Community the external tendencies became growingly effecting Turkey's agriculture in general and consecutively the rural life.

### ***1.2.2. Collapse of the Eastern Block and Globalization:***

In early 1990's the world economy have been effected from another development; the sudden collapse of the eastern block. The collapse of eastern block not only effected the countries belonging to the block but also has its effects on the conceptual understanding of economic development. Providing an economic development by means of high trade tariffs and protecting in-county industries became an out of date phenomenon. Briefly, it was replaced by free flow of money and goods. Liberalization of the foreign direct investment (thereafter shall be referred as FDI) was another policy supported by the governments.

It must be noted that Turkey has its timely advantages over the former eastern block countries by liberalizing the economy and trade relations in early 1980's. Although eastern European countries has higher potential of human capital, the trade environment, international trade relations, per capita domestic product were the issues that make Turkey superior to the alternatives for FDI. In this context, Turkey attracted more FDI and the consecutively the retail sector had far more investments.

#### 1.4. Importance of FFV production at its distribution process

The differences between consumer prices and production prices of FFVs have always caused a debate in Turkey. The difference may not be worth of a discussion if the subject commodities were other than FFVs. As the location in the world provides Turkey a suitable climate for the food production, and FFVs has a large share household nutrition and subsequently in household income. In 1978-1979, the Turkish consumption behavior of food is very different from the consumption behavior of the households in Europe and North America. The Turkish households in urban locations spent roughly 44% of their disposable income to nutrition and 8.3% FFVs, in 1978-1979<sup>2</sup>. This figure was changing with respect to income groups. For low income groups (2,000-2,999 TL/month taken as an example) the percentage of nutrition expenditures in the wholesale disposable income is 20.1% and FFV expenditures is 4.1%. For upper-middle income groups (20,000 – 24,999 TL/month income group taken as an example) these percentages are 46.8% for total nutrition and 19.7 % for FFVs. So it might be stated that as the income increases the expenditure to food and particularly to FFVs increases. On However the income elasticity for demand for FFVs in United States was calculated as 0.18, 0.14 and 0.39 for low, medium and high income groups respectively (C.B. Darrah 1967, p. 41). Therefore for 1980's it might be stated that, (i) there is a tendency in Turkey to consume more food thus FFVs, as income increases, (ii) The Turkish households in urban areas spend a substantial percentage of their income to nutrition. Therefore FFVs have particular importance in the Turkish household budget.

However the consumption pattern changed in Turkey in 2010. As per the TUIK household statistics the households pay 31.9%, 26,8%, 21.4%, 21.2% and 16,7% of income to food in low, lower-middle, middle, upper-middle and upper income

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<sup>2</sup> Those and the proceeding numbers for Turkey are taken from: T.C. Başbakanlık Devlet İstatistik Enstitüsü, *Kentsel Yerler Hanehalkı Gelir ve Tüketim Harcamaları Anket Sonuçları, 1978-1979*. Ankara Devlet İstatistik Enstitüsü Yayınları, No: 999, 1982,pp.40-43

groups respectively<sup>3</sup>. The differences between 1980's and 2010's figures clearly indicates that the food consumption pattern in Turkey showing the signs of a drift from an overall unsatisfied demand to satisfied demand, and approaches to the scheme of the developed countries. In parallel with the demand, also the supply is expected to be more selective. This entails a substantial change in the supply in this period, together with demand.

As it has been stated, there is a great difference between production and consumer prices of FFVs. The public accuses the middleman and asks from the municipalities to eliminate the middleman. This public debate is repeated every year beginning during late May and early June; when FFVs become most copious and continues till the end of September. The problem which perceived by the public as solvable by the municipalities, has many dimensions. First of all, the prices are set before the commodity comes to the city. Every link of the chain of distribution process affects the level of prices, the quality of crops delivered to the wholesale markets of cities. Besides the wholesale markets may be consumer wholesale markets or production wholesale markets. The wholesale process at production places is completely different from the wholesale process at consumption markets. The distribution process which seems to have its effect only on the consumer prices, has influences on many other items. The distribution process itself might be a policy issue for the production of agricultural goods. That is to say, the distribution process highly affects the production style and the producer. In most crops distribution chains are subject to state interferences to sustain the national policies of production of these crops. So the style of distribution process highly affects the production style. In the absence of government interference, the internal dynamics that effects production is one of the crucial issues to be solved. The flow of money originating from FFV production and distribution is important from the national development point of view. The

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<sup>3</sup> The figures for 2010 are taken from TÜİK's website, <http://www.tuik.gov.tr>. It must also be indicated that figures are not cumulative and depend on quantiles of rank size distribution.

possibility of capital accumulation and investibility of this accumulation show their effects on material development.

Consumption commodity distribution facilities are one of the land-uses which has importance in the urban sprawl. The cause-and-effect relationships behind of different land-uses are important from the viewpoint of metropolitan plan making, and wholesale marketing and distribution of FFVs inevitably effects the urban structure. The copiousness of FFVs takes public attention to export possibilities. However for exporting FFVs, processing; that is aggregation, sorting, packing, and similar services are very crucial. The conformability of distribution entities to those services plays an important role on exportation. In other words, the service performance of distribution process affects the possibility of exportation.

In brief, the distribution process of FFVs are important from several points. In spite of this importance, the structure of the process is not completely known. One of the aims of the study is to enlighten the characteristics of this process as possible.

The distribution process also effects the production process. As shall be emphasized in the proceeding parts of the study, the new order of retail and its supply chain has direct and determinant effect on the production style. Development of retail investments and their supply chain made a substantial changes not only in the distribution process, but also in production.

### **1.5. The effects of new patterns of consumption behavior on FFV distribution**

As mentioned earlier, the study extends to a time span of thirty years. Considerable changes happened in this time span with respect to FFV distribution process. The most important of these changes is Turkey in general changed from a predominantly rural society to an urban one. The total population of settlements



which has more than 10,000 inhabitants increased from 20,330,265 in 1980, to 53,450,850 in 2010, from 45.44% of the total population to 73.66% respectively.<sup>4</sup>The level of ‘urbanization’ is not limited with the intensity of change in figures. Also access to market, information, capital, and the development in the general intellectual level of the population contributed to a substantial change in the consumption behavior.

The response to this change in the consumption behavior entailed a extensive transformation of the supply side. Beginning early in 1950’s retail chains had a very stable growth until 1980’s. After 1980’s development of retail chains accelerated reaching impetus after 1990’s and growing very rapidly ever since.

These developments in the demand and supply sided of FFV consumption gave birth to new structures of distribution channels.

## **1.6. The Content of the Study**

The content of the initial phase of the study is two folded. First is to describe the distribution process of FFVs, and analyze the casual network behind it, and how it changed in a span of thirty years. The second intention of this study is to mark the role of actors in the process.

For the initial part is was the aim of the author to make a clear description of the FFV distribution picture and its impact on municipalities; as municipalities were responsible for providing the media of FFV wholesale and has obligations of providing sanitary conditions of FFV marketing.

As for the reconstructed part and for the overall of the study the main aim is to define the present situation of the actors involved in the FFV distribution and present the actual winners and losers, their relations with their environment, asses

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<sup>4</sup> K.Demir and S.Çabuk, p. 205.

their potentials for the future if there are any, and highlight the areas for the better performance of the system. The focus shall be the new developments in the consumption behavior, spread of supermarket chains and their supply procedures, the relations with the producer and articulation of traditional distribution pattern of FFVs to this contemporary structure.

### **1.7. Difficulties and Limitations of the Study**

For the initial part, written documents about the distribution of FFVs are very limited. The reason for this is related to the difficulties in collecting valuable data. The merchant, commission agents, etc., are performing their jobs breaching their legal obligations, and making use of the weakness of producers, and in the overall against the welfare of the public. In this respect, they prefer to be closed to the outside environment.

Another difficulty arose in the data present at the municipalities and government agencies. As the activities continuing in FFV distribution process are not fully disclosed to the public, both the municipality and the government data collection process do not reflect transactions take place. Also there is no consistency in the data prepared by different municipalities for various purposes. So the study is limited with the data available, the other studies made in the past and secondary sources of data.

### **1.8. The Method of the Study**

Previously, it has been stated that in related literature FFV marketing hasn't been conceptualized successfully and a theoretical framework had not been used. There are reasons for that. The study field is in an intersection of many disciplines; economics, agricultural economics, agricultural policy, marketing, firm management, administration of urban areas, etc. So testing a theory or a

substantial hypothesis is not possible. It is not a contribution to a framework of a well-studied problem such as housing. The aim and intention is to use a comprehensive description of an ongoing process. So it is neither logical nor fruitful to use a a single theoretical framework.

The research method that is used has its own distinctiveness. It has been stated that this study is a multi-disciplinary study and the references used is a reflection of that. The same thing is true measuring methods of different interest groups. Interest groups are more than one and even within one interest group differences in expectations for future; firm level behavior, etc. are present. This caused a problem in collecting data within a defined format; such as applying a questionnaire survey. Besides the most important reason for not applying a questionnaire survey is the reluctant attitude of middlemen's against data collection. Instead, a wide range of interviews were performed. To check the consistency of the answers given to interview questions the answers of other similar interest groups were used. In cases where inconsistencies were observed the available official data were used.

In the selection of the study regions every link of the distribution chain was taken into account. Ankara, of course, was a great consumer center and fortunately the dwelling location of the author of this study. Bursa is a location of important production in summer season, a consumer market center and the author was familiar to this city due to another research project on small scale industries. A selection had to be made between Mersin and Antalya, in which both cities has various kinds of FFVs extents to the whole year. Mersin was favored because of its potential for being an export port. Formerly, İstanbul was excluded, but the presence of the unique retail chain store firm of Turkey, namely MIGROS made it compulsory to include this city as an observation case. Migros also analyzed in the reconstructed part as an example of a rapid growing retail chain store firm.

## **1.9. General Outline of the Study**

As the study embraces a timeline analysis of a period of thirty the initial and the final parts were considered separately. Following the introductory chapter second, third and fourth chapters were reflecting the situation of FFV distribution in early 1980's. As mentioned earlier, in order to give a good picture of the distribution chain in early 1980's, the parts of the study with respect to this period kept unchanged. Whereas the fifth and sixth chapter analyses the changing roles and attitudes of the actors in the process.

The second chapter intends to figure out the habitat of distribution of FFVs. The product and the producer, necessary services of distribution and consumer behavior are the facts that affect the structure of distribution process.

The third chapter examines the structure of paths of distribution and the causal relations behind it.

The fourth chapter analyses the role of municipality in FFV distribution; how it affects and how it is affected from the distribution process. The case of Ankara was examined and comparisons were made with other cities.

The fifth chapter analyses the actors involved in FFV distribution within the past thirty years and try to picture the development of the involved actors in this period. The developments in the case of Migros firm shall also be analyzed. In this chapter a relatively new concept of contract farming shall also be addressed.

In the concluding chapter a policy appraisal of FFV distribution was made from various viewpoints. The chapter begins with the assessments made in 1980's and follows with a thorough analysis of traditional and contemporary modes of distribution of FFVs and together with an assessment of arising potentials for the future.

## **CHAPTER 2**

### **THE HABITAT OF DISTRIBUTION OF FFVs**

Every consumption good, when its distribution in question, has a habitat of distribution determined by the characteristics of the product. The characteristics of the product determine a production style, but more than that a producer type, which will face with the distribution process. That is the backward link of the production. Secondly it requires a service performance from the distribution channels. This is very important when the commodity is perishable such as FFVs. Thirdly it determines the consumption pattern of that commodity that is the forward link of the distribution. All these three create a habitat for the distribution to take place. In this chapter the intention is to describe this habitat whereby the distribution of FFVs take place.

#### **2.1. Characteristics of FFV Production and the Producer**

Horticultural crops, compared with agricultural crops have differences in production. In other words, horticultural crops have certain requirements in production that agricultural crops do not have. These requirements may be brought together under, (i) ecological, and (ii) economical factors. The location of production, water requirement, climatic factors and type of soil are ecological factors of production (K. Bayraktar, 1966, pp. 74-77) and has importance in

cultivation. The water requirement to wheat is five months (from January to the end of May) where as citrus fruit requires water for a period of eleven months (T.C. Köyişleri Bakanlığı, Toprak Su Genel Müdürlüğü, 1977 pp. 45-46). The effect of ambient temperature can be given as another example for sensitiveness of horticultural production to ecological factors: In laboratory conditions the yield for tomatoes are 5.6, 6.0 and 7.2 kilograms per square meter with continuous ambient temperatures of 13, 15 and 18°C, respectively (K. Bayraktar, 1966, p. 178).

Beyond ecological factors, the economical factors have important role in horticultural production. The commodities produced are perishable and market conditions such as distance to the market, size of the market, transportation opportunities available shows their impact on the decision whether to produce agricultural crops or horticultural crops on limited cultivatable lands.

Besides the sensitivity of horticultural products to time in marketing there are other economical factors affect the selection cited above. For Turkey in general, cereals such as wheat give a yield of 187.5 kg per decare (T.C. Devlet İstatistik Enstitüsü, 1979, p. 4). For Çukurova region, e.g. for Adana province this average is 329.2 kg. per decare, which has a monetary value equal to 7,900.-TL. with official prices of 24.- TL per kg. In the same province vegetables give a yield of 2,255.6 kg. per decare (T.C. Devlet İstatistik Enstitüsü, 1979, p. 31) which makes 22,556.- TL. with an assumption of 10.- TL per kg.<sup>5</sup> A tendency towards producing vegetables instead of field cultivation might be expected but it is not the case. There are consecutive reasons as an obstacle to this tendency.

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<sup>5</sup> The prices are June 1982 prices. The price index between June 1982 and January 2012 is 0,02526143 including the revaluation of Turkish lira in January 2005. Source: <http://www.dpt.gov.tr/PortalDesign/PortalControls/WebIcerikGosterim.aspx?Enc=83D5A6FF03C7B4FC5A73E5CFAD2D9676> accessed on February 23rd, 2012.

One of the reasons that might be put forward is the necessary labor force is higher in vegetable production than in agricultural production. It is limited to convert the necessary force to machine force in vegetable production whereas in cereal production this convertibility is 100%. In vegetable production it is not absolutely possible to convert the necessary force to hoeing that must be done periodically during the grow-up period of crop or parceling the land and digging the irrigation furrows. This characteristic makes vegetable production labor intensive.

The level of knowledge of the producer is also important in vegetable production. To gain the benefits of early or late production the farmer uses special techniques. For early production for example, the farmer has to grow his crops in greenhouses or at least let the seed leaf in the greenhouse. Preparation of hotbeds or soil cases (Mac Gillivray, 1961, pp. 78-79, also in Bayraktar, pp. 195-208) which will leaf the seed needs an extensive knowledge. Also he has to estimate the last freeze date correctly and transplant the seedlings to the prepared field after the last freeze date. Vegetables have many peculiarities such as these. The strawberries are not accepted to the European market if mud is smeared during the irrigation (UN-GATT, 1968).

The sensitivity of the product, the knowledge in cultivation and labor intensiveness requires a special type of farmer. To show the necessary care and to avoid high labor costs, vegetable production must be done in small scale. Family farming is an adequate way of producing vegetables. The land tenure is an outcome of these peculiarities and it too has to be performed on a small piece of land in parcels, not exceeding 20 to 30 decares. If the farmer possesses land more than this amount, for example for Adana Province, the cotton cultivation becomes profitable because of the benefits accruing from machine force. Now if the discussion is taken from the other side, and “what will the farmer produce, possessing small and fertile land” is asked, among the limited answers inevitably one of them is vegetable production.

The discussion is also true for land tenancy. If landless farmer rents a land, the crop he is going to produce is vegetable if the land is fertile. If the land is not fertile the type of tenancy will be different, and instead of hiring, sharecropping will be preferred both by the tenant and the landowner. The reason is competitiveness of fertile lands is higher and using completion land owner doesn't undertake the risk of production by working with a sharecropper and prefers to hire his land and take his money in advance. The tenant is landless; do not have even a very small parcel of land, and hardly sustains his living most of the time<sup>6</sup>. Paying the land rent in advance takes of large amount from his initial capital. To undertake the costs of production, and sustain his families living he has to find extra money. To obtain credits from government mechanism of from banking system is not possible because of the lack of a reassurance<sup>7</sup>. He can only obtain credit from the usurer or pre-harvest contractor with monthly interest rate of 18% or more. The same thing is true for small farmers. The initial costs of vegetable production are high and they too had to find money during the cultivation period.

The fruits have different characteristics compared with vegetables (Shoemaker and Teskey, 1959). The trees begin to bear fruits three to six years after planting the saplings, depending to the type of tree, climatic factors, attention paid and technology used. The profitable production begins two to four years after the initial bearing. The life of the tree may last from fifteen years to thirty years or more. An example might be the citrus fruit. Citrus trees begin to bear at 3 years old, become profitable when they are 5 or 6. The peak production is between 15 and 25 and they may live 50 years or more (Shoemaker and Teskey, 1959, p.385).

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<sup>6</sup> It should be noted that there are various views on the causal linkages behind the structure of land tenancy for the case of Turkey. For more explicit information, refer to: Korkut Boratav, 1981, *Tarımsal Yapılar ve Kapitalizm*, İstanbul: Birikim Yayınları.

<sup>7</sup> The only bank the grower can go is T.C. Ziraat Bankası (Bank of Agriculture) a state owned bank. But even Ziraat Bankası too gives short term credits (for two or three months) with 22 percent yearly interest rate.



The numbers given above have importance in fruit production. The producer invests periodically for at least 5 or 6 years or more until he achieves some benefit. During this period he had to invest and must find a financial source to support his investment his investment and his living. There are two find this support. First, he might possess a size of land and begin to produce fruit on one part to cultivate, and cultivate yearly crops on the other piece. Needless to say the piece he is going to use for yearly cultivation must afford the producer's living costs and the investment he made on the other piece to fruit trees.

The second possibility of financing is using the banking system. The producer doesn't have much chance for this possibility. The turnover rate of capital is much higher in industry and in commerce than in agriculture, so the producer can not undertake the high interest rates for six or seven years. The only bank he can work with is the T.C. Ziraat Bankası (Bank of Agriculture of Turkish Republic)<sup>8</sup>, which is a state owned bank. Even the Ziraat Bankası is insufficient in one respect because in Turkey there is no official or unofficial insurance organization to undertake the agricultural risks. So actually, the two ways of finding the financial support cited above are used by the farmers at the same time.

This tendency in fruit production brings in a land tenure system and a producer type, completely different from that of vegetable production. The producer must have land to support his living and his investment. Very crudely he must possess a land more than 150-200 decares and he must plant fruit on 10 decares at least<sup>9</sup>. These conditions define a farmer whose wealth is higher than the average farmer. In fruit production tenancy of land is not possible. Briefly, the fruit grower is a self-sufficient producer, who is the opposite of the vegetable producer in this respect.

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<sup>8</sup> Ziraat Bankası gives long term credits with 10% yearly interest rate and grace period for 7 years.

<sup>9</sup> This calculation is hypothetically. It is assumed that a field which gives a yield of 300 kg/da of cereals will give 1 million TL, and it is to support a producer family and fruit garden.

The important characteristic differences in the producer and the production process between fruits and vegetables are reflected on the marketing mechanism of those crops. An example might highlight the position of the farmer against the marketing mechanism. The example will be a tomato producer, and following assumptions must be considered:

**Assumption-1:** The land that the producer is going to use is hired. The amount of land hired is 10 decares and the land rent is 6,000 TL. per decare. This land gives a yield of 4,500 kg/da tomatoes with 8,000 TL investment per decare<sup>10</sup>.

**Assumption-2:** The initial capital of the farmer is 100,000 TL and the rest of money he needs is lent by the usurer with monthly interest rate of 18%<sup>11</sup>.

**Assumption-3:** Cultivation period is three months and the wholesale market price of the commodity is 20 TL/kg at Ankara Wholesale FFV Market.<sup>12</sup>

Within the assumptions given above the costs associated with the production process can be observed in Table 1.

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<sup>10</sup> The numbers in Assumption-1 are observed in 1982 Mr. Murat KAPTAN; a government officer working for MEYSEB unit of T.C. Gıda, Tarım ve Hayvancılık Bakanlığı (Ministry of Food, Agriculture and Animal Husbandry) at Mersin.

<sup>11</sup> The initial capital is hypothetical, but it is logical that a landless farmer not to have initial capital more than 1,000,000.- TL. The 18% interest rate is a realistic figure in Çukurova region. The former Mayor of Mersin, Mr. Kaya MUTLU, stated this number. Also Mr. Murat Kaptan re-assured this number. For further information refer to: M.Kaptan Kaptangil, "Toptancı Halleri ve Kooperatifçilik", *Ziraat Ekonomisi Dergisi*, 1980, Sayı :30-31, Ocak-Mayıs, pp. 21-22.

<sup>12</sup> This price is actually observed at Ankara Fresh Fruit and Vegetable Wholesale Market, during June and July, 1982.

Table 1: The Hypothetical Allocation of Value Created by a Vegetable Producer  
(in TL)

	<i>in 1982 prices</i>	<i>in 2012 prices<sup>(*)</sup></i>
<b>The value of product at Ankara Wholesale Market</b>	<b>900.000</b>	<b>22.735,3</b>
<b>The Cost of Production</b>	<b>-240.000</b>	<b>-6.063</b>
<i>Land Rent</i>	<i>-60.000</i>	<i>-1.516</i>
<i>Production Cost</i>	<i>-180.000</i>	<i>-4.547</i>
<b>Capital Cost</b>	<b>-315.600</b>	<b>-7.972,5</b>
<i>Initial Capital</i>	<i>-100.000</i>	<i>-2.526</i>
<i>Hired Capital + Interest</i>	<i>-215.600</i>	<i>-5.446</i>
<b>Transport Costs</b>	<b>-175.000</b>	<b>-4.421</b>
<b>To Commission Agent in Ankara Wholesale Market</b>	<b>-72.000</b>	<b>-1.819</b>
<b>Municipal Tax Duty</b>	<b>-27.000</b>	<b>-682</b>
<b>Producer's Net Earnings</b>	<b>70.400</b>	<b>1.778</b>
<b>Producers Yearly Earnings (TL)</b>	<b>281.600</b>	<b>7.113,6</b>
<b>Percentage of producers' earnings to total value:</b>	<b>7,82%</b>	<b>7,82%</b>
<b>Turnover rate of initial capital:</b>		
<i>for three months</i>	<i>70,4 %</i>	<i>70,4 %</i>
<i>yearly</i>	<i>281,6 %</i>	<i>281,6 %</i>
<b>Turnover rate of total capital:</b>		
<i>for three months</i>	<i>35,1 %</i>	<i>35,1 %</i>
<i>yearly</i>	<i>140,3 %</i>	<i>140,3 %</i>

(\*) The price index between June 1982 and January 2012 is 0,02526143 including the revaluation of Turkish lira in January 2005. Source: <http://www.dpt.gov.tr/PortalDesign/PortalControls/WebIcerikGosterim.aspx?Enc=83D5A6FF03C7B4FC5A73E5CFAD2D9676> accessed on February 3<sup>rd</sup>, 2012.

The table shows interesting results. The overall turnover rate in vegetable production is very high. The producer can undertake the high interest rate of money hired from the usurer. But it should be noted that this turnover rate realizes

in family type of production and capital accumulation cannot be utilized in a production at a bigger scale. It should also be noted that the yearly earnings shown on the Table 1 cannot realize because of the losses happening frequently. So further capital accumulation is almost impossible. A change to better cultivation should not be expected in vegetable production.

Within these limitations, the vegetable producer cannot establish an organization for marketing, such as a cooperative. He may establish cooperatives or join cooperatives to obtain inputs but does not risk his product in marketing with the cooperatives. In marketing he would prefer a commission agent experienced, either in the assembly market or in the distribution market. The closeness of relations with one commission agent decreases the marketing risk. Another way of securing himself from the marketing risks is pre-harvest contracting. In this process, the producer bargains with the pre-harvest contractor in advance and sells his product before it is grown. The risks of heavy rain or freeze damages will belong to the contractor, so the bargaining power of the producer is too weak. Pre-harvest contracting is less profitable marketing type compared with marketing by the use of a commission agent, in vegetable production.

Both marketing types are valid for fruits too. The basic difference is that the fruit grower is more powerful than the vegetable producer. So the bargaining power of the grower is higher. The fruit grower prefers pre-harvest contracting. The reason for this choice is that the grower doesn't want to be affected from the fluctuations of price and pick the fruit in the most appropriate time. It is difficult for the producer to be as successful as the contractor. Depending upon the region there is the possibility of fruit growers unite as cooperatives in marketing.

The producer in front of marketing problem will be analyzed deeply further in the text after the marketing channels are defined explicitly. For now it must be the producer in Turkey is weak in marketing, and because of the reasons cited above, are very reluctant in establishing marketing organizations.

## **2.2. Necessary Services Performed By Distributors**

The distributors, defined as people or the entities which undertakes and provides the transfer of a commodity from the production place to consumption location, perform some services. The first service is to convert the heap of product to consumable size and quality; that is packing.

Second comes from the definition of the distributors; the transportation. Third service is storage service which must be handled not only by the distributors but also by everyone concerned, even the consumer. Those services are described below.

### **2.2.1. Packing**

The packing is the service whose purpose is to convert the product into consumable size and quality. The product is perishable and any small damage on the product will destroy the whole case. So packing is extremely important in FFV marketing.

The case that the crop will be put is obtained by the distributor (may be merchant, commission agent, etc.) to the producer. The cases for vegetables are mesh sacks or wooden cases. In most European countries in the United States, in other words cardboard cases are used. The following table shows the use of wooden or cardboard case usage in percentages.

Table 2: The packing cases used in FFV packing in several countries (as percentages)

	Wood	Cardboard
Algeria	100	-
Austrilia	60	40
Belgium	80	20
Bulgaria	95	5
France	90	10
Greece	90	10
Israel	80	20
Italy	90	10
Latin America	95	5
Morocco	95	5
Netherlands	50	50
New Zealand	60	40
South Africa	60	40
Switzerland	100	-
Tunisia	95	5
Turkey	95	5
United Kingdom	60	40
United States	50	50
Yugoslavia	98	2

Source: United Nations Industrial Development Organization (UNIDO), *Wood as a Packing Material in the Developing Countries*, New York: United Nations, 1972, p.2.

As can be seen from the table above the importers of FFV show a trend toward using cardboard cases. The reason is that the wooden packs can be used several times where as the cardboard cases can be used once. In intra-national marketing the use of cases for several times may be possible but in international marketing it is impossible. For a single use cardboard is cheap but for several uses the wooden case becomes cheaper.

The ownership of cases is important. Wooden cases are used in Turkey, and financially it is impossible to support the wooden cases for the producer. Even if

he can finance it, he cannot control its turning back from the retailer. So providing cases becomes another reason for the producer to be dependent on the distributor. The qualities of cardboards available in Turkey are not suitable for packing FFVs.

The packing is done either at the harvest place or at the packinghouse of merchants. In packing, the production is sorted according to size and quality, and damaged pieces must be eliminated. During the harvest, or better to say during the picking process, the damaged pieces are eliminated and cases are filled with products classified in quality and size. Of course this is done very roughly. If merchant buys the product, the picked product is filled into baskets and transferred to the packinghouse of the merchant. The packinghouse may be mechanized and has temperature control or may be very simple. In Mersin city there are 400 packinghouses of which only 20 are mechanized, others being primitive.<sup>13</sup> In the packinghouses the suitable temperature for transportation is obtained and the product is sorted according to its quality and size. The sorted product has an increase in value 30 to 100 percent. This service is performed largely by merchants, other than one or two packinghouses founded by large cooperatives. The producer cannot use a packinghouse even if he is likely to pay for it, unless he sells his product to the merchant. Like wooden cases, packinghouse facilities too are the reasons for the producer be dependent to the distributors.

### ***2.2.2. Transportation***

In Turkey, FFVs are transferred from one place to another, mainly by trucks. The quantities delivered to Ankara Wholesale Market are 99% by trucks, 1% by rail<sup>14</sup>.

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<sup>13</sup> Interview with Mr. Murat KAPTAN.

<sup>14</sup> This number is taken from the Head of The Directorate of Fresh Fruit and table Wholesale Market of Ankara, Mr. Feyzullah ÖZCAN.

In 1960 delivery to the İstanbul Wholesale Market was 30% by highway transportation, 70% by sea<sup>15</sup>. Today all of the delivery is made by trucks<sup>16</sup>.

There are simple reasons for the use of trucks in marketing FFVs. First of all, highway transportation diminishes the risks and travel time, although it has higher costs compared to rail or sea. Secondly, highway transportation is available every time and everywhere. The user; the producer and or the middleman may find a truck from the nearest center, which is even in the extreme cases do not exceed 30 km. from the farm. When perishability is important this characteristic becomes an obvious advantage. Thirdly, trucks can reach to any place. The farmer can bargain with the driver and take the truck to his farm, and after loading, the truck may depart directly to the marketplace. So highway transportation provides door-to-door transportation. The lack of loading/re-loading problems, which will be faced in other means of transport (pilferage or damaging in loading), makes highway transportation preferable.

Besides the reasons cited above, travel time may be the most important of all. As because of the perishability of the FFVs, the product must be handled as soon as possible. It has importance in profit maximization of the distributor. Distributor makes his contracts with farmers so that he can receive a continuous and uniform flow of commodities to the market. Any frictions on this flow may cause him heavy losses. Highway transportation provides him this uniform flow compared with sea or railway transport. Briefly, with the advantages of low risks and short travel time, highway transportation is favored to sea or rail in marketing FFVs, although it has higher costs.

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<sup>15</sup> J. Kenneth Samuels (1960), *The Report for Proposal to Fresh Fruit and Vegetable Marketing in Turkey* (The publication place and other information is not available).

<sup>16</sup> This number is taken from the Fresh Fruit and Vegetable Market Directorate of İstanbul Municipality.



Highway transportation in Turkey is performed usually by single owner – single driver truckers, having a rural background. The vehicles are trucks with loading capacities 8 to 12 tons. Those vehicles are suitable for bad road conditions and can penetrate to farms easily. They have the advantages of operating in narrow farm roads compared with trailer-carriers, which have carrying capacities up to 40 tons.

The truckers are not organized as firms. A limited number of them are organized in trucking cooperatives (Okuy, 1980, p.4), but these cooperatives do not enter into FFV business. Instead trucking commissioner, work as transport firms. They work with 15 % of the truckers' revenue. The FFV distributors; merchants, commission agents, etc., establish ties with these truck commissioners. Truck commissioners provide the distributor the expected transportation service. They are in this business and can select the appropriate trucker that can provide the service. For example, the trucking commissioners hardly accept a truck to FFV business if the make of the truck is not Ford D-1210; produced in Turkey and most suitable for FFVs due to its capacity and capability. They have a list of business performance of truckers and can make their selection by using this list.

Another item which is very important for the FFV product transportation in Turkey is that almost none of the vehicles active in the business are equipped with refrigeration. There are some refrigerated trailer-trucks but most of them are used for overseas haulage. Nevertheless, in FFV carrying the loading temperature and transport temperature are extremely important. The temperature requirements for FFVs during the transport are given in Table 3.

Table 3: Temperature Requirements for FFVs during Transport.

Product	Maximum Loading Temperature		Recommended Transport Temperature	
	°F	°C	°F	°C
Apples	No recommendation		37-50	+3 - +16
Apricots	36	+2	32-36	0 - +12
Bananas	54	+12	54-55	+12 - +13
Beans, green	Transport not recommended beyond 4 days			
Carrots, winter	68	+20	32-68	+12 - +13
Cauliflower	39	+4	32-39	0 - +4
Cherries	Transport not recommended beyond 3 days			
Cucumbers	50	+10	45-50	7 - +10
Grapes	43	+6	32-43	0 - +6
Lemons and Grapefruit	54-59	+12 - +15	46-59	8 - +15
Lettuce	39	+4	32-39	0 - +4
Mandarins	46	+8	36-46	2 - +8
Melons	46-50	+8	39-50	4 - +10
Onions	59	+15	30-59	-1 - +15
Oranges	50	+10	39-50	4 - 10
Peaches	38	+3	32-38	0 - +3
Pears	38	+3	32-38	0 - +3
Peas in pod	Transport not recommended beyond 4 days			
Pineapples	50	+10	50-52	+10 - +11
Plums	38	+3	32-38	0 - +3
Potatoes	-	-	46-68	+5 - +20
Strawberries	Transport not recommended beyond 2 days			
Tomatoes (turning) (ripe)	59	+15	50-59	+10 - +15
	Transport not recommended beyond 4 days			

Source: J.C. Abbott (1970), *Marketing Fruit and Vegetables*, Rome: FAO, p. 48.

Briefly, transportation of FFVs are performed in primitive conditions and unorganized way. The reasons widely dependent on the structure of the distributors.

### 2.2.3. Storage

It is known that FFVs are perishable. For this reason storage can only be made in a cold environment. This causes an increase in the costs of storage. In Table 4 the storage conditions of some selected fruits are given.

As can be seen from the table fresh fruits have very different storage recommendations and storage lives. Providing these conditions, cold stores must have additional features, subsequently resulting in higher investment costs.

Two types of benefit might be expected from the cold storage (Abbot, 1970, p. 51). One of them is the short term benefit; daily or weekly price fluctuations can be adjusted by the use of cold stores. The other is the long term benefit that is provided by marketing off-season crops by the use of cold stores. However, in order to obtain the cold storing benefits the market has to be large enough. If the cold stores are planted to places below this scale they will be left empty.

Until recently, the cold storage capacity in Turkey was very low. Today it is still low. As compared to the 10.8 million cubic meter capacity of France, Turkey has only 650.000 cubic meters<sup>17</sup>. A large percentage of the given number has a very little range of temperature change. For years the natural caves at Nevşehir region were used as cold stores, and are still in use. Nowadays a trend to constructing cold stores began. The reason is the foreign market rather than the domestic market. Shipment problem at export ports of Turkey created the necessity of cold stores. Within past five years the cold store construction at Mersin city highly increased.

An example from Bursa might be interesting. A firm named BUZTAŞ was founded recently and constructed a cold store for the purpose of exporting<sup>18</sup>. At the time the firm couldn't manage to export anything so the firm began to work for the national market. The firm rented the cold store to merchants and to growers of that region. At the same time the firm worked as a merchant and made profits from the price fluctuations by the use of the cold store.

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<sup>17</sup> **Milliyet**, January 4th, 1983.

<sup>18</sup> This information is taken from Mr. Mustafa Diler, a producer at Bursa region.

Table 4: Recommended storage conditions and experienced storage life for fresh fruits

Product		Temperature		Relative Humidity (%)	Expected Storage Life
		°F	°C		
Almonds in shell		32-45	0.7	60-75	10-12 months
Apples		30-39	-1 – 4	85-95	3-8 months
Apricots		30-32	-1 – 0	85-90	1-4 weeks
Avocados		41-55	5 - 13	85-90	2-4 weeks
Bananas	Green	53-58	11.5 - 14.5	90-95	10-20 days
	Coloured	56-61	13 – 16	85-90	5-10 days
Bilberries		30-32	-1 – 0	85-90	2-3 weeks
Blackberries		30-32	-1 – 0	90	5-7 days
Black Currants		30-32	-1 – 0	90	1-2 weeks
Cashew apples		32-35	0 - 1.5	85-90	4-5 weeks
Cherries		30-32	-1 – 0	85-90	1-4 weeks
Cheshnuts		32	0	70	8-12 months
Coconuts		32	0	80-85	1-2 months
Cranberries		36-40	2-4,5	90	1-3 months
Figs		30-32	-1 – 0	90	7-14 days
Gooseberries		32	0	90	2-3 weeks
Grapes		30-32	-1 – 0	85-90	3 weeks to 5 months
Grapefruits		40-60	4.5 – 15.5	85-90	3 weeks to 3 months
Guavas		45-50	7-10	85-90	3-4 weeks
Lemons	Green	52-58	11 – 14.5	85-90	1-4 months
	Coloured	39-50	4 – 10	85-90	3-6 weeks
Limes		46-50	8 – 10	85-90	3-8 weeks
Litchi fruit		32-35	0 – 1.5	85-90	5-11 weeks
Loganberries		32	0	90	7 days
Mandarins		39-45	4 – 7	85-90	3-12 weeks
Mangoes		45-50	7 – 10	85-90	4-7 weeks
Mangosteens		39-42	4 – 5.5	85-90	7 weeks
Melons		32-50	0 – 10	85-90	1-7 weeks
	Honeydew	59-70	15 - 21	70-80	2-6 months
	Watermelon	36-40	2-4	85-90	2-3 weeks
Nectarines		30-32	-1 – 0	85-90	3-7 weeks
Nuts	Chesnuts	32	0	70	8-12 months
	Others	45	7	70	1 year
Oranges		30-45	-1 – 7	85-90	1-6 months
Passion fruit		42-45	5.5 – 7	80-85	4-5 months
Papaya		39-50	4 – 10	85-90	2-5 weeks
Peaches		30-34	-1 – 1	85-90	1-8 months
Pears		29-35	-1.5 – 1.5	85-90	1-7 months
Pessimmons		30-32	-1 – 0	85-90	1-2 months
Pineapple	Green	50	10	90	2-4 weeks
	Ripe	40-50	4.5 – 10	85-90	2-6 weeks
Plums		31-34	-0.5 – 1	85-90	2-8 weeks

Table 4: Recommended storage conditions and experienced storage life for fresh fruits (Continued)

Product	Temperature		Relative Humidity (%)	Expected Storage Life
	°F	°C		
<b>Pomegranates</b>	34-36	1-2	90	2-4 months
<b>Quinces</b>	32-39	0 – 4	90	2-3 months
<b>Raspberries</b>	32	0	85-90	3-5 days
<b>Red currants</b>	32-0	0	90	2-3 weeks
<b>Strawberries</b>	32	0	85-90	1-5 days

Source: J.C. Abbot (1970), Marketing Fruit and Vegetables, Rome: FAO, p. 51.

In contrary to packinghouse facilities, the producers can make the use of the cold stores. They may lend cold stores or a part of it and examine the price fluctuations to achieve maximum value for their product. The trend to the use of cold stores is very new and the knowledge about them is too limited to make a healthy interpretation.

Up to here services that must be performed by the distributors were summarized. The necessary explanations will be continued after defining the types of distribution channels.

### 2.3. Consumption Pattern of FFVs

Consumption media is the forward link of the distribution. In this section the retail pattern the distributors side will be given.

In major Turkish cities, FFVs are sold in three kinds of retail units: i) Green grocers, ii) Bazaar's and iii) Supermarkets.

Greengrocer (Manav) is the name of the shop which only FFVs are sold. Those are very small shops and the shopkeeper must have a delivery of commodities everyday nevertheless of the size of his capital (Tekeli, Gülöksüz and Okyay, 1976, p. 177). This characteristic makes him impossible to sell another commodity. He might face with perishing risks so his capital must be concentrated on

FFVs. This kind of retail trade is a peculiarity of Turkey because in Turkey frozen foods are not accepted by the consumers. Greengrocers are small in scale and dispersed to residential areas. Nowadays this retail trade shows a decline because of newly established supermarkets and increase in operation costs.

Bazaar (Pazar) is a market place established once or twice a week at permanent locations. Mostly FFVs are sold at bazaars. The retailers of bazaars lend places in two or three separate bazaar location and wanders from one to another through the whole week long. The bazaar places are decided by the municipality and the operational responsibility of bazaars belongs to municipalities. A market place which would be uneconomic if it is established permanently for the retailer, becomes economical in that manner.

Supermarkets are not to be considered as supermarkets of chain stores of advanced countries. Those supermarkets in Turkey are wealthy groceries, which can afford bringing FFVs to attract consumers.

Besides the three major retail types there are outstanding types too. One of them is the wandering sellers which is very common in some Turkish cities. The seller might use a tripod or a hand-cart. In this trade the intention is diminish the shop rent costs and take the benefit of locations more than one. In Mersin the only type of retail trade is wandering sellers. The reason is FFVs are very cheap in that region so only wandering sellers can afford selling FFVs, shop keeping such as greengrocers is impossible because of low turnover rate of FFVs.

Consumer cooperatives are found very rarely in Turkey. Between the attempts, selling FFVs is not experienced because of high risks of perishing. Indeed selling FFVs is one of the possible reasons of bankruptcy of inexperienced consumer cooperatives.

Consumer market is dispersed as very small and independent retail units. Consumer market can not propose anything from the distribution channels. These

characteristics of consumer market leads the distributors perform their jobs without any interference.

## **CHAPTER 3**

### **PATHS OF DISTRIBUTION OF FFVS IN TURKEY**

In this chapter paths of distribution of FFVs will be discusse. Before making any remarks for Turkey the structure of paths in different countries will be analyzed. After highlighting the cause and effect relationship behind the distribution pattern in several countries, the case of Turkey will be examined. Analysis of legal aspects will follow the classification of the paths of the distribution. The chapter will end up with examination of the allocation of value created FFVs between interest groups.

#### **3.1. Paths of Distribution of FFVs in Different Countries**

In every country, FFVs are distributed differently. The structure of the distribution depends upon the position of the country against FFVs. A country might be an exporter or an importer of FFVs, or has a large consumption market whereas another might have a modest one; the structure of the distribution will differ depending upon this characteristics, The intention is to give this causal relationship and examples were selected in this manner.

The first example is United States. The United States is large and organized producer and consumer. In Figure 1 the distribution network has shown.



As can be seen from the figure there are two main channels at the production end. One of them is the country shippers and packers which handle the 35.5% of the FFVs handled in United States. The other one is cooperatives or cooperative associations whose share is 35.0% of the FFVs handled in United States. Both of them sell their possessing mainly to wholesale receivers and jobbers. At the terminal end there are two agencies: one of them is wholesaler firms and jobbers, the other one is chain store firms. In numbers handle 68,2 % and 26,8 % of total product, respectively. The chain stores are well-organized retail firms and it is interesting that are direct receivers of the cooperatives and farmers, As can be the working on commission basis is quite negligible (2.0%). Additionally auction markets at the production end (7.5%) have negligible importance too.

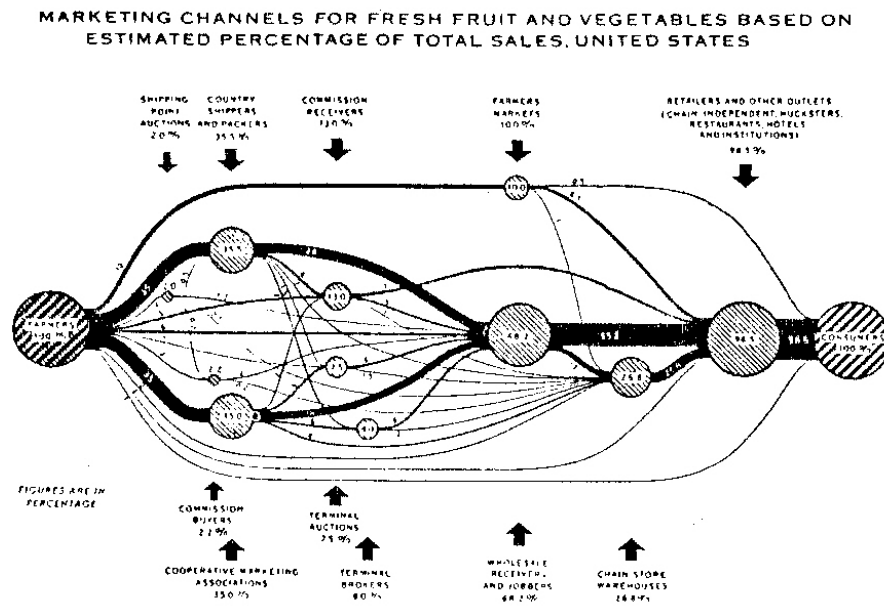


Figure 1: Marketing Channels for FFVs Based on Estimated Percentage of Total Sales, United States

Source: U.S Department of Agriculture, in W.P. Montenson (1963), *Modern Marketing of Farm Products*, Danvine, Illinois: The Interstate Printers and Publishers, Inc., p. 115.

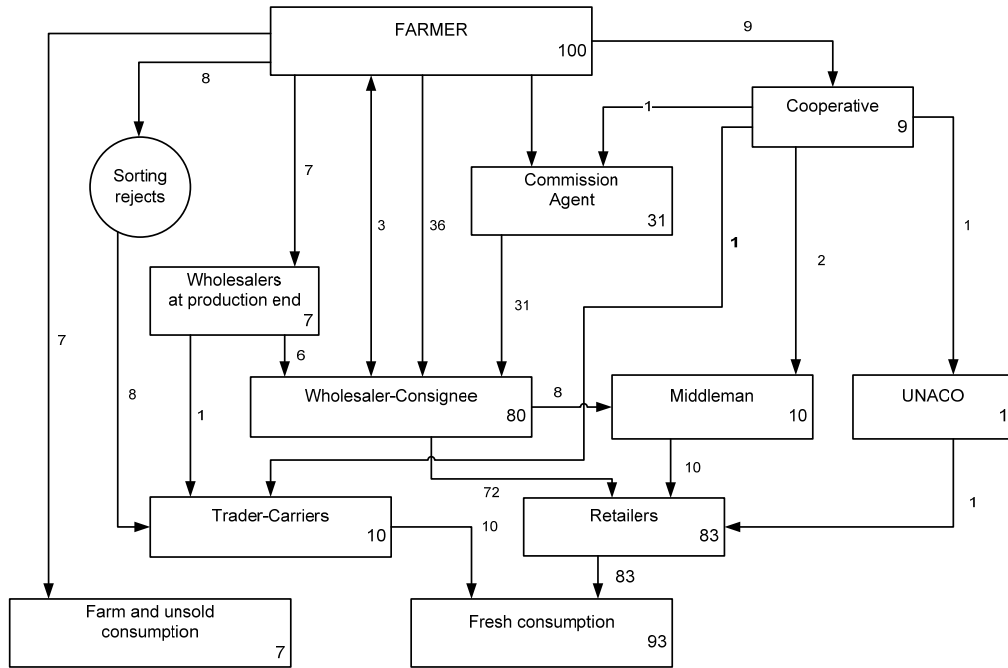
In the United States most important thing is taking the responsibility of long distance forwarding. In several kinds of wholesaling the importance is on the responsibility of transportation (Shepherd, 1962, pp. 488-492). For this reason marketing on a commission basis does not have much importance. When a dealer has a he must be very sure whom he is going to sell. For this reason jobber and wholesale receivers have relative importance. As definition joppers are the ones who buy full load and sell in small quantities (Shepherd, 1962, p. 488).

The Sunkist; citrus fruit growers association is an outstanding example (Shepher, 1962, pp. 493-494). The association was organized in 1905 and in 1959 managed to market 70 % of the citrus fruit marketed from California region. The association embraces 10,000 growers and marketing cycle organized in 128 packing centers. With a scale of that size the firm is not affected from the marketers of other kinds. This turns out to be a trustworthy organization for growers.

The second example is the marketing paths of apples in Spain. Spain is a great producer and an exporter of apples. Additionally, the development of in and Turkey is very similar. For this reason Spain may be a better example to make comparison with Turkey.

In Spain the producer can market his products himself to local retailers, to local wholesalers, to processing plants, to wholesale markets if it exists in his area or can market his products through middleman (OECD, 1975: pp. 45-49). Middle man has several types, and those types function dissimilar to each other. Commission agents work at agriculturally less advanced regions and make contracts between buyer and seller, in turn for a commission. They may work for the benefit of local buyers and persuade distant buyers to decrease their offer and cause prices go down. Wholesale stockists at the production end process warehouses and cold stores. They sell the product to terminal market wholesaler consignees and profit from this. Their scale is big and can create oligopolistic

behavior and decrease the producer prices. Exporters resemble to wholesale stockists and work for international markets, use brokers to obtain products to fulfill the contracts they made. Wholesale consignors purchase products from producers or from wholesale stockists and brokers. In any case sell packed commodities and sell to various dealers of terminal center. Speculators buy growing crops and sell after ripening. This period may range from a few days to two months, profit from fluctuations in prices, Brokers at the production end sell at the destination end. They are used mostly by processing firms or exporters. Trade-carriers buy food from farmers or at bargaining places, grade the product very roughly and sell to retailers. They are very local. Farm companies are joint groups of farmers and exporters and work as firms. They are organizations which work more efficiently than cooperatives. Also there are producer groups set up by the government to concentrate the supply, to standardize the product and increase the farmers' contribution to the market.



Direct sales by farmers to trader-carriers are usually sorting rejects

Figure 2: Marketing Channels for Apples in Spain

Source: OECD (1975), *Production and Marketing Structures for Apples in Spain*, Paris: Working Party No: 5 of Committee for Agriculture [AGR/WP5 (75) 69]

The flowchart for marketing apples in Spain is given in Figure 2. As can be seen the heart of the system is wholesaler consignees, organized at the consumer market. Commission agents and wholesalers at production end work for wholesaler consignees. The power of cooperatives is too weak and they are dependent on wholesaler-consignors at consumption market. In other words the relation of cooperatives with consumption market is very weak. The important thing is that although most of the fruit is marketed after ripened, some of them are sold on trees.

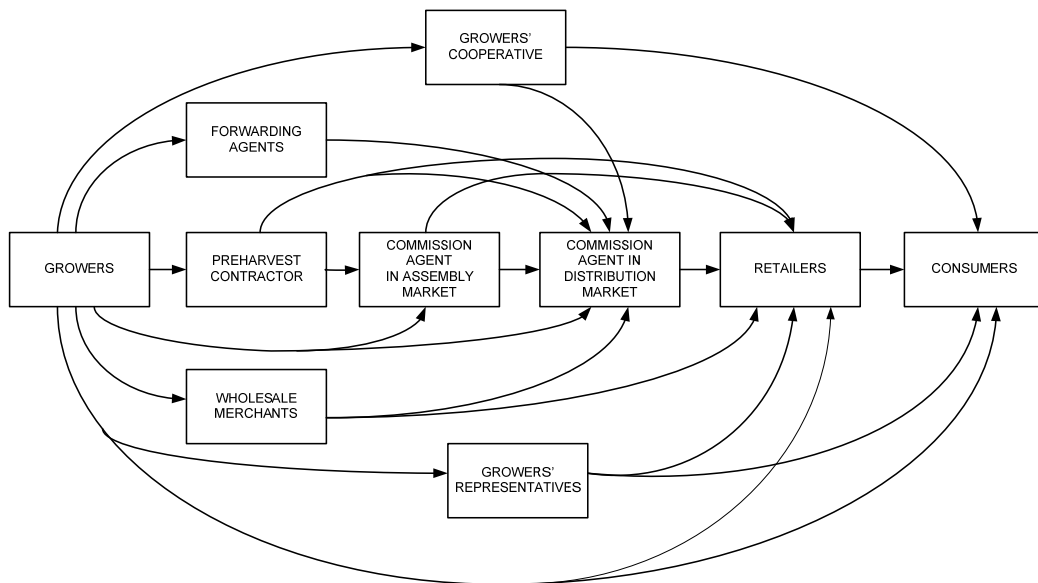


Figure 3: Fruit Marketing Channels in India

Source: ABBOT, J.C. and CREUPE LANDT, H.C. (1966), Agricultural Marketing Boards: Their Establishment and Operation, Rome, Italy: FAO Publications.

The flowchart for a different country; for India is given at Figure 3. In India preharvest contracting is very important because unofficial credit mechanisms developed to greater extent. Pre-harvest contracting is a channel to this credit mechanism.

Those examples may lead to comparisons. In the well organized example; in the United States the impact of cooperatives is high. That means the level of growers penetration into the market is high. Sunkist is a good example of this kind. It is understood that growers have the capacity to pick and in some respect pack the product. In Spain the producer in front of the distributors is weak. This means that their marketing power is weak. But the struggle to gain power in marketing began and farm companies and producer groups are evidences along this line. In India

the producer is very weak in front of marketing mechanism which is combined with unofficial credit mechanism.

### **3.2. Paths of Distribution of FFVs In Turkey**

The paths of distribution of FFVs in Turkey show resemblances to that of India. Every unit in the distribution path will be handled one by one<sup>19</sup>.

Wholesale marketers of FFVs have many varieties in Turkey but may be reduced to two: Commission Agents and Wholesale Merchants. Commission Agents are the wholesalers acting on behalf of the producers and who have shops at the wholesale market places of municipalities. In some of the municipalities depending to the necessity, there is a wholesale market place for FFVs established the municipality and it is called “hal”, coming from the French word “l'hall”, meaning aggregation.

Commission agent must work on commission basis and have the right to charge 7 or 8%, depending on whether they provide the cases of the product. They sell the products of the producers or the merchants and take charge their commission. Merchants are located outside the market place, don't have a specific legal identity other than being a common merchant by the Law of Commerce, They might have an office or a store in any part of the city and it is very hard to locate them. Some of them don't have even and wander from town to town. Some of them use their packinghouses as their offices.

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<sup>19</sup> For the case of Turkey the studies and printed material are very weak to make a successful evolution. Although it is not the purpose of the study, one of the intention is to make a satisfactory evaluation of marketing mechanism of fresh fruits and vegetables. For further information for paths of fresh fruit and vegetable in Turkey, refer to: i) M.Kaptan Kaptangil, "Toptancı Halleri ve Kooperatifçilik", Ziraat Ekonomisi Dergisi, 1980,Sayı :30-31, Ocak-Mayıs, pp. 21- 22; ii) Hasan Vural, Ankara'da Yaş ve Sebze Pazarlamasının Düzenlenmesi, Unpublished Paper, Ankara Üniversitesi Ziraat Fakültesi Diploma Sonrası Yüksek Okulu Semineri, 1982.

At terminal markets the performance of commission agents are working on commission basis, most of the time. The producers or the merchants make contracts; with these commission agents and settles the dates for the product be delivered to terminal market. The commodity arrives to the market by a truck and trucker has an enclosed letter written by the producer or the merchant to commission agent including the information who send the product, the amount of money that will be paid to the trucker and number of cases that has been send. Without this letter non of commission agents accept the load. At the Ankara Market the truck parks against the shop of the agent and trucks wait until the commodities are sold. The commodity is sold to different dealers; retailers, restaurant keepers, etc. on a price depending upon the demand and supply of the date. For this service the commission agent takes 7%, or 8% (if the case is provided by the commission agent) defined by law. When the commodities are sold the agent makes the truckers payment, deducts his commission, pays 3% municipal tax-duty and sends the remaining amount to the producer or the merchant.

Merchants work in a different manner. They buy FFVs from producers in a number of ways and send it to commission agents at terminal markets. They wander at rural places and look for producers selling their crops. For fruits, two and three months; in some cases even a year before the crop ripened, the product is sold to merchants. The merchant takes into account several factors and proposes a price for the orchard. The condition of irrigation, the use of fertilizers and disease protection, and age of the orchard are the factors he considers. The price he gives for the whole orchard is usually half or one-third of the value of the crop at the wholesale market two or more months after. If a damage to the crop happen the loss will be on merchants account. In some cases the product is damaged due to frost so that even picking would not be worth for the merchant. This kind of selling is very popular in the south of Turkey and some of the citrus orchards may

be sold in this way for two to five years but it is very rare. This is called “*alivre satış*” in Turkish, coming from the French word “*a livre*” meaning time-bargain.

The merchants making contracts of this kind, have a set of orchards in they have been contracted, examine the prices or intuitively decide when the crop will make money. When they decide to pick the fruit, they arrange a team from the free labor in the vicinity and start picking. They might make contracts with specialized pickers of the region too. When the crop is picked, in most cases it is packed in the field, but field packing can be performed very roughly and will cause the crop take low prices at the market. Especially in the south, for example, in Mersin merchants possess packinghouses<sup>20</sup>. These packinghouses are small buildings of 100-300 m<sup>2</sup>, with no windows, as a protection system against heat and loss of humidity. In those packinghouses five to ten women work depending upon the size of the packinghouse. The fully mechanized packinghouses belong to wealthy cooperatives or to exporters. When the crop arrives to the packinghouse in baskets by trucks and then it is sorted by hand and inadequate pieces are removed, and then are put into cases. The merchants may make contracts with commission agents before the crop is picked but most of the time looks for a commission agents after the crop arrives to the packinghouse. He often uses telephone to contact with commission agents in different terminal cities such as Ankara, İstanbul, İzmir, Kayseri, etc. He asks the level of price at the wholesale market of that city for his crop and whether the crop will be sold with a profitable price or not. Amongst the alternatives arising he decides on one and makes the last call to the commission agent. He gives information about the shipment and tells the average amount of the city that will arrive to the terminal market. When the commodity is packed he consults a transport commission agent and finds a truck.

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<sup>20</sup> Interview with Mr. Nihat Köksal, a commission agent at Fresh Fruit and Vegetable Market of Mersin Municipality and president of “Mersin ve Sebze Sevkiyatı Komisyoncuları Derneği”, August 4th, 1982, Mersin.



After the truck is loaded he counts the number of cases and writes a letter to commission agent. The rest of the process is same as it has been stated above.

The same process is true for vegetables and melons with minor differences. In the second chapter the vegetable producers have been examined. Producers, in need of money during cultivation period live credit problems. It was stated that most producers take money through some unofficial credit arrangements at high interest rates. The selling is usually connected with credit arrangements. The producer who is in need of money may apply a merchant and borrow some money and in turn sells his product before it is grown. This kind of time bargain is at the disadvantage of the producer. The value of the crop subjected to this contract is one fourth to one fifth of the price of crops a couple of months later <sup>21</sup>. Another way of selling is selling after the crops are grown. In this process the market itself might be a great risk for the producer. As it has been in the summer of 1982 the production may be so copious that even picking the crop may not be worthy<sup>22</sup>.

At assembly markets of cities most of the commission agents are merchants at the same time. They have their packinghouses at various parts of the city and additionally have a shop at the wholesale market place of the municipal FFV wholesale market. This structure is a complete breach of the respective legislation. As per the Law of FFVs merchants cannot buy and sell products on their behalf and in municipal markets; only commission agents can perform selling activities on behalf of producers. However, almost all of the commission agents active at municipal market places are also merchants in reality. Two assembly market places are examined for this study; Mersin and Bursa. Interviewing with many actors active in the field, following results were obtained.

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<sup>21</sup> Interview with Mr. Murat KAPTAN; a government officer working for MEYSEB unit of T.C. Gıda, Tarım ve Hayvancılık Bakanlığı (Ministry of Food, Agriculture and Animal Husbandry) at Mersin, August 4<sup>th</sup>, 1982.

<sup>22</sup> Interview with Mr. Murat KAPTAN.

In Bursa, 25% of the deliveries to the FFV market of the municipality is from Bursa region; the rest is from other regions<sup>23</sup>. Of this 25%, 80% comes from the center of the province, 20% from other districts of Bursa. It is stated that only 25% of the total production of Bursa region comes to FFV wholesale market of municipality; the rest is transferred from the farms directly to terminal markets. Of the products delivered to Bursa Fresh Fruit and Wholesale Market from Bursa region, about 50% sent merchants and the rest producers. Also it has been stated that about 85% of the crops delivered to Bursa wholesale market are transferred to other provinces where as 15% are sold to various retail dealers in Bursa. Another point is important. About 90% of the commission agents at Bursa wholesale Market work only as commission agents and the rest work as merchants as well. It is known that commission agents which are at the same time merchants have the power of influencing the prices in line with their benefits.

In Mersin the process is different<sup>24</sup>. First of all, 90 % of the commission agents under the title of commission agent are merchants indeed, are working as merchants and as commission agents at the same time. It is known that 80 % of the production of province center Mersin comes to the Municipal FFV Wholesale Market and 20% is transferred directly to terminal markets. It must also noted that in the districts of Mersin such as Silifke, Tarsus, Erdemli, Mut there are wholesale markets for FFVs apart from that of center of province Mersin. So a regional aggregation of crops to municipal wholesale market of the central province cannot be observed like that of Bursa. Most of the crops send outside Mersin are send by merchants. Three fourths of deliveries made to Ankara, for example, are made merchants and rest by producers<sup>25</sup>.

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<sup>23</sup> Interview with the Fresh Fruit and Vegetable Market Director of Bursa Municipality, July 16<sup>th</sup>, 1982, Bursa.

<sup>24</sup> Interview with the Fresh Fruit and Vegetable Market Director of Mersin Municipality, August 4<sup>th</sup>, 1982, Mersin.

<sup>25</sup> Interview with Mr. Kaya Mutlu, Ex-Mayor of Mersin Municipality, August 4<sup>th</sup>, 1982, Mersin.

As can be seen the assembly markets are very different from terminal markets. This diversity can be clearly understood after examination of legal aspects of FFV distribution.

### **3.3. Legal Aspects of FFV Distribution in Turkey**

The legitimacy of wholesale market places of municipalities are provided two laws. The first one is the Code of Municipalities<sup>26</sup>. In this code, paragraph 58 of article 15 states that: “..municipalities are responsible of building and operating a wholesale market place for FFVs”. Secondly, there is a specific code for establishing and managing market places of fresh fruits and tables<sup>27</sup>. The principle statement of the code is as follows: First, wholesale market place of FFVs of municipalities are public properties and cannot be rented, can only be allotted to dealers. Secondly, the place allotment can be done to i) Cooperatives and cooperative unions, ii) Producers, iii) Commission agents with respective priority (Article 2), These dealers cannot buy and sell from each other (Article 2), Thirdly, the law proposes heavy penalties to dealers of violating the law, such as prohibition of those dealers from execution Of business up to a year (Article 4), Fourthly, the rate of commission may not exceed 8 % if the cases are provided the dealer (Article 7) and municipalities may take tax-duty not exceeding 3% (Article 6). Additionally, for details of municipal management at wholesale FFV markets the law orders the municipal councils to ratify regulations.

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<sup>26</sup> Municipal Law (Belediye Kanunu) Law No: 1580, Ratification Date: April 3<sup>rd</sup>, 1930, Official Gazette Publication Date: April 14<sup>th</sup>, 1930, No: 1471.

<sup>27</sup> Law of Management of Fresh Fruits and Vegetables Established by Municipalities as per Article No: 15, Subsection No: 58 of Municipal Law (1580 sayılı Belediye Kanununun 15. Maddesi 58. Bendinde Tevkifan Belediyelerce Kurulan Toptancı Hallerinin Sureti İdaresi Hakkında Kanun), Law No: 80, Ratification Date: September 12<sup>th</sup>, 1960, Official Gazette Publication Date: September 16<sup>th</sup>, 1960, No: 10605.

As can be recognized, the law gives a priority to cooperatives and cooperative unions in municipal marketing. It also proposes a heavy control on dealers. The law also limits the commission to be charged from the producers (8%).

The most important implication of this code is that only one type of marketing path for FFVs is considered. The law intrinsically accepts a scenario that the crop will be packed up the producer and will be sent to the wholesale market place of a city. Through this law the operation in terminal cities is rationalized. The role of the merchant, the relation between the producer and the merchant is wholly neglected. Also the law doesn't have satisfactory administrative power on assembly markets. It is known that at least some of the commission agents working at assembly markets are merchants at same time. The law neglects the relation between FFV production and unofficial credit mechanism. It also does not consider the packing problems of commodities and the risk taking problem of the growers. Briefly the law might be satisfactory at terminal markets but is very unsatisfactory at assembly markets. When a comparison is made with Spain, with this law the producer is intended to be protected, in Turkey. In Spain the producer is left *vis-à-vis* different kinds of speculators. In this respect the law is advanced but it is very insufficient.

#### **3.4. The Allocation of Value between Interest Groups**

The structure of distribution must be evaluated. Different criteria for the appraisal of the distribution may be put forward for different purpose. The cheapness of the product at the retail end of the path is important for the consumers and producers point of view. The potential of re-investing is important for the national development point of view. The level of service performance might be another evaluation criteria for distribution structure from the increasing the export potential point of view. For different purposes different evaluation criteria might be selected. The intention of thesis is to examine the wholesale markets of FFVs

and its impact on urban life. The allocation of profit created between interest groups will be a criterion to highlight this impact. So the allocation of total profit of different crops between different interest groups would be examined.

For the purpose given in the previous paragraph two examples were chosen. The first example was the tomatoes produced by a landless farmer in the south of Turkey, as given in the second chapter. So here the subject will be the allocation of its profit. Second example will be the onions produced at Bursa region. For the intention of the study the retail prices are taken as the base value.

The first example is the tomatoes produced in Mersin by a landless farmer. This example was used in the second chapter of the study<sup>28</sup>. To summarize, the farmer rents ten decares of land and pays the landowner 60,000 TL as the rent of land for a production period. It is assumed that he has 100,000 TL initial capital. With total investment of 180,000 TL to factors of production other than land rent and he has a yield of 45 tons of tomatoes making 4,500 kg/decares. To find the necessary 140,000 TL he goes to usurer and borrows this money for 3 months, with 18% interest rate per month. This makes 215,600 TL at the end of 3 months. It's assumed that he hires 5 trucks to carry his load (9 tons per truck) and pays 35,000 TL per truck from Mersin to Ankara. It's also assumed that he found the trucker by the use of a transport commission agent and trucker gives him 15% of his revenue. This means that truckers actually took 148,750 TL in reality and he indirectly transferred 26,250 TL to transport commission agents.

It's assumed that the producer found a commission agent at Ankara FFV Wholesale Market who promised to sell his products. It is assumed that the crops sold at a price of 20 TL/kg, at the wholesale market which adds up to 900,000 TL in total. The commission agents' commission of 8% makes 72000 TL and municipal tax duty 3% makes 27,000 TL. The crop is assumed to be brought by a

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<sup>28</sup> The numbers are actual numbers for the summer of 1982, Interview Mr. Murat Kaptan.

retail salesman of a pazar and with 25% retailer's legal revenue it is sold at 25 TL/kg, having a revenue of 1,125,000 TL at the retail market. Within those assumptions the allocation of 1,125,000 TL different actors involved is given in Table 5 in percentages.

Table 5: The allocation of value created by tomatoes produced at Mersin Region

To retailer	20,0 %
The costs of money	28,0 %
The initial capital	8,9 %
The amount lended	12,4 %
Interest to usurer	6,7 %
The costs of production	21,3 %
The cost of land rent	5,3 %
Other costs of production	16,0 %
Transport costs	15,6 %
Truckers	13,3 %
Transport commission	2,3 %
Municipality as tax-duty	2,4 %
Commission agents commission	6,4 %
To producer as net profit	6,3 %
TOTAL	100,0 %

The second example will be on onions produced at the Bursa Region<sup>29</sup>. The example is an actual case observed at Karacabey district of Bursa. In this example the emphasis will be on the relations of a farmer with a merchant. The grower produced onions on 13 decares of land that he possesses and took a yield of 28 tons. He couldn't afford picking and selling the crop to a local merchant when the

<sup>29</sup> Interview with Mr, Mustafa Diler, producer at Bursa. The numbers are actual numbers experienced by him and the date of the event is the first week of June, 1982.

crop was still on the field. The merchant gave 250,000 TL, to grower in return of the product. The merchant hired 40 labor to pick the crop and paid them 56,000 TL. He also paid 8,000 TL, to mesh sacks to pack the crop. When the crop is picked he made a contract with a commission agent at Bursa who promised to sell the crop. The merchant hired three truckers to carry the crop from the cultivation field to Bursa which is 100 km. far and paid 10,000 TL, to each, marking 30,000 TL, total. The price at Bursa was 25 TL/kg, at FFV market of the municipality which makes 700,000 TL, in total. Out of this revenue the merchant paid 21,000 TL, as 3 % municipal tax-duty and 49,000 TL, as commission of 7 % to commission agent. The price of onions at retail market was 31.25 TL,/kg, with retailer's legal revenue so the total value of the crop at the retail market was 875,000 TL. The allocation of value is given in Table 6 in percentages.

Table 6: The allocation of value created onions produced in Karacabey, Bursa

To grower (including production costs )	28,5 %
To transportation	3,4 %
To labor for picking	6,4 %
To mesh sacks	0,9 %
To commission agent	5,6 %
To municipality as tax-duty	2,4 %
To retailer	20,0 %
To merchant	32,8 %
TOTAL	100,0 %

The table for onions is different from that of tomatoes. In the table for tomatoes the emphasis is on costs of production and costs of money. In the second example the importance is on the impact of the merchant in the marketing process.

If the producer had financial support to afford picking himself and confidence to himself to make a sufficient contract with a commission agent, the value that goes to the merchant would turn to the producer.

In numbers, if the producer had 94,000 TL he should have 535,000 TL. It must be considered that the 250,000 TL is his revenue and at least two thirds of this money goes to total cost of production. So the net profit of the producer is far lower than expected.

It is impossible to evaluate the impact of distribution of FFVs on cities from the information given up to here. The impact of FFVs on cities will be examined analyzing the market places of municipalities. Besides the analysis up to here will be the framework of proceeding parts of the study.



## **CHAPTER 4**

### **THE FFV WHOLESALE MARKETS OF MUNICIPALITIES: A CASE STUDY OF ANKARA**

In this chapter, the structure of FFV wholesale markets is discussed. Previously the paths of FFV distribution and the backward and forward linkages of this distribution were examined. Here the analysis continues with emphasis on urban structure. The purpose of the study is to show the impact of the FFV problem on the city life and to point out the fact that different set of policies are necessary for municipalities' having divergent positions and scales. Most of the arguments put forward in this chapter are supported by the author's field observations in the Ankara Wholesale Market. However, some further evidence concerning the other cities of Turkey is also furnished.

#### **4.1. The Structure of the FFV Wholesale Market of The Municipality Of Ankara (AWN)**

The AWM is located in the central district of Ankara, near Sıhhiye, and is built on approximately 20,000 meter squares of land (Map 1). The location is analyzed further in this chapter. The market has an authority called Directorate of FFV Wholesale Market of Ankara Municipality (Ankara Belediyesi Toptancı Hal Müdürlüğü). In this directorate the following personnel are employed: 1 head director (müdür), 4 chief (sef), 8 control clerks (kontrol memurları), 5 inspectors (takip tetkik memurları), 4 stamping clerks (damga memurları), 39 guardsmen (bekçiler), 1 sanitary officer (sağlık memuru), 2 municipal policemen (belediye

zabitaları)<sup>30</sup>. The legitimacy of this authority is provided (a) the Law No: 80 , and (b) the regulation accepted by the Municipal Council in 1975<sup>31</sup>.

The people or firms that are permitted to work as wholesalers in the market are defined in these legal documents. As it has been touched in the previous chapter, the following dealers are permitted to work in the AWM: i) Cooperatives and Cooperative Unions, ii) Producers of FFVs, iii) Commission agents. In the Regulation of the Municipality necessary documents these bodies must be possess are explained. It can be said that the Regulation gives priority to the cooperatives and cooperatives unions. However, out of the 151 dealers in the market only three are cooperatives<sup>32</sup>. The rest are producers (30) and commission agents (118). Besides the dealers of the wholesale market there are 20 sellers parsley, fresh onions, lettuces and similar crops. There are very small producers who come from the near villages of the Ankara city. The Municipality permits them to sell their crops at the wholesale market. At AWM there are also 2 banks 1 post office, 8 transport commission agents, 2 intercity transport cooperatives, 1 vehicle assurance agency, 2 parking managements, 3 potatoes and onion merchants, a bureau of the Chamber of Commerce of Ankara, 2 associations, 7 coffee-shops, 5 restaurants, 2 snack bars, 1 packing material seller, 1 small mosque (mescit), 3 barber and 2 charged toilets<sup>33</sup>. Map-1 exhibits the land use of AWM.

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<sup>30</sup> Interview with Mr. Feyzullah Özcan, The head of the Directorate of Fresh Fruit and table Wholesale Market of Ankara, June 12<sup>th</sup>, 1982, Ankara.

<sup>31</sup> Regulation of Ankara Fresh Fruit and Vegetable Market (Ankara Belediyesi Toptancı Hali Yönetmeliği) Official Gazette Publication Date: August 11<sup>th</sup>, 1975, Official Gazette No: 15323.

<sup>32</sup> Interview with Mr. Feyzullah Özcan.

<sup>33</sup> Those figures are observed during the field study.

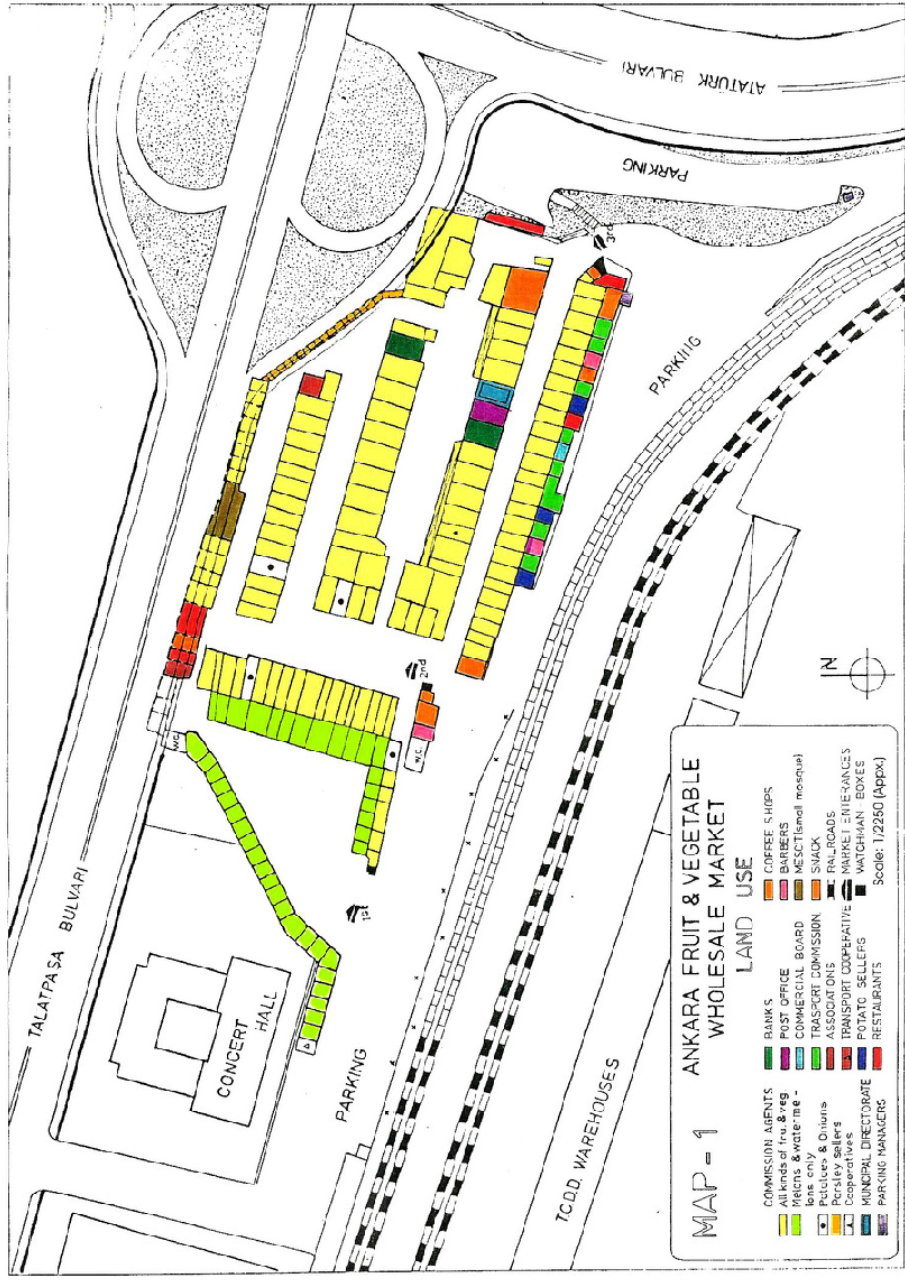


Figure 4: Ankara Fresh Fruit And Vegetable Wholesale Market Land Use

The present form of the AWM was established in 1941 (Sözer, 1970: p. 9). At that time only 25 wholesale dealers were active. In 1982, 151 dealers are active. To show the development of the market an examination of the delivery of FFVs might be helpful. In Table 7 the delivery of crops between years 1951 to 1968 are given.

Table 7: The delivery of fresh fruit and vegetables to the Wholesale Market of Ankara between 1951-1968 (In Metric Tons)

Years	Fruits	Vegetables	Total
1951	7,600	13,950	21,550
1952	6,900	13,000	19,900
1953	10,500	18,500	29,000
1954	13,800	22,750	36,550
1955	17,500	23,750	41,250
1956	25,700	29,100	54,800
1957	32,500	37,473	69,973
1958	28,800	37,500	66,300
1959	35,000	41,200	76,200
1960	36,300	49,650	85,950
1961	58,500	36,529	95,029
1962	60,535	57,909	118,444
1963	58,458	61,147	119,605
1964	75,855	72,049	147,904
1965	76,699	72,211	148,910
1966	91,169	84,374	175,543
1967	101,712	85,826	187,538
1968	118,693	95,340	214,033

Source: Sözer, 1970, p.9.

Table 8: The delivery of FFVs to the Wholesale Market of Ankara and municipal revenues realized between 1977 - 1981 (in tons and in TL)

Years	Fruits	Vegetables	Total	Tax-duty Revenues	Total Revenues
1977	207,954	130,081	338,035	44,930,635	56,014,535
1978	218,622	149,223	367,885	64,090,405	74,764,636
1979	208,682	131,901	341,582	111,402,190	125,593,224
1980	168,985	123,082	292,067	178,095,231	206,106,821
1981	199,489	126,926	323,415	260,429,748	288,764,752

Source: Ankara Municipality, Directorate of FFV Wholesale Market (Ankara Belediyesi Hal Müdürlüğü)

The delivery of fruit and vegetables to the AWN between 1977-1981 and revenues collected by the municipality are given in Table 8.

The table gives a number of clues to make explanations. First of all, the tax-duty revenues of the producers or merchants and are 3 % of the wholesale value of commodities, So it is possible to calculate the real value of the commodities sold at the wholesale market, If 3% is known it is easy to calculate the whole(100 %). For the year 1981 the total value of products sold at AWM comes out as 8.68 million TL.

A similar calculation can be performed for the average wholesale price of fruits and vegetables. This value is the total value of commodities sold at the market divided by the total amount of products sold. The average prices for fruits and vegetables sold at Ankara wholesale market are 4.43 TL/kg, for 1977, 5.81 TL/kg for 1978, 10.87 TL/kg for 1979, 20.33 TL/kg for 1980, 26.84 TL/kg for 1981. Although the kinds of fruits and vegetables may vary from year to year, this kind of deductions may lead to general interpretations which can be considered true.

Another calculation may be the average revenues of wholesale dealers of the Ankara market, It is known that wholesale dealers take 7 % from the selling value

of the commodity as commission or 8 % if the case of the commodity provided the wholesale dealer, The actual commission percent is not known precisely. This is because no information is available for the level of provision of fruit and vegetable cases by wholesale dealers. If this ratio is assumed to be 7.5% the revenue of wholesale dealers comes out as 651 million TL. in 1981. This means that an average wholesale dealer earned yearly 4.3 million TL revenue during 1981.

The above figures give a general picture of the AWM. The market was established in 1941 to reply to a very small demand compared today. The number of wholesale dealers increased from 25 to 151 during the past forty years but the location remained unchanged. The delivery from 1951 to 1968 indicated in Table 6 shows a high increase, whereas from 1977 to 1981 it is rather stable. The increase in the delivery of goods cannot be explained solely with the increase of urban population<sup>34</sup>. The increase in the living standards of households seems to be a further factor explaining the high consumption of FFVs. A further reason may be the interregional accessibility of Ankara parallel to the development of transportation especially between 1951-1960. It should be stressed that one of the most important services in marketing is transportation, The accessibility of transportation may increase the marketing of products already produced and can encourage producers to produce for the market of large cities.

The operations prevailing in the AWM conforms to the delivery system explained in the previous chapter. To summarize the producer or the merchant who owns marketable fruits or vegetables makes a contact with a wholesale dealer of the market most of the time by phone. The truck arrives to the market early in the morning. The truck driver presents a letter to the wholesale dealer written the

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<sup>34</sup> The population of Ankara city was 788,500 in 1950 and 905,700 in 1968. These numbers are taken from: Tuğrul Akçura, 1971. *Ankara: Cumhuriyetin Başkenti Hakkında Monografik Bir Araştırma*, Ankara: ODTÜ, Mimarlık Fakültesi Yayınları, No: 18.

sender of product. The wholesale dealer reads the letter and if the information in the letter re-assures his previous arrangement he accepts the truck load. In some instances the truck load may belong to more than one wholesale dealer, In this case the load is carried to different dealers by hand carts or on horse carts. If the whole truck load belongs to one dealer then the truck is permitted to enter the market place. In some cases truck unloads but most of the time parks in front of wholesale dealers and selling is performed on the truck. The trucker waits until all the commodities are sold depending upon the wholesale arrangement with the sender, before the shipment. After the selling process, the wholesale dealer pays the formerly decided amount to trucker as written in the letter send the producer or the merchant.

The selling usually takes place early in the morning especially in the summer time. In the summer season the delivery of FFVs increases and the entrance to the market is permitted from 6:30 hours<sup>35</sup>. Between 8:00 to 9:30 selling and buying shows its peak<sup>36</sup>. After this time the sales decrease and after 14:30 hours, most of the wholesale dealers prefer to close their shops. After 17:00 hours, no entrances or exist are permitted to the market. For the dealers it is important to receive the shipment before 8:00 hours. In winter season the hours of selling are not as important as for summer and the market operates from 08:30 to 17:00 hours and actual trading is staggered between 09:00 to 15:30 hours.

The Directorate of the Awn imposes strict control on wholesale dealers. According to the regulation of the Awn the wholesale dealers must keep 5 different legal books which are officially stamped for different accounting purposes and are obliged to present them to Directorate upon request (Vural, 1982: p. 5). The details of these legal books will not be examined here. From the stand point of this study it is important to know that the wholesale dealers must

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<sup>35</sup> Interview with Mr, Feyzullah Özcan.

<sup>36</sup> Author's observations during the field study.

give information to the Directorate on the actual delivery and selling of the commodities, The Directorate records the entrances and the exits of commodities very carefully. Also the wholesale dealers must send the value left from the legal marketing costs (such as commission of the wholesale dealer, the tax-duty to the municipality, and payment to trucker) to the producer or the merchant immediately<sup>37</sup>. But in reality that delay sending quite frequently.

The retail dealers and the wholesale dealers and sell in free market conditions. In the regulation of the Municipality it is clearly stated that the Directorate can determine the prices when it is deemed necessary<sup>38</sup>. But this article of the Regulation is applied very rarely. The Directorate does not, in general, do not make interventions to prices and accepts the free market price unless the price of some particular commodity is considered to be extraordinarily high<sup>39</sup>.

#### **4.2. The Interaction of Interest Groups at Wholesale Markets**

As it has been stated there are several interest groups active at wholesale markets. The examination of the “interest dynamics” prevailing between these groups gives further information on the present system of wholesaling continues in Turkey.

The interest groups at the FFV wholesale markets can be classified into four main groups. The first group is the wholesale dealers which are the core of the market. Secondly, the municipal administration itself seems to be an interest holder. Thirdly there are dealers which perform some necessary services to buyers and sellers in the market. As a fourth group the retail dealers of different kinds are

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<sup>37</sup> Regulation of Ankara Fresh Fruit and Vegetable Wholesale Market, Article No: 16.

<sup>38</sup> Regulation of Ankara Fresh Fruit and Vegetable Wholesale Market, Article No: 19.

<sup>39</sup> Interview with Mr. Feyzullah Özcan.



considered. In what follows these groups are examined one by one with reference to their interest relationships with the others.

### ***3.2.1. The Wholesale Dealers***

Up to here many names for distributions had been used. For different purposes, the terms such as merchants, retailers, commission agents, pre-harvest contractors, and wholesale dealers have been used. Except for the wholesale dealers operation structure of other operators was tried to be explained. The term wholesale dealer has been reserved for the dealers of the FFV markets of municipalities. The reason is the code concerning the FFV market of municipalities states three kinds of dealers in wholesale markets. These are, as has been stated earlier, cooperatives and cooperative unions, producers, and commission agents. Although the law firmly orders the dealers of any other kind cannot operate at the wholesale markets, the regulation of Ankara Municipality is more definite on this subject.

In the regulation issued by the Municipality of Ankara it is stated that the available places of selling must be allocated so that, 50 % of the places are to be given to the cooperatives and cooperative unions, 30 % to the producers, and 20 % to commission agents<sup>40</sup>. The regulation also states that if there aren't sufficient applications for one group the places may be allocated to others preserving the priority in sequence.

The regulation also makes a definition of these wholesale dealers and explains their rights and duties. Cooperatives or cooperative unions must be established a year before their applications and must be active. Those requirements must be approved by the local branch of the Chamber of Agriculture at the location place of the cooperative. The producers must be active in production and must prove it. Pre-harvest contractors cannot be assumed as producers. Commission agents are

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<sup>40</sup> Regulation of Ankara Fresh Fruit and Vegetable Wholesale Market, Article No: 3.

defined as the legal entities who performs commercial-activities under their names and on behalf of the producers. Commission agents cannot sell products of their own merchandize and cannot sell on their behalf<sup>41</sup>.

Although the regulation makes the above statements very precisely the reality is totally different (Vural, 1982: 24-26). First of all, there are only three cooperative at the market, one of them is a village cooperative from Alanya, district of Antalya province. This cooperative is specialized on the production and marketing of citrus fruit and banana. It is active only for two to four months a year depending upon the production of its members. The second cooperative is specialized on early or late FFV production. The third and the last one is a cooperative of producers of Ankara's periphery. These cooperatives are apparently very small in size and their activity at the wholesale market is very limited, compared to the other individual wholesale dealers.

Secondly, there are 30 producers legally named as wholesale dealers at AWM. To provide continuous flow to the wholesale market a producer must have very large land and very large production. As it has been discussed in first chapter the scale of producers of FFVs are not significant enough to provide such a continuous flow. Thus it is not rational for a producer of, say having 30 or 40 decares of land, to keep a selling place at the wholesale market to sell products produced by him. The dealers who perform operations under the name of producers at the AWM are actually merchants or commission agents benefiting from the priority given to producers by law. They, more or less provide the requirements of the regulation in their applications and take the benefit of this priority. They may produce FFVs but the real business is wholesale trade, either merchandizing or working on commission basis. At the Ankara Wholesale Market a producer who is selling only his production has not been observed during the study.

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<sup>41</sup> Regulation of Ankara Fresh Fruit and Vegetable Wholesale Market, Article No: 3.

Thirdly, there are 118 commission agents at the AWM. As mentioned they are commission agents who perform the commercial activities on FFVs under their names and on behalf of the producers and make income from the defined commission percentage of the wholesale value of the commodity. This percentage is normally 7 % and 8 % if the case of the commodity is provided the agent. Although the law and the regulation state that commission agents cannot merchandize, they actually do so and it seems almost impossible for the Directorate to control it. Besides there is no statement in the law or in regulation to prohibit commission agents sell crops in merchants possessing.

This system of operation in the AWM creates a rigid structure. Regardless of their titles; be it producer or commission agent or even cooperative, almost all of the dealers in AWM are commission agents, they can merchandize and prevention of merchandize is almost impossible. The director of AWM claims that none of the commission agent merchandize whereas the author learned from his unofficial contacts with commission agents that almost all of the commission agents merchandize in periodic intervals<sup>42</sup>. It is not rational for a commission agent at the AWM to work as a merchant on a continuous basis. They actually merchandize but it is limited. To travel to rural areas, making contracts with producers, supervising the picking process, and at the same time looking for contracts with producers are jobs to be performed in addition to the commission agency activities. It may be assumed that commission agents merchandize 10 to 20 times a year and this does not exceed the 3 to 5 percent of the deliveries to the AWM. It must be kept in mind that these are intuitive assumptions observations and unofficial contacts during the field study.

It has been stated previously that an average commission agent makes revenue of 4.3 million TL a year. The distribution of revenues between the commission

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<sup>42</sup> Interview with Mr. Ethem Erdal, Commission agent at Ankara Wholesale Market, June 29th, 1982, Ankara.

agents of the AWM is probably very even. A quantitative proof of this statement is not available for Ankara, but for Mersin and Bursa actual evidences are available. For Mersin and Bursa the total tax-duties paid every single commission agent can be used to calculate the approximate revenues of the commission agents. To show the structure of the distribution of revenues to commission agents a method widely used in presenting the income or wealth distribution of a population; the Lorenz-Curve method was utilized and associated Gini Ratios were calculated for the earnings of commission agents.

Although both the Lorenz Curve and Gini Ratios are used to show the distribution of income or wealth of mass groups, these methods are used here because both associated methods are capable of summarizing the distribution of income as a whole. The Gini Ratio is known to be sensitive in indicating the position of middle groups compared the other methods analyzing the distribution of income. The Lorenz-Curve is the geometrical presentation of it. To explain briefly, the subject groups are ranked starting from the least income. In one axis the percentages of ranked groups and in the other axis the percentages of their incomes are placed. Lorenz-Curve is the curve showing the relation between them. Theoretically; the curve will be a 45° line if the income is distributed evenly. The curve deviates from the 45° line depending on the level of polarization in income distribution. The Gini Ratio is obtained dividing the area covered between the Lorenz-Curve and 45° line to the whole triangle. Theoretically the Gini Ratio is zero for uniform distribution and approaches to 1 when polarization is at the extreme.

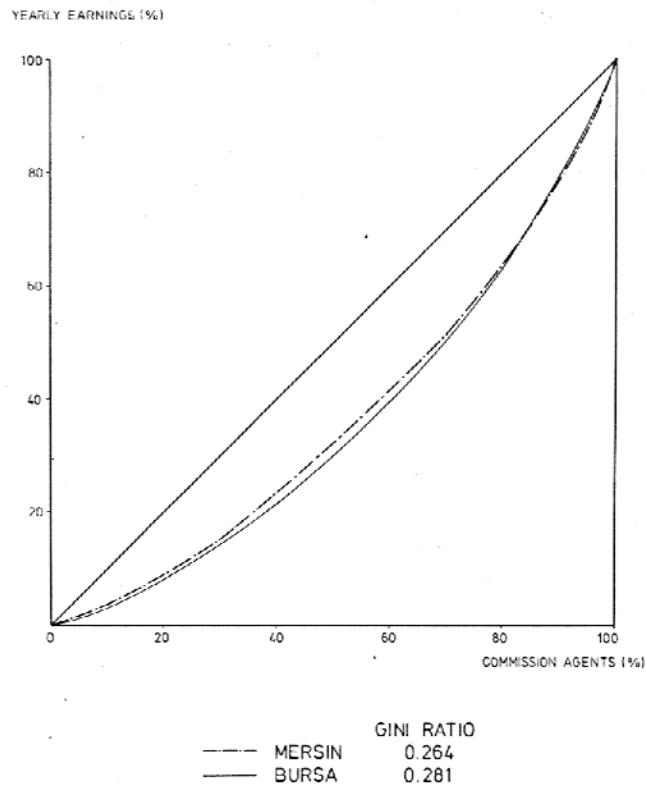


Figure 5: Lorenz Curve for Commission Agents' Earnings (1981)

Source: Mersin and Bursa Municipalities

In Figure 4 the Lorenz-Curve and Gini Ratios for commission agents of Bursa and Mersin are given. The Gini Ratios for Mersin and Bursa are 0,264 and 0,281 respectively. For Mersin this ratio may be somewhat erroneous because most of the activities at the Wholesale Market of this city much more merchandized and income for merchandized operations is not reflected on tax-duties paid to municipality. But for Bursa it may be considered as the real distribution of revenues between commission agents. Interestingly, the numbers are quite alike and small, showing that there is almost a uniform distribution of revenues in these markets. This means that there is no income polarization between commission

agents active in those markets. Although this kind of data is not available for AWM, the field observations allow the writer to claim that the same situation is true for Ankara.

This peculiarity that is the even distribution of income between the commission agents, at the wholesale markets of municipalities (whether are assembly markets or terminal markets) is an important phenomenon.

It is an evidence of the lack of conflicting interest between the commission agents of wholesale markets. Because of this fact it is natural to expect uniform behavior and attitude between themselves and to the outside environment.

Furthermore, the average income of the commission agents is remarkably high. It is known that only 5 % of their revenues are paid to the central government as income tax, on the average (Kaptangil, 1980: 28). The costs of operation of commission agents must not be expected exceeding 15 % because almost all of the expenditures are met the senders of the commodities; producers or merchants. The only exception of it is the telephone expenditures and few employees – 2 to 6 most of the time – they employ. So it may be assumed that only 20 % of the revenues of commission agents cover the costs, the rest may be accepted as their profit. Previously it has been calculated that commission agent made revenue 4.3 million TL, each in 1981 averagely calculated by the tax-duties collected. The corresponding value for commission agent of Bursa is 4.7 million TL and for Mersin 3.9 million TL, in 1981. The figures are exceptionally high compared with the income standards of Turkey. Another interesting point is that the revenues are approximately the same with each other, and does not show significant differences in the assembly or terminal markets. These evidences may lead to say that commission agents of Turkey exert typical and stable characteristics.

### ***3.2.2. Municipal Administration at The Wholesale Market***

The municipality is an interest holder at the wholesale market too. As it has been stated previously, the Municipality of Ankara performs the duties given by law through its branch; The Directorate of FFV Wholesale Market. The most important duty or the responsibility of the Directorate is to provide the order of the wholesale market. To provide this order the Directorate has many rights and one of them is to decide the prices of crops at the market. The directorate can decide prices consulting to the associations of commission agents<sup>43</sup>. When the public interest on prices is taken into account, this right has importance. But in the AWM the Directorate very rarely makes interventions on prices. These interventions are mostly made to the prices of bananas; the most expensive crop at market but this rarely takes place. There are reasons for this lack of control on the prices.

Municipalities in Turkey have always been in serious financial shortages. During the past ten years these shortages reached such levels that the policy formulation of local governments has widely changed in favor of new projects which could generate income. Beside the search for new resources of money, to increase the income from the old sources become a part of the financial struggle of the municipalities.

Municipal tax-duties taken from the selling value of crops at FFV wholesale markets is one of those old sources of municipal income. This tax-duty is 3% of the selling value of crops at wholesale market, as it has been stated previously and there are two ways of increasing it. The first way is to increase the efficiency of the market, thus the increasing the amount of FFV sold in the market, which can be achieved through a larger market place subsequently necessitates additional investment. Second way is keeping the prices of the fruit and vegetables as high as

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<sup>43</sup> Regulation of Ankara Fresh Fruit and Vegetable Wholesale Market, Article No: 19.

possible so that the total value of the municipal income coming from 3% tax-duties will have its peak. Both of the possibilities of increasing municipal income are practiced the Municipality. The first way was tried not only for increasing municipal income, also for a better service performance of the municipality to city people and will be discussed later when the location of the wholesale market is questioned. The second way is practiced not making any interventions to the level of prices. This means that the directorate prefers to practice “laissez-faire” policy instead of using any price controlling mechanisms. So the prices of FFVs remain as high as possible and the 3 % of the selling value is maximized.

This attitude of municipality is important. The directorate of the wholesale market doesn't make any price decisions and accept the free market; supply and demand prices for fruits and vegetables. To take away the public attraction from the market or to satisfy the public demand, the Directorate of the Municipality sometimes declares interventions to limited number of crops, for example bananas. This attitude of the municipality in the wholesale market puts its in a position similar to the commission agents: maximizing profits. In the law and in the regulation the municipalities are expected to be the controlling units assigned to sustain and protect the public interest. At least theoretically, the aims of the municipalities must contradict with the aims of the commission agents, who are profit maximizers. But In reality the purposes of commission agents and municipality do not contradict. When the prices are high the commission agents as well as the municipality earns more income. So, the municipality and commission agents are both have the same intention of maximizing their profits. In this respect, the aims of the municipality and the commission agents coincide.

How this purpose is defined within the organization worth discussion. The director of wholesale market is responsible to the major. It may not be expresses the mayor to the head of directorate of wholesale market to strive for more income from tax-duties, but the head of the directorate will inevitably perceive that



maximization of income from tax-duties be the most important motive of his job. So there is a diversion from the aims of the organization defined by law.

In spite of this, making interventions to the wholesale market is almost impossible. Intervention to the wholesale prices of FFVs means a wide and continuous conflict with commission agents, which may produce severely detrimental effects to the local political authority. So like the director of the wholesale market, “*laissez-faire*” policy is preferred by the mayor too. To summarize, municipality in the wholesale market is an interest holder and is a profit maximizer similar to the commission agents.

### **3.2.3. Service Groups**

The third interest group in the AWM is the dealers giving services to the commission agents or retail dealers. There are many of them, as had been touched previously, such as banks, post-office, intercity transporters, interregional transport commission agents, etc. Three of them are important from the view point of the study: i) Intercity transport cooperative, ii) Interregional transport commissioners, iii) Parking managers. All of them are dealing with transport. In the following section they will be treated separately.

The intercity transport cooperative at the AWM was established in 1978, by independent transporters working at the same place previously<sup>44</sup>. Now the cooperative has 157 members. After they established the cooperative they applied to the Ministry of Commerce to get permission to be the only organization responsible from the intercity transportation of the Ankara Wholesale Market. The Ministry of Commerce accepted this application and after consulting to the

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<sup>44</sup> Interview with Mr, Durmus Topcan, The executive of intercity transport cooperative at Ankara Wholesale Market (S.S. Ankara Toptanci Hali Taşıyıcıları Kooperatifi) July 13<sup>th</sup>, 1982, Ankara.

Authority of AWM permanently fixed the members of the cooperative as 157. So this cooperative took the privilege of being the only organization that could make intercity forwarding from the Ankara Wholesale Market. No other firms or independent forwarders can work from the wholesale market to different districts of city. Only the customers of the market who possess their own vehicles can carry their commodities with their vehicles. The members possess approximately 60 trucks and 90 pick-ups and 3 % of the members have two vehicles. The prices of forwarding trucks are determined by the Directorate of the AWM for each district. The pick-ups do not have a price list like that of trucks and the price of transport is settled through bargaining between the driver and the customer. The qualities of vehicles are not very good. For that reason, the vehicles in general do not exceed transports more than a distance of 10 Km, Forwarding up to 70 Km are experienced but are very rare.

The cooperative once made a contact with the Drivers Association (Şoförler Derneği) – an organization which is organized through the whole country and is very powerful - and asked from the association to show interest to their problems. In turn the Drivers Association asked for membership to the association from the cooperative member. But the cooperative rejected this proposal. The cooperative might be anxious of losing the privilege of being the only transporters from the market when become the members of the Association. Although it has not been stated clearly there is an impact of the commission agents on the cooperative. The old president of the cooperative was a commission agent of the wholesale market.

Interregional transport commissioners work on commission basis. Their commission differences between 10 to 15 percent depending upon the opportunity they find to truckers. The customers of interregional transport commissioners are the independent truckers who come from different parts of Turkey to the AWM carrying FFVs, and looking for a new job. They become selective after one or two forwardings and look for cargo destined to their home cities. For this reason the role of the interregional transport commissioners is important. There are eight

interregional transport commissioners in the AWN and most of the truckers prefer to work with only one. The reason is this interregional transport firm has many customers so that can provide the destination which the trucker will prefer to go. Besides, the largeness of scale brings confidence to the customer and the trucker.

There are two parking managers working at the AWN. An interview was conducted with one of them<sup>45</sup>. The manager lended the parking place from the General Directorate of Turkish State Railroads (TCDD) paying an annual rent of 400,000 TL, in 1981. Another parking manager lent 425 meters of parking place the side of the road and gave only 7,000 TL/year to the Turkish State Railways. The second manager is a commission agent at the wholesale market as well. These two managers found 5 other relatives and established an association. The parking manager interviewed stated that the association increased their prestige and his effectiveness in the business.

The three service groups described above are dealing with transportation and supply the essential services for the performance of the market. The commission agents intake part in two of them: the intercity transport and the parking process. For the other one; the interregional transportation the commission agents are not in business but it seems that they have very close and good relations. These three examples indicate two aspects: i) Commission agents of the wholesale market do not care whether their business is FFVs or any other thing. If they find other jobs profitable they may enter these businesses, ii) Commission agents have the intention of controlling the support services which affect their business.

The fourth interest group at the AWM are the customers of the market; the retail dealers<sup>46</sup>. There are three kinds of retailers which are the customers of the AWM:

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<sup>45</sup> Interview with Mr, Mirza Bozkurt, the parking manager, July 13<sup>th</sup>, 1982, Ankara.

<sup>46</sup> Statements about retailers are mostly on observations. A student study was made in Department of City and Regional Planning, METU in 1976. This study printed in limited number.

- i. Green-grocers (Manavlar),
- ii. Pazarcılar, the retailers of bazaars (Pazar),
- iii. Supermarkets (large general stores).

Green-grocers are small retailers of FFVs. Almost all of them buy their crops from the wholesale market, have the legal right to put 40% on the purchase value and sell. Their numbers in Ankara is not known. What percent of the consumption of FFVs of the Ankara satisfy is not known either. They go to the wholesale market and their commodities to their in a number of ways. They may use their own vehicles, such as pick-ups. Only wealthy ones can afford it. They may go to the AWM and after buying commodities may hire a pick-up. This way is not preferred because of the high costs incurred. The third way is may make contacts with other greengrocers (usually family relatives) and one of them go and for himself and others, and distribute the commodities to the involved. In some cases the green-grocers might be so confident that they may give a call a to a commission agent and ask for the kinds and amounts of fruits and vegetables he is going to buy for that day. The commission agent who has a number of customers of this kind hires a truck and distributes the commodities to different green-grocers. It should be noted that green-grocers are not affluent at the retail market and numbers are decreasing in Ankara.

Pazarcı is the retailer who sells FFVs in bazaars that are established once a week in different districts of Ankara. There are 28 of them in Ankara. The market places belong to the Municipality and bazaars are controlled by a branch of the Ankara Municipality, not the Directorate of the AWM. Only about 60 or 70% of the dealers of bazaars buy their commodities from the AWM of the Municipality. The rest provide their commodities directly from the production places. The organization of bazaar is interesting. In bazaars there are three types of retail dealers. The first type takes place in the center of the bazaar and sells crops in very quality with high prices; those are called “ortacı” and the commodities they sell are early or late crops and of high quality. They are mostly wealthy dealers

compared with other dealers and can employ 2 to 7 workers. They buy their commodities from wholesale market. Secondly, there are retailers of vegetables who also their commodities from wholesale market, sell at least 6 or 7 different kinds of vegetables. The fruits they sell in bazaar come directly from the production places most of the time. Citrus fruit in winter, melons and water-melons in summer comes in this mode. In the other hand, fruits such as cherries, apricots, plums, etc. that need packing come from the wholesale market. The reason is that citrus fruit, water-melons etc, are possible to handle in bulk. Cherries, peaches, pears, etc., cannot be handled in bulk. So the packing characteristic of affects the marketing structure of that crop. The retailers of bazaar buying products from producers cannot control the return flow of wooden cases. They buy food already picked or easy to pick and forward it in bulk. Fruits may get damaged when are carried in bulk, but even with the high damage the fruits and vegetables brought directly from the producers may compete with products coming through the channel of the wholesalers. The vegetables such as cabbages and cauliflower have the advantage of hauling in bulk without damage and wholesale marketers cannot compete with retailers buying from the producers.

There are a number of further advantages of buying directly from producers. The retailers of bazaar must show the bill taken from the wholesale dealer to the authorities of bazaar. The retailers buying from the producers cannot show this bill and pay a penalty of 3% of the selling value of the commodity, Even with this penalty the retailers of bazaar buying crops directly from producers has advantage compared with retailers buying from wholesale market, This arises due to elimination of commission and costs in buying. More importantly the retailers buying from producers can decide their prices (with the risk of interference of the municipal authority of bazaar) where as the retailers buying from wholesale market can only sell adding 25% to the wholesale value of the commodity including their costs. This has an important role in the level of prices and providing damaged but cheap fruit and vegetable to the low income customers.

The third kind of retail dealers are supermarkets. They are not supermarkets in the sense of large department stores or chain stores found in United States or Europe. They are wealthy grocery stores, operate similar to the green-grocers. They obtain their products from the AWM. There is a trend of supermarkets replacing green-grocers at the middle or upper middle income residential districts of Ankara.

Besides these four main interest groups, there are potatoes and onions sellers in the Ankara Wholesale Market. These are located outside the market and are merchants. Potatoes and onions are not regarded as FFVs because of the long product life. The Board of Commerce of Ankara controls them. There are three potatoes and onions sellers at the AWM and also a controlling unit of Board of Commerce of Ankara. The rationale behind establishment of controlling unit for only three selling stores has not been understood. These wholesale merchants may sell adding 30 % to the purchase value.

The most important outcome of the analysis relates to the motivations of the interest groups. Commission agents of FFVs are profit maximizers and this goal has been accepted the law too. But within the process the goal formulation of municipality has changed from protecting the public interest to a body expecting to sustain funds from the wholesale market. The reason is in the source of the motivation of the organization. The commission agents' source of motivation is definite: maximizing profits. But in the process, the sources of motivation of municipality have changed. First, sustaining municipal funds became a more important source of motivation than protecting public welfare. Secondly, there is a contradiction in the perception of goals between the members of the organization.

This situation was reflected to other interest groups. Commission agents became the relatively more affluent on the other interest groups. Commission agents have the power to rule the transporters of different kinds. Because of the weakened municipal authority commission agents seem to manipulate the retailers as well as truckers. Further evidence on their impact on the price decision will further be

discussed in the text. Retailers are now looking for ways out from the impact of commission agents. Bazaar retailers buying directly from producers indicate such efforts.

### **4.3. Pricing at the Wholesale Market of Ankara**

The other important topic in wholesale markets is the condition of prices. As it has been stated, the municipal authority at the AWM doesn't make interventions to the prices. So the prices may be accepted as free-market prices, thus reflecting the supply-demand relations.

To examine the price-supply relations the records kept by the Directorate of the AWM are used. The Directorate records the minimum and the maximum prices for every single crop and announces for the use of retailers everyday on a blackboard. The tonnages of the daily delivery of FFVs to the market are also recorded by the Directorate. However, the structure of the data restricts a proper evaluation. The mean price of the crops sold is not known and in some cases there is a gap between the maximum and the minimum prices. The use of these maximum and minimum numbers in economic indices, such as calculating the elasticity of supply, etc. is not possible. So the interpretations will be made analyzing the general scheme of the price and supply levels of the commodities.

Making interpretations with maximum and minimum prices observed brings in a number of additional problems that must be taken into account. At first, the price of a commodity may be high not because of limited supply in the wholesale market but because of limited supply in the whole county. Ankara is a populous city and this causes attractiveness. That may result some crops deliver to Ankara Wholesale Market in extra-ordinary quantities at extra-ordinary prices during certain periods and don't reflect the true supply-price relation of the commodity. Secondly, the quality of crop will affect the price levels. A crop perished during transportation is inevitably sold with very low prices. This too, will create a

distortion in the analysis. In spite of this, no information better is available so this data will be used to evaluate the supply-price relations.

To simplify the data monthly price-supply relations are used. To be meaningful only those crops available at the market for whole year long have been selected. Seasonal commodities were not analyzed. The selected commodities are tomatoes, potatoes, lemons and apples. A detailed analysis will be carried on the daily fluctuations of oranges.

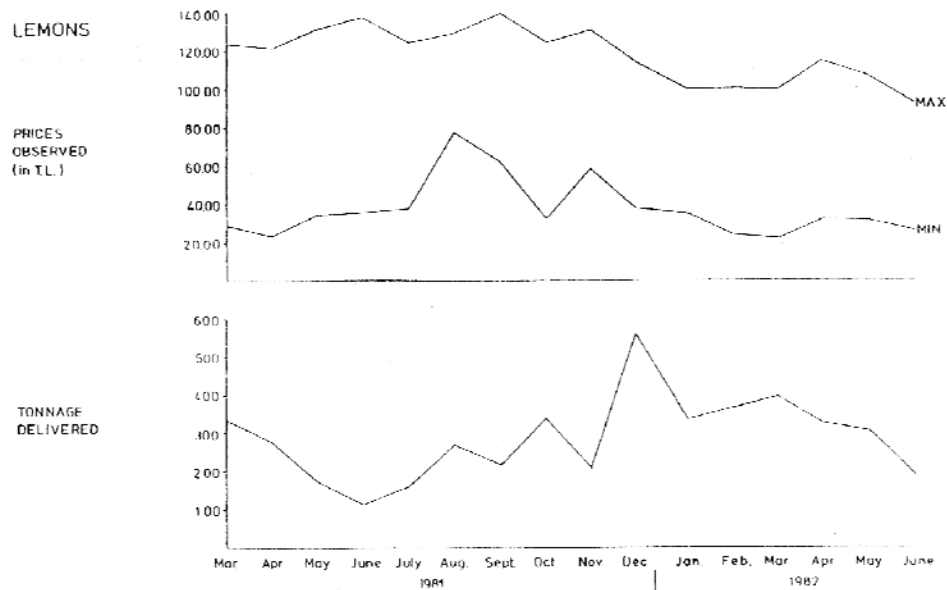


Figure 6: The Monthly Supply and Price Levels of Lemons at Wholesale Market of Ankara Municipality in 1981-1982

Source: Ankara Municipality, The Directorate of FFV Wholesale Market

For lemons, monthly prices seem to be stable for the whole year. The important thing for the lemons is that are not consumed as any fruit or vegetable but as a complementary of vegetables. Therefore lemons are not subject to substitution with other crops. The production period of lemons is between September to March but it is consumed throughout the whole year as can be seen from Figure 5. Lemons have outstanding peculiarities. They are picked when they are green and



ripened with two alternative methods<sup>47</sup>. One method is the process of artificial oxidizing in a closed place. The lemons ripened in this way must be consumed quickly. The second method is keeping the product in the cold stores for a long time. This process is performed primitively by the use of natural caves in the Nevşehir region. This process is preferred because of the extended the life of the fruit at the consumer market (the period before it perishes) which is much higher than oxidizing process storage in caves for long periods (at least for two months)is associated with the problem of the cost of capital. Although this method is cheap, to invest and wait for two months increases the cost of capital. This can only be performed powerful merchants. This peculiarity of lemons is reflected in its supply-price relations at the AWM. As can be seen in Figure 6 the prices of lemons are very stable for the whole year long, except the increase in the prices in August and September. This is the period that only lemons stored in caves are marketed. Apart from that, the supply fluctuates during of the year. The merchandize of good quality of lemons in AWM is performed only one dealer<sup>48</sup> and as can be seen the maximum prices are high and stable, compared with the respective minimum prices.

Tomatoes are delivered to the market for whole year long<sup>49</sup>. The scheme of the price-supply relations show typical free market conditions (Figure 7). Tomatoes are highly perishable so must be sold immediately. Thus the price is very sensitive

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<sup>47</sup> Interview with Mr, Yakup Çukurova, the executive of MENAŞ cooperative located at Mersin, August 4<sup>th</sup>, 1982, Mersin.

<sup>48</sup> Uzel firm is a wide spread firm in Turkey. The relatives of commission agent at Ankara Wholesale Market are located business at Mersin and İstanbul. Needless to say they are not commission agents but merchants.

<sup>49</sup> Tomatoes are produced at green-houses in the South, in winter. In summer they are one of the most rapidly ripening vegetables. In Table-3 it is shown that transport at 15°C must be done within 4 days. In the conditions of Turkey tomatoes are picked when are green under 60aC heat at farm, under sunshine. When are packed, they still preserves its heat. So when are not sold within 2 days perish and becomes impossible to sell even at very low prices.

to supply. If there is high supply commission agents tend to sell it with very low prices.

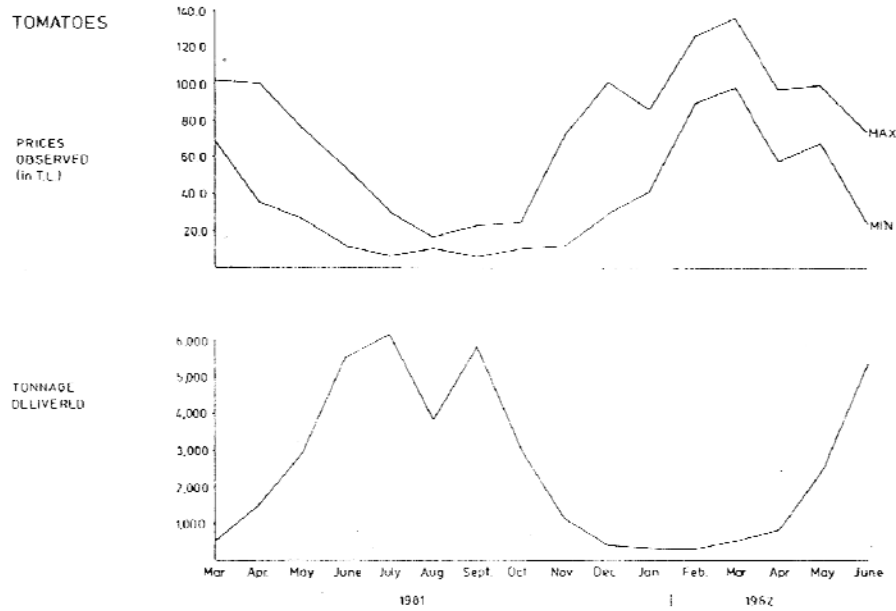


Figure 7: The Monthly Supply and Price Levels of Tomatoes at Wholesale Market of Ankara Municipality in 1981-1982

Source: Ankara Municipality, the Directorate of FFV Wholesale Market

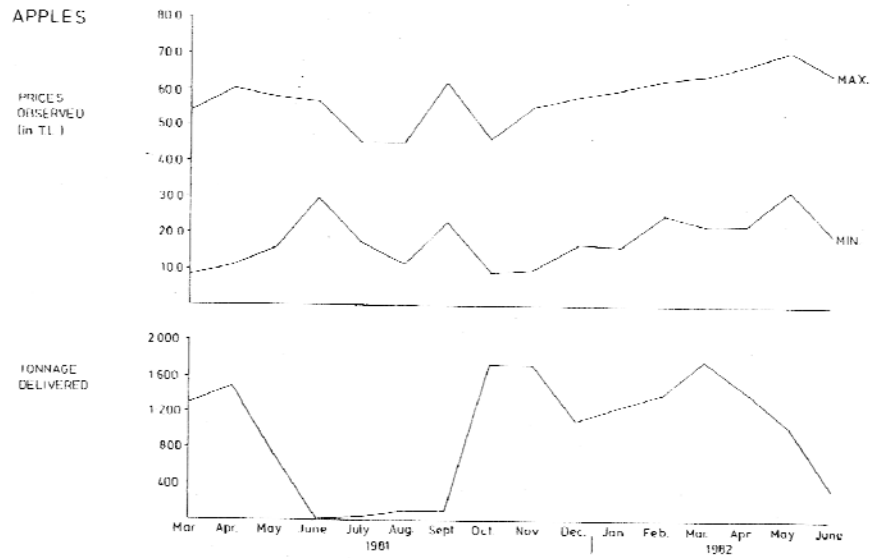


Figure 8: The Monthly Supply and Price Levels of Apples at Wholesale Market of Ankara Municipality in 1981-1982

Source: Ankara Municipality, the Directorate of FFV Wholesale Market

Apples are one of the seasonal fruits (Figure 8). Fall, winter and spring are their production period. The interesting point in apples is that they have high maximum and minimum prices during September. The reason is that apples are the expected fruit of the market at September and when delivered supply is small in this period, have high increases in prices.

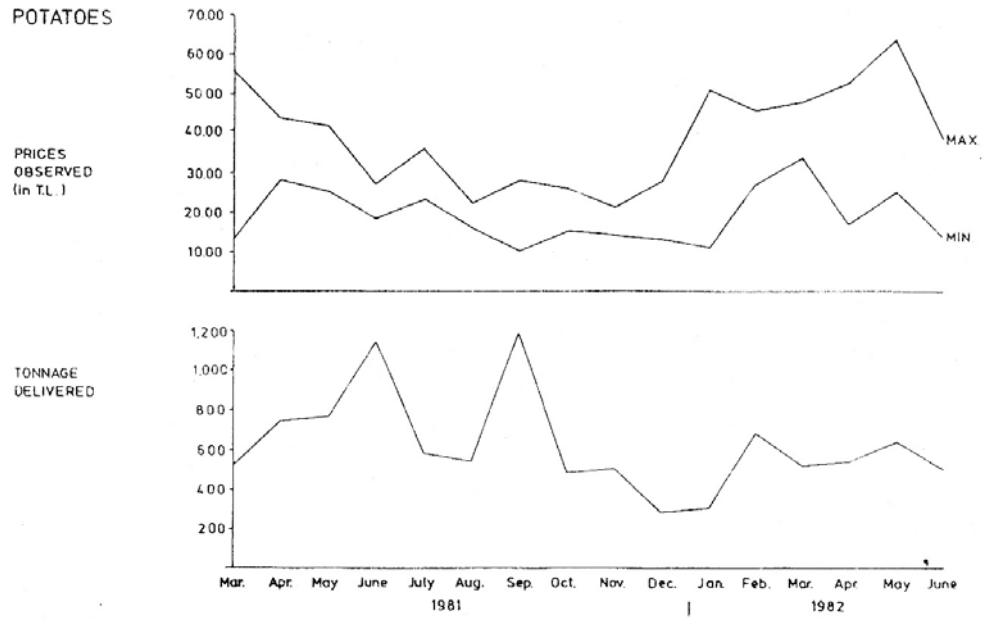


Figure 9: The Monthly Supply and Price Levels of Apples at Wholesale Market of Ankara Municipality in 1981-1982

Source: Ankara Municipality, the Directorate of FFV Wholesale Market

Potatoes are the most interesting crop of the wholesale market (Figure. As it has been stated, they are not accepted as fresh vegetables and allowed to be sold outside the municipal wholesale markets under the control of the Board of Commerce. But it is a vegetable and can be sold in the wholesale market too. So the dealers of the wholesale market while competing with each other also compete with merchants outside to market. Figure 8 shows the prices and the supplies of potatoes at the AWM. Potatoes have relatively short period of production compared with other crops. Supplies have their maximum in June and in August. The prices of maximum and minimum are both low during this period and began to increase five months later. For potatoes a sufficient evaluation cannot be made without analyzing the storage process after the short period of production.

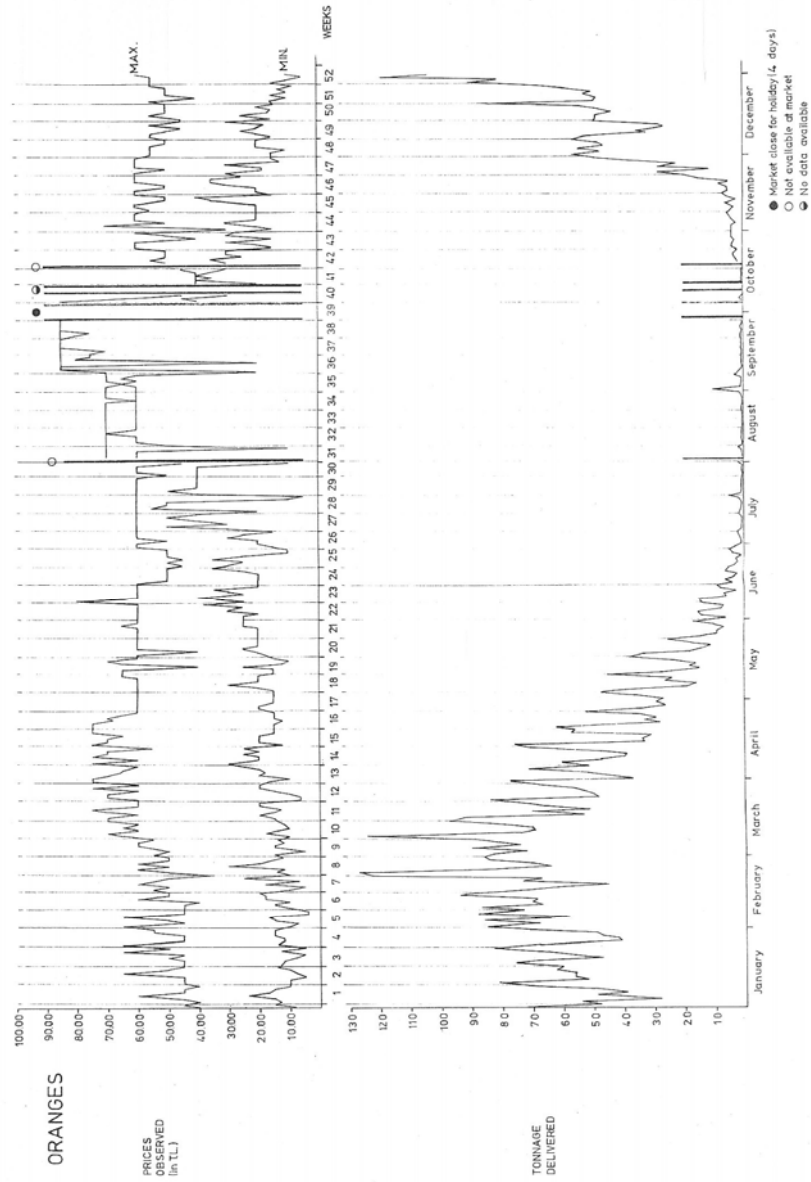


Figure 10: The Daily Supply and Price Levels of Oranges at the Wholesale Market of the Ankara Municipality in 1981-1982

Oranges will be examined with daily data (see Figure 10). The general scheme shows that fluctuations in supply are more than the fluctuations in price. The fluctuations decrease when oranges become out of season. During the out of season period, besides the stability, prices are not so high because of substituting crops at the market. Differences between maximum and minimum prices decrease and a uniform price is observed. The important thing in oranges is that the supply of the AWM is not only supply of Ankara. As it has been stated, retailers bring oranges to bazaar which they buy directly from producers. So supply of AWM is not the only factor that affects the level of prices. There are no visible increases in prices followed sharp decreases in supply which may be because of the retailers' effect at the retail market. Thus this may be the evidence of bazaar retailers' effects on prices, Commission agents as a group or as unique firms do not have absolute control on every crop.

#### **4.4. The Structure Of Deliveries To The AWM : A Word on Inter-Regional Flow of Fresh Fruit Vegetables**

For the purposes of this study, the examination of the flow structure of deliveries to the AWM had two aims. One of them is to point out the scale and the size of the deliveries to the AWM. The other is to show the marketing characteristics of FFVs of different kinds and the marketing characteristics of different locations of Turkey.

To fulfill these purposes an interview survey was practiced at the AWM. Through this survey following questions were asked to wholesale dealers:

- The register number of the wholesale dealer given the municipal authority of wholesale market (to define the commission agent),
- The names of the crops present at the shop that day,
- The total weight of each crop delivered that day,

- The price of crop delivered,
- The date of delivery,
- Information on Who sent the crop? Producer or the merchant or does it belongs to the wholesale dealer?
- The origin of crop at district level.

With this data every single crop delivered to the AWM was identified. The survey was made on the June 29<sup>th</sup>, 1982. This was period during which the fruits and vegetables of summer were available at the market but lost their “early” peculiarities. The fruits of late spring which have short periods of production (about two months) such as apricots, sweet and sour cherries, plums were still available at the market. Also, the date was selected as the second day of the week to prevent the possible distortions in delivery because of urban traffic congestion that often happens in the first and last day of the week at the AWM. The daily characteristic of the data was important and because it was impossible to conduct the interviews in one day sampling was preferred. Out of the 151 wholesale dealers 72 were randomly sampled, which meant roughly half of the population. Of those 151, melon-sellers amounted to 34 and 19 of them were interviewed.

It has been calculated that 270 commodities were into the market to 72 commission agents. 19 of the commission agents were melon sellers and 52 were selling all kinds of fruit and vegetables. One commission agent refused to answer the questions. All of the Melon sellers had single delivery that day. The rest have brought 251 commodities averaging 4.8 for each. 27 different kinds of these crops were delivered; the frequencies of these crops are indicated in Table 9.

Table 9: The frequency of crops available at the wholesale dealers of the Ankara Wholesale Market (June 29th, 1982)

Fruits		Vegetables	
Apples	1	Calavance	2
Apricots	26	Cucumbers	19
Grapes	9	Eggplants	20
Grapefruits	2	Grape-leaves	1
Lemons	6	Green beans	19
Oranges	2	Green garlies	1
Peaches	15	Green onions	2
Pears	11	Okras	7
Plums	12	Onions	3
Sour cherries	7	Potatoes	1
Strawberries	4	Purslanes	1
Sweet cherries	11	Stuff - hot peppers	27
Melons	19	Squashs	6
		Tomatoes	38

All of the deliveries were made by trucks. So the size of the loads hardly exceeded truck capacity. The weighted mean of the deliveries were 3,273 Kgs, The Table 10 shows the sizes of the deliveries:

Table 10: Size of the deliveries to Ankara Wholesale Market.

	No. of Cases	%
1 - 500 kgs	59	21.9
501 - 1000 kgs	43	15.9
1001 - 5000 kgs	99	36.7
5001 - 10000 kgs	63	23.3
+ 10000 kgs	6	2.2
Total	270	100.0



As can be seen from the table, more than half of the deliveries are one or half truck loads. The truck loads may be assumed as 10,000 kgs and the delivery of highest weight is 25,000 kg. This fact may be evidence for the uniformity of the scale of the producer, the commission agent and the vehicles used in transportation. Most of the fruits and the vegetables are sold at the date of arrival. Table-II shows the frequencies of arrival dates:

Table 11: The frequency of dates of arrivals of crops to the Ankara Wholesale Market.

	No. of Cases	%
Days arrival	176	65.2
1 day ago	88	32.6
2 days ago	-	-
3 days ago	1	0.4
4 days ago	1	0.4
More than 5 days	4	1.4
Total	270	100.0

More than half of crops arrived daily but it was expected to be higher. It was stated by many dealers that the day before the survey was Monday and there was traffic congestion at the market which blocked the entrance of the market, delaying the timely delivery of the commodities. So the percentages must be expected to be higher.

The information about origins is at the district level. 270 different crops observed originated from 42 different districts of Turkey. The distributions of deliveries from

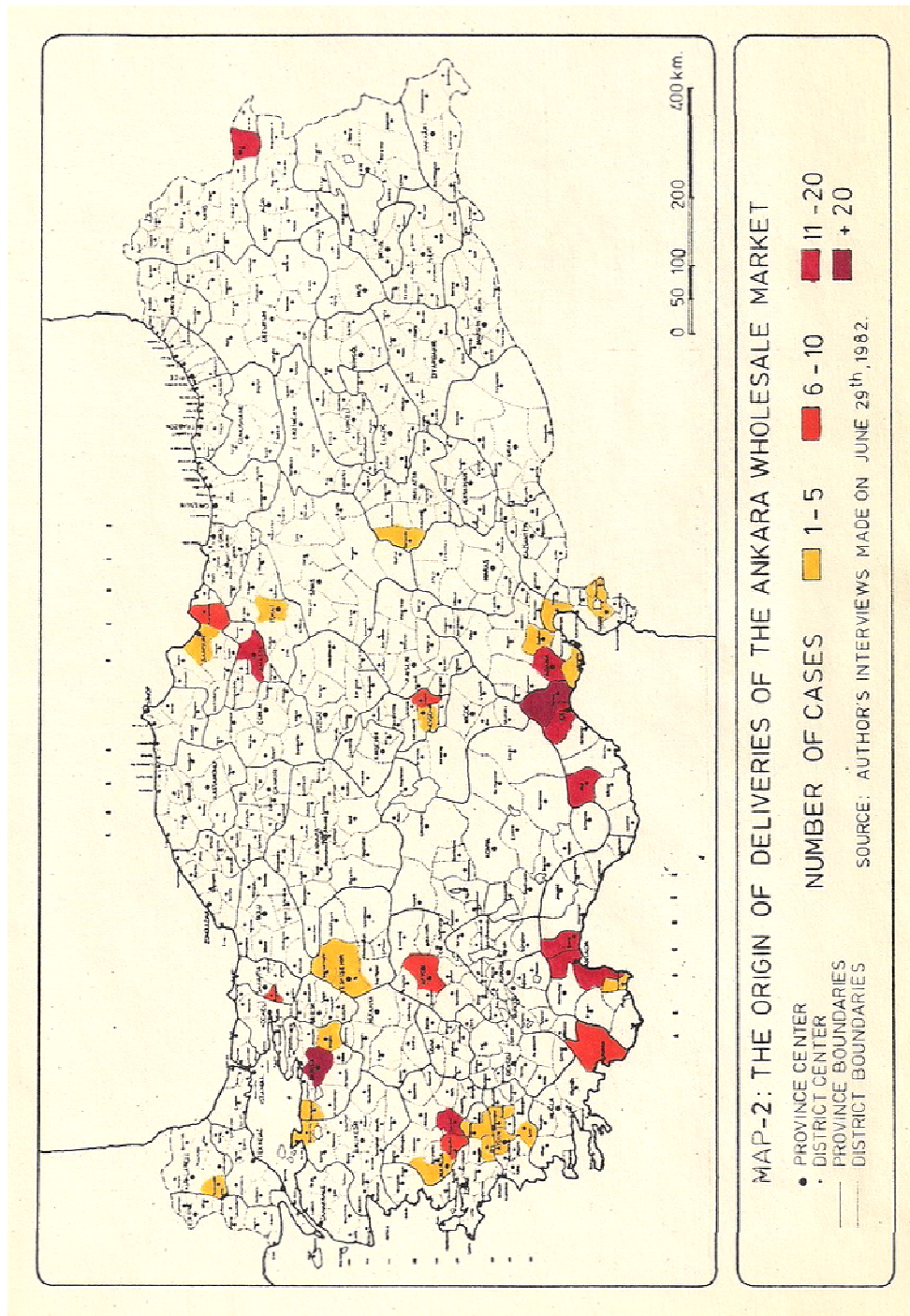


Figure 11: The Origin of Deliveries to the Ankara Wholesale Market

The sender of the commodity is subject to causal ties that develop outside the AWM. As it has been stated, the sender may be a producer or a merchant or the delivery might belong to the commission agent himself. Of the 270 crops represented in the survey 103 were sent by the merchants (38.2%), 161 were sent by producers (59.6%), and only 3 belonged to commission agent of the AWM (1.1%) and for 3 of them (1.1 %) the sender was not known. The 3 commodities that belong to one the commission agent owning the three commodities is known as an exporter and a merchant. He also brought the lemons cited in the previous paragraph. The lack of wholesale dealers' commodities at the market may be evidence for the meaninglessness of giving the second priority to producers in the law and in the official regulations of the wholesale markets of municipalities.

In previous parts of the text the role of merchants in marketing has been discussed. It has been stated that they act as obstacles between the producer and the consumer. It has also been mentioned that grasp a high share from the selling value of commodities. Several statements had been put forward emphasizing their negative role on marketing and the development of producers. Keeping those in mind the structural causalities of their presence will be analyzed here. Two statements might, be tested with the data available, for the AWM: i) Marketing process differs from crop to crop and the marketing efficiency of producer or merchant highly dependent on the type of the crop, ii) Marketing process differs from place to place and the marketing efficiency of producer or merchant on the depends on the peculiarities of the production place.

The marketing process of a given type of crop depends upon several characteristics of the crop. The period of production, the producer's position, competitiveness of the crop with other crops if substitution is possible, the possibility of production in different regions because of climatic reasons may be some of these characteristics which affect the marketing process. One of the outcomes of these characteristics is **the level of extension of production** of a crop throughout the country. The spatial and size distribution of production of a

crop throughout the country highly affects the marketing process. It may be assumed that if production of a crop is spread all over the country, this means there is a competition in the marketing of that crop. Because the producer himself cannot control the whole market he will sell his commodity to merchants which are specialized in marketing. Thus, it may be stated that, if the number of places of production of a crop increases the marketing advantage of producers decreases.

Secondly, **the place of production** affects the marketing style. If a place is specialized on production of a given crop the possibility of self-marketing by producers will increase. This is because the producers may take the benefits of achieving accumulated information about marketing, may establish organizations for marketing, more easily if there is a specialization in that location. On the contrary, if there is no specialization in one location the possibility of producers successful self-marketing decreases.

With the data available for the AWM (aggregated during the survey), these theses may be tested, The first statement; the relation between the marketing possibility of producers and number of places of production of crops can be examined by looking at the correlation between number of places producing a crop and the level of sending made producer for every crop observed at the market, To be meaningful only those cases with more than five deliveries were taken into consideration. Out of 270 such deliveries, 250 (92.6%) cases were taken into the analysis. The relationship was negative as had been expected (one variable is expected to be increasing where as the other decreasing) and the Pearson's correlation was -0.3803.

For the second statement, the relation between the number of crops produced at a place and the marketing possibility of producers was examined. This was done looking at the correlation between number of crops coming from a location and the number of producers' consignments, for different kinds of crops. To be statistically meaningful the types of crops having deliveries less than five were

excluded from the calculation. Thus out of 270 deliveries 232 (85.9%) were included to the calculation. It was expected that when the number of crops originating from a given place increased, producers' self-marketing possibility is to be decreased. Thus the relation was expected to be negative. The Pearson's correlation coefficient of this statement was calculated as -0.7314.

Within the limits of available collected data and assumptions made, it can be stated that the spatial diffusion of production of a crop throughout the country does not affect the producers self marketing as much as the level of spatial specialization of crop varieties in a given location. In other words, the level of specialization of production in a given location contributes more towards the producers' participation to marketing. This outcome may be one of the most important facts (of course not the only one) in regional disintegration in marketing of FFVs.

#### **4.5. Discussions on the Location of the Ankara Wholesale Market**

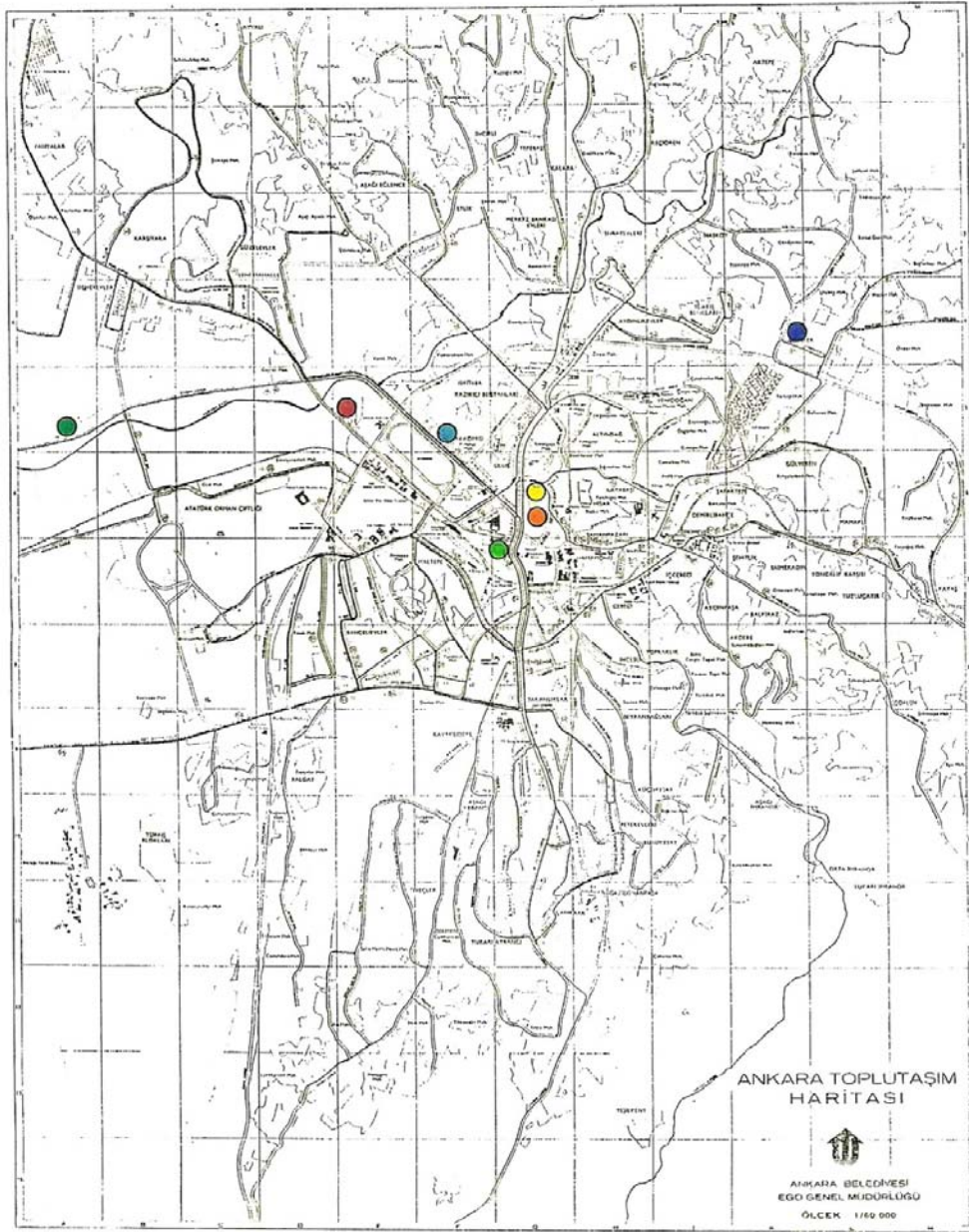
The location of the FFV Wholesale Market of Ankara Municipality is given in Map 3.

Although the present the location of the AWM was chosen in 1941, the first location of Ankara Wholesale Market is not known. It is known that the wholesales of FFVs were executed by seven or eight commission agents at a place near the building of the Ankara Municipality still present today (Ali Sözer, 1970; p.4). After the Code of Municipalities was issued in 1930, the market moved to a commercial building in a district called Hacı Doğan (Doğan Bey), to meet the sanitary requirements. At this location there were 18 commission agents. In 1938 the wholesalers moved to another commercial building in Akköprü. There were 25 places allocated to commission agents. At this location, because of the fact that it was distant to retailers, difficulties appeared. In 1941, the location changed again and market moved to its present location in Sıhhiye district. This was

planned to be a temporary location but since then the location of the AWM has not been changed, despite efforts for modification of the location.

In 1957 city plan of Ankara the location was proposed within the borders of land belonging the Atatürk Orman Çiftliği İşletmesi (Atatürk Forest Farm Management, thereafter shall be referred as AOC) but the transfer of the necessary land to the Municipality caused difficulties (Gök, 1987: pp. 118-164). The difficulties arose because the land was reserved for the recreation facilities proposed Atatürk (Map-3). Decision makers hesitated to execute this plan decision and sought for a new place. Another place was found on the east of city near the national highway and plan changes were made. But this alternative hasn't been realized either. After the local elections of 1969 the new political group at the Municipality put emphasis on the subject. This was the time when Metropolitan Master Plan Bureau of Ankara (Ankara Metropolitan Alan Nâzım Plan Bürosu) was as a branch of Ministry of Reconstruction and Settlement (İmar Ve İskân Bakanlığı) with the duty to prepare the master plan of Ankara , “*ex-officio*”. The municipality consulted to the Ankara Metropolitan Area Master Plan Bureau and asked them to propose a site for the Ankara Wholesale Market. The bureau made this selection within a month, three alternatives were proposed as possible sites of location.

One of them was the old alternative at AOC property. The second one was the formerly proposed alternative on the east of the city. The third one was the place selected on the West, shown on Figure 12.



**MAP- 3: THE DEVELOPMENT OF LOCATION OF THE ANKARA WHOLESALE MARKET**

- BEFORE 1932
- 1932-1938
- 1938 - 1941
- 1941 -
- FUTURE LOCATION AT AOÇ PROPERTY
- WEST ALTERNATIVE BY AMANPB
- EAST ALTERNATIVE BY AMANPB

Figure 12: The Development of Location of the Ankara Wholesale Market

Between these three alternatives, the Metropolitan Bureau reassured that the location would be the best within AOÇ property, a decision parallel to the plan made in 1957. This decision of the Metropolitan Bureau was given considering the following factors:

- i. Accessibility of trucks coming from production places,
- ii. Ease of intercity distribution of commodities,
- iii. Sufficiency of land and ease of realization,
- iv. Consistency with the city macro plan alternatives prepared by the Metropolitan Bureau.

After 1969, until 1973 the debate on the location of the Wholesale Market has continued (Gök, 1978: pp. 118-164), During this time to avoid the traffic congestion (mainly caused the Wholesale Market) a grade separated intersection has been constructed at the location called Opera, 150 m. to the location of AWM. Thus the Wholesale Market's negative influence to the city highly surpassed. A short time before the local elections, the debate on the re-location of the AWM aroused again. To overcome the difficulties of locating the wholesale market within the property proposed as recreation areas by Atatürk, the mayor prepared a law proposal and passed it to the National Assembly through his political party in the year 1972. During the discussion of the law proposed the local elections were held. The mayor lost the elections. The new mayor was a member of the opposing party but still insisted on the same location and supported the law proposal. It took 4 years for the law proposal be voted and passed the National Assembly. In present, in 1983, the construction of new FFV Wholesale Market of Ankara Municipality still continues on this site and has not been completed yet.

This discussion gives some gives some clues on the location problem of wholesale markets. First of all, the wholesalers, nevertheless of their wishes cannot change their location themselves. The reason is that law strictly states that municipalities must build wholesale markets and all of the wholesale dealers must be located at



these wholesale markets as per Law No: 80. Even some dealers has suggestions on other possible locations, actually they cannot transfer their business to alternative location, because of the agglomeration market economies at the wholesale markets.

The second outcome of the discussion may be lack of participation of wholesale dealers in their location problem. In the past there might have been oral request of dealers for changing the location and proposing a new location for the wholesale market requesting from the mayor. But a written document as an evidence of flow of information between wholesale dealers and the municipality about location has not been found. The reason might be due to the fact that the at wholesale markets are owned by the municipality. The law about wholesale markets strictly states that the places at wholesale markets be owned by the public and not sold even rented. The places can only be allotted to the wholesale dealers. The wholesale dealers don't own shops. They are not even considered as tenants and do not have the rights which a normal tenant has by law. This distinctiveness of wholesale markets has advantages and disadvantages for planners and the municipality. The most important advantage is that the markets are ready to transfer any time. The dealers do not have any rights of rejection to transfer the location, compared with the other sectors such as small industrial producers, merchants of different kinds etc. The mobility of wholesale markets are high, at least theoretically and this is provided municipalities having the market's property in their possessing. This also solves many probable questions of selection the location.

In spite of this, there are some disadvantages of municipalities possessing the 'wholesale markets. In this framework it is not rational for wholesale dealers to make investment to the market. All necessary investments are expected to be made municipalities and contribution of wholesale dealers financing the costs of market is wholly neglected. When the financial fund problems of municipalities in Turkey are taken into account, the possessing of market land by the municipalities

becomes disadvantage.

The possession of land by municipalities is rational with the marketing process presumed by the law. The law intends wholesale dealers have uniform opportunities in business, in order to provide competitiveness at wholesale markets for benefits of the consumer. In other words, the law intends to prevent wholesale markets from being monopolize or oligopolize. When it is considered that one of the ways to monopolize or oligopolize a commercial business it could be performed by the operations on the value of land; the law prohibits it by transferring the market property to municipal possessing. This fact is the most important dimension in discussion in possessing of wholesale market property.

Although it has been stated that wholesale markets have the advantages of transfer to other locations when it is necessary, compared with other business holders, this advantage has not been utilized in Turkey. AWM has stayed in the location given with the condition of “temporary” for 42 years. The FFV Wholesale Market of İstanbul is in its location for more than 100 years subjecting to complaints of public at least for the last 30 years. The reason is not the perfection of location but the fewness of interest holders of the markets. The markets are used are commission agents and retailers which are small in numbers. The Ankara Wholesale Market caused terrible traffic congestion in 1970's at the road junction close to the market. The solution of the problem was formulated the municipality as building a grade separated intersection, instead of accelerating solution of location problem of the market. Perhaps constructing a grade-separated intersection is more attractive than re-constructing a wholesale market for FFVs, in front of the public. Even through the Wholesale Market of Ankara has some arguments on location which might be accepted as an excuse, İstanbul Wholesale Market too has neither changed its location nor re-constructed for a better performance at its present location. This may be because wholesale markets are not used the majority of the public.

It should also be stated that this peculiarity is also common for FFV wholesale markets outside the Turkey. In 1960's most of the wholesale markets of United States were in very bad condition and location (Shepherd, 1962: pp. 496-497). The French Market in New Orleans was about 150 years old, the Dock Street Market and the Callowhill Street market in Philadelphia were nearly 100 years old in location and in condition at 1960. Same thing was true for Covent Garden of London up to 1973 (Christie, 1973: pp. 30-62). The subject of discussion of Covent Garden was not the condition of the market, but the ancientness and the romance of the place deteriorated by the FFV wholesales. So it might be stated that, the conditions of market are not the reasons for re-locating or reconstruction. If markets have negative effects on other land-uses or sectors, the re-location or re-construction becomes a decision issue. It must also be added that in many cases the transfer of market is not easy as it is in Turkey. For example, the wholesale dealers of FFVs in United States are merchants who own their shops (Shepherd, 1962: p. 601). When possession of the shop by wholesale dealers is in question, it is not easy to transfer the market. But it is not the case for Turkey.

The transfer of location of wholesale markets raises a question: Would it be better to construct two, three or more wholesale markets dispersed to different districts of the city instead of one central market? (Tekeli, Gülöksüz and Okyay, 1976: pp. 183-184) This debate was alive for the Wholesale Market of New York City and in 1913 a new market was built In Bronx, as an addition to central market (Shepherd, 1970: pp. 500-509). The past experience shows that it has many disadvantages. The goods coming to wholesale markets day by day and prices highly fluctuate depending to the supply and demand of that day. The buyer wants to be aware of all the prices and quantities available for all commodities of the whole city. Instead of wandering for learning the prices at different markets or being bounded to one wholesale market to avoid wandering throughout the city, the buyer prefers to go to a central wholesale market where he can see the all possible prices for all commodities of the day in the whole city. Additionally it

may be stated that decentralization may cause distortions in free-market conditions. The buyers who cannot get information of all the prices available will accept the price they find convenient and this will cause an artificial rise in the prices. Of course the decentralized wholesale markets may decrease the traffic load to the city and in this respect there are advantages of decentralized markets. But former discussion seems more crucial. Additionally, the scale economies that will be achieved with a central market must be taken into account when it is kept in mind that the municipalities are responsible for investments and the operational costs of wholesale markets.

#### **4.6. Other Possible Organizations of FFV Marketing: A Case Study of MIGROS in 1982**

Another type of organization of FFV marketing is the Migros firm located at Istanbul (Tekeli and Ortaylı, 1978: pp. 167-170). The Migros is the union cooperatives of producers and consumers of agricultural production of Switzerland. The local authorities of Istanbul seriously decided to provide cheap food to the public and made contacts with several foreign action groups of similar aims and in 1954 a senator from Switzerland came to Istanbul. Senator Duttwiller proposed the Migros organization model to local authorities of Istanbul. He proposed a marketing channel which will provide commodities direct from producers to consumers, excluding the middleman. The core of this model was selling vehicles, instead of permanent shops wandering through the city, stopping and selling every day. This model planned was expected to be in favour of producers as well as consumers. The central government took it seriously too and a joint stock corporation was established with participation of national banks of Turkey and the Migros firm of Switzerland. With a contract made with the Municipality of Istanbul, the firm took the privilege of being the only company whom can sell FFVs without bringing the commodities to wholesale market.

In 1955 the firm began to operate. At that time about 21 trucks were in operation as selling vehicles. The most important difficulty faced was the packing problem. Later on the firm gave importance to packing problem and brought new machines for automatic packing. Meanwhile the number of selling trucks increased to 75, within a couple of years.

The crucial point of Migros firm is although the purpose of providing cheap food to the public was somehow sustained, the direct linkage between consumer and producer have never been realized. The structure of firm didn't let the possibility to producers and consumers be organized within the firm. In turn, the firm became a chain store firm which might be an example of chain stores of United States and Europe. So the case of Migros will be analyzed here to discuss another possibility of FFVs marketing for future, completely different from the traditional Turkish marketing,

In 1975 the Migros left Turkey after 20 years of experience, selling his assets to Koç Holding, without realizing the direct marketing chain between consumers and producers<sup>50</sup>. The Firm didn't make any structural changes on the organizational framework of the firm but only changed the general director. In 1982 the firm had 23 permanent retail stores dispersed to different districts of Istanbul. In 1981 the firm made a revenue of 6,5 billion TL. Of these 6,5 billion TL revenues, 1,5 billion were made from sales of FFVs, 1,1 billion TL were from meat, 400 million TL from home consumption and 3,5 billion TL from non-perishable foods. The percentage of revenues made from FFVs are not so high and it seems the firm profits mainly from nonperishable foods. The firm gave more emphasis on vegetable selling because they can give better service in vegetables. Also it has been stated that green-grocers of Istanbul can give better service in fruit selling. Out of total of FFV sales 45 % belongs to fruits and 55 % belongs to vegetables.

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<sup>50</sup> Interview with chief of Fresh Fruit and Vegetable branch of Migros, July 29<sup>th</sup>, 1982, İstanbul.

The supply chain of Migros firm is interesting. At Antalya, Mersin, and Bursa; the locations known as producing centers of FFVs, the firm has its own offices. Those offices are responsible of providing FFVs to the firm at Istanbul. Those offices are equipped with telephones, telexes, vehicles and employ 3 to 6 employees which their chief is mostly agricultural engineers. This group provides FFVs from anywhere; from wholesale market of the city or nearby cities, or from merchants of the region or buying directly from producers.

They have very close contact with headquarters of the firm at Istanbul. One of the terms of providing crops is making time-bargains with producers. In those bargains mostly the producer applies to the office of Migros at his location. For his application to be taken seriously by the office the crop must be a little bit grown-up in order to give an idea of the level of cultivation. If the branch of the firm at production place takes the application in consideration a team from the office goes to the cultivation land examines the condition of cultivation. After make their examinations make a bargain with the producer about crop that will be grown-up after 2 months and prepare a report (an example of this reports is given in ). This report is send to the center of the firm at Istanbul. The center of the firm does not make interferences frequently but keep their control on their branch. They may order to offices of the firm to look for particular crops for time-bargain. Briefly, the center keeps the control of short term (daily) and long term (2 months) flow of crops. In time-bargains the prices decided taking the prices of a year before and the impact of inflation into account. The chief of FFV branch of the firm also stated that when make time bargains calculate 5 % interest rate, and 15 % operational costs, making a total of 20 % and reduce it from the value that will be given to the farmer. He stated that, at the regions they work hail damages occur almost 3 years at a time, but with their use of selection this risk reflects to Migros as 1 %. Also prefer not to make time-bargains when the inflation decreases because in the conditions of stability the value of money increases.

The packing problem appeared as a problem in the initial days of Migros still continues for FFVs, although it has been solved for non-perishable goods. The chief of FFV branch states that the packing done at the farm to prevent losses but this couldn't be organized.

The firm works with 30 % profit margin on selling price which İstanbul Municipality gave to supermarkets. The transports of crops from production places to İstanbul are made by trucks. Those trucks are provided verbal contracts with transport commissioners of that region.

Of 75 selling trucks available in the past 12 of them were left. As some of them are out of order, 6 trucks are in operation. They are making 6 or 7 stops per day to the same places. The chief of FFV branch told that they don't have an expectation of profits from the selling vehicles. He stated that revenues of selling through trucks hardly compensate their costs but keep them in operation because are advertizing the firm itself free of charge.

BAHÇE VEYA TARLA ALIMLARI KONTROL LİSTESİ		1141198
1. Bahçe veya tarlanın sahibi ve yeri	Müseyin Arslan - Kumlukalan Köyü	
2. Malın cinsi	Göbekli Marul.	
3. Alanı ( metrekaşe veya dönüm )	7 Dönüm	
4. Verimli Ağaç veya kök sayısı	10.000 - 11000 -	
5. Tahcenin yaşı	-	
6. İloçlama, gübreleme vs. gibi bakımın yapıp yapılmadığı.	İyi	
7. Tahmini mahsul miktarı	10.000	
8. Bedeli	- 73.000 - Y. Yetmiş üç bin TL dir .	
9. Sulama durumu	İyi	
10. Tabii afetler riziko durumu (son 5 sene içinde don dolu vs. olayların olup olmadığı.	Fecan sene dolu dırktı	
1. Tediye Şartları	Rezin .	
2. Bahçe veya tarlanın yol durumu.	İyi fakat yolda traktörle taşınacak	
3. Mütalaa	İyi	
4. Karar	Alınması uygun görülür	
5. Araştırmayı yapanın Adı ve Soyadı.	[Signature] (Adnan Öner)	

Figure 13: An Example of the Report Prepared by the FFV Supply Branch of the Migros Firm at Bursa.

Source: Migros-Türk A.Ş., İstanbul.



The possibility of development of chain stores including FFVs in Turkey has discussed with him. He stated that this kind of organizations needs very high capital but in turn the profitability of retail trade is very weak. The firms or corporations that may finance this capital may find more profitable business in Turkey. So he suggests that the chain store development in Turkey is not possible in the near future.

The Migros is example how the model tended to be modern, articulated to traditional marketing structure during 20 years. The main question of the marketing FFVs is the whole chain from producer to consumer is small in scale. The marketing system creates a service system and a financing system which is small in scale too. The economies of scale shows its impact on the export process, an expected source for countries' exports. Only in Mersin, nearly 100 firms are present exporting lemons where as the whole lemon exports of in performed only 4 firms and in Israel only Yafa firm (a government firm) is active in exports.

So for the near future a substantial change in the structure of marketing of FFVs must not be expected unless a wide interference of the government. This situation will be expected to reflect cities and municipalities. The possible policies that can be practiced will be discussed in the proceeding chapter.

## **CHAPTER 5**

### **CURRENT SITUATION OF ACTORS INVOLVING IN FFV DISTRIBUTION PROCESS**

In this chapter the current situation of actors involving in FFV distribution process and relations with each other shall be discussed. Until now the distribution chain has been discussed under three main headings: i) Producers ii) The middleman (commissioners, merchants, brokers etc.) and iii) Consumer market and consumers. In the past thirty years substantial changes occurred in the consumer market and in consumers' attitudes which effect the other items, therefore in this chapter the process shall be discussed giving the priority to the consumer market and consumers and its effect on other actors.

#### **5.1. Changes In Consumer Market And In Consumers**

As pointed out in the introduction Turkish economy had a substantial change within the last thirty years, from a closed and import substitution based economy to open and export motivated one. The pattern of goods produced, employer – employee relations, the status of workers, women's contribution to the workforce, average income, family structure has been subject to a significant transformation together with the consumption pattern. The middle class made an expansion and as A.W. Shepherd (2004, p. 2) points out the average consumer became “cash rich

– time poor”<sup>51</sup>, which is also true for Turkey. This tendency had two major implications to the consumer market: i) The demand to processed food which will reduce the cooking time was increased, ii) A significant change from bazaars or wet markets to super and hyper markets was experienced.

Another result of the developments in the consumption pattern was the development of food serving establishment like, restaurants, fast-food shops, etc. serving food outside homes. This establishments, fast-food chains in particular are very dedicated to provide a uniform product level and therefore very keen on the supply of raw products and materials they use in their establishments. This lead them to establish a new supply chain as will be discussed in the proceeding parts of this study.

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<sup>51</sup> A.W.Shepherd (2005), The implications of supermarket development for horticultural farmers and traditional marketing systems in Asia, Report: Agricultural Management, Marketing and Finance Service FAO, Rome, in [http://www.fao.org/fileadmin/user\\_upload/ags/publications/asia\\_sups.pdf](http://www.fao.org/fileadmin/user_upload/ags/publications/asia_sups.pdf) accessed on January 31<sup>st</sup>, 2012.

Table 12: Main changes in agrifood systems from globalisation (Argentina)

<b>Traditional</b>	<b>Modern</b>
Mass consumption of standardized products	Differentiated consumption: foods that incorporate services
Food prepared in the home	Preparation of industrialized foods
Food industry is in control	Retail and food service sectors are in control
Logic of supply: sell what you produce (Fordism)	Logic of demand: produce what is demanded (flexible system)
Prices set in open markets, with little co-ordination over the chain	Prices set by contracts, with more co-ordination in the chain
Production of commodities	Production of ‘products’ with specific characteristics
Limited dependence on new technology, R&D and information as public goods	High dependence on new technology, R&D and information as private goods
Lack of structural consistency in the food industry and in agriculture	Concentration in the food and agriculture sectors and unemployment; crisis of small firms and farms
Food retailed by small firms	Retail concentration in supermarkets and hypermarkets
FDI focused on agrifood exports	FDI focused on domestic and regional markets

Source: GHEZÁN, Graciela, MATEOS, Mónica, and LAURA Viteri (2002), *Impact of Supermarkets and Fast-Food Chains on Horticulture Supply Chains in Argentina*, Development Policy Review, 20 (4), pp. 390.

Changes in food consumption pattern for a similar country affected by globalization; in Argentina summarized On Table 12.

The change in the consumption pattern from groceries, green groceries and bazaars to super and hyper markets were also reinforced by the governments’ choices. The governments after 1980’s supported FDI as pointed out in Chapter I – Introduction, this created a sort of a “*laissez faire, laissez passé*” situation for chain retailer entrepreneurs from Europe and North America.

## 5.2. The rise of supermarkets

Retail chain has changed thoroughly not only in developed countries but also in developing countries after 1980's. As the retail chain stores changed the pattern of FFV distribution pattern it shall be adequate to focus the development of chain store in the world.

### 3.2.1. *The rise of supermarkets in the world*

Beginning after the World War II, chain stores showed an extensive growth in North America and in Western Europe retail. This development continued to developing countries in the Middle East, South East Asia, South Africa, and in South and Middle America. The reasons can be listed in two groups: Demand oriented reasons, supply oriented reasons. Demand oriented reasons are as follows:

- ***Rise of the household income:*** Beginning with developed countries after World War II, and industrialization in developing countries after 1980's the average income of households significantly raised, and middle income group have grown. The pattern of retail purchasing in parallel with the growth of the middle income the purchasing demand transformed from individual stores to mass stores.
- ***Demand for higher quality food:*** Demand for higher quality food increased with higher income.
- ***Changes in the household characteristics:*** With industrialization the women's role in the family was changed. House-wives became employees, and the families became 'cash-rich and time-poor' as one author remarks.
- ***Changes in the purchasing pattern of households:*** The purchasing pattern of families changed with change in the women's role in the family.

Whereas in a family which has a non-working member; the house-wife is ready to purchase fresh food every day, in a family of all members working or at school could in contrast hardly find enough time to go shopping even for a single day in a week. Supermarkets are best solutions to this kind of 'time' problem.

- ***The increase in the quality and quantity of refrigerators and other cooling units:*** The improvements in refrigeration and freezer technology eliminated the requirement of daily purchasing of goods. Also the availability of frozen food reduced the requirement of daily food purchasing for families.
- ***Development of the banking system and introduction of credit cards to consumer market:*** Until 1990's the banking system was operating in a very modest mode. By the development of the telecommunication and computerized banking system, banks introduced credit cards in early 1990's in Turkey. Credit cards quickly replaced the "on-account (on-tick)" credit system favored by small groceries until then. Retail chain stores, having the advantage of adopting the renovations easily dominated the retail market over the small groceries utilizing the credit cards as a source of financing the consumers.

Demand oriented reasons can be listed as follows:

- ***Economies of scale in retail:*** After World War II, especially in North America the economics of scale in retail was recognized. As the number of retail unit in a retail chain increases, economies are made through lower purchasing costs of goods, more effective manipulation of the supply, higher efficiency of advertisements, and similar advantages are on the side of the super market investors. This attracted the entrepreneurs to invest in retail.

- ***Higher Turnover rate in retail:*** Retail chain has its advantages to other investment areas like industries and lower risks of capital.
- ***Advantages of Multi-nationalism:*** Multi-national capital has its advantages in transferring their capital from a country to another in case of risks, and this transfer is not a expensive transfer. Also in case of a depression in a country that will effect retail volumes, revenues from others can easily compensate the loses. This reduces the risk of the capital.
- ***Advantages of FDI to developing countries:*** To attract FDI, developing countries provide incentives for foreign capital. Tax exemptions, free outflow of profits are the few of these advantages and multinational retail chains make the best use of these advantages.

These developments became the reason of changes in retail pattern from single retailers with micro capital to chain super retailers with high investment potential.

### ***3.2.2. The rise of supermarkets in Turkey***

The distribution of FFV changed in a considerable extend after 1980's in Turkey by the demand of new retailers and fast-food chains, so it would be important to give a short history of supermarkets in Turkey<sup>52</sup>.

The first supermarkets begun shortly after the World War II, after the elections held in 1950 and a liberal party (Demokrat Parti) took the lead. Until then food in general, and FFV in particular were supplied by groceries (bakkal) and green-groceries (manav), together with butchers (kasap) all of them are micro-retailer in large and mid-sized towns in Turkey. Migros was the first company to invest in retail by FDI in Turkey. The company named itself Migros-Türk to repel possible opposition by micro-retailers. The government establishment Gima A.Ş. was

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<sup>52</sup> A.A.Koç, et.al, pp. 7-21 and S. Lemeilleur and S. Tozanlı, pp. 3-4.

established in Ankara selling garments and electro-domestic products and food. Gima was followed by Tansaş; a municipality initiative in İzmir, in 1973. After 1990's the supermarket chains made a vast growth in Turkey with domestic and foreign investors. The situation in 2003 is presented in Figure 12.



Table 13: Major supermarket chains in Turkey

Company name	Ownership (foundation date in Turkey)	FDI introduction date	Turnover (million TL)	Format	Location
MIGROS	National until 1970, JV Migros (CH)/Istanbul municipality	1956	6,356.5 (2011)	1191 stores including 271 TANSAS, 652 ŞOK (hard-discount stores (2008)	International coverage (Russia and Caucasian countries; 30 hyper)
METRO	Germany (1991)	1991	3,910 (2010) Including electronic sales	24 cash & Carry + 12 hyper + (REAL)	National coverage
BIM	National (1995) with US and Saudi Shareholders (since 2001)	(2001)	6.57 (2010)	3009 (2011) stores including overseas - harddiscount	Throughout Turkey and overseas
TANSAS	National (1973) Merged with Migros in 2005				National coverage
GIMA	National 1956 sold to Carrefour in 2005				National coverage
CARREFOUR	JV with Sabanci Holding (national)	1993	2,445.5 (2011)	243 stores (including hyperstores)	National coverage
KIPA	National 1992 JV TESCO in 2003	2003	361,8 (May 2008-May 2009)	53 hyper 90 supermarkets	Mainly Regional (Izmir)
KİLER	National (1983)		200.4 (2010)	172 (2010)	National coverage
YIMPAS	National, modified format and sold some of its stores to KİLER		700 (2007)		International coverage (Caucasian countries, Germany and Austria, 15 stores)

Source: Updated and modified the actual table in J. –M. Codron et.all. (2003) p. 590, by the use of companies' internet sites and İMKB (İstanbul Stock Exchange Market) data.

### **5.3. Changes in Wholesale Process following the growth of supermarket chains in Turkey**

The concept behind a supermarket is to provide all kinds of household necessities at one location to the customer. The trade-off for the customer is 'saved-time' and quality is 'a reasonable' amount of money lost. To be more explicit, supermarket customers prefer to pay more in order to purchase good quality and save their time in shopping. Studies made in Mexico, a developing country like Turkey indicate that the 46 % super market customers are from middle high and high income groups, whereas 19 % of customers from middle-low income groups. Thus in supermarkets had to provide all kinds of household consumption goods whether they are profitable or not. That is the supermarket do not have the chance to make a choice of what kind of household good they shall provide; they have to provide cleansing goods, processed foods, dried foods and cereals, FFV, meat, etc. to be a supermarket. Some of these goods may be very profitable, whereas the others may be less, the supermarket management cannot eliminate a certain household consumption good to be more profitable. This is the reason why supermarkets belonging a chain insists on providing good FFV on their shelves although the studies show that FFVs account not more than 8-10% of their sales.

For a supermarket FFV is tiresome field for supply. Comparing with processed and/or canned food supermarket management shall use space, manpower, refrigeration, etc. in order to provide good quality FFV on their shelves. The perishable nature of FFV is another field of risk to supermarket management. However, all supermarkets assumes this tough work is because FFV is an unavoidable product of household consumption regardless of its profitability.

Supplying FFV to supermarkets, especially supermarkets of a chain store, it is a process cannot be left to the daily possibilities of wholesale FFV markets. This is the reason why supermarkets look for an alternative supply chain to wholesale FFV market, serving only for their company.

### ***3.3.1. The development of supermarket FFV supply outside the wholesale markets***

It is hard to determine when the actual FFV supply other than the wholesale markets in Turkey began. However we have evidences of contract supply of tomatoes by TAT A.Ş.; a subsidiary of Koç Holding since 1968 in Bursa, producing tomato paste<sup>53</sup>.

In Chapter 4, Migros-Türk was examined as a leading company in supermarket chain store. There we found evidences of early direct supply of FFVs through in contract farming. This was an unofficial process, partially inherited from the ‘alivre satış’ type merchandize. Today Migros grew to a chain of more than 1190 stores all over Turkey and overseas, and has substantial supply chain. The supply depots makes contract directly with farmers. This process shall be examined in detail in further parts of this chapter. Here it must be noted that contract farming is not the only supply to supermarket chains. The author’s study on another retail chain in Ankara; the Real – Metro Gross Market chain<sup>54</sup> provides hardly more than half of the FFV supply (60-65%) in average from their centralized supply depot in Antalya which they call ‘Antalya Platform’ , the rest from the AWM every single day. It must be noted that the Antalya Platform also provides its supplies through direct contract with farmers, but also through FFV merchants and wholesalers. In brief, the contract farming has not been the sole FFV supply process of supermarkets in Turkey. FFV wholesale markets in cities continue to be the source of supply for supermarkets, in spite of the growing tendency of contract supply and contract farming.

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<sup>53</sup> U. Ulukan, p. 165. The evidences of contract farming with government firms go as far as 1926, for other agricultural crops.

<sup>54</sup> Interview with Ali Ekber Erdoğan, FFV branch manager of Real Supermarket in Ankara, January 12<sup>th</sup>, 2012.

### ***3.3.2. The effect of supermarket retailing on FFV distribution process***

The direct relation between the farmer and the retail supplier do not realize on a uninterrupted line. There are impediments restricting the direct relation between the producers and supermarket retail chain.

First of these impediments is the size of production of the producers. Horticultural production in Turkey is made on relatively small amounts of land compared to other crops. This situation is getting worse because of the inheritance law that governs the property rights of farmers.

Second impediment area is the necessity of sorting and packing of FFVs. Some FFVs can be sorted during picking but these are few. FFVs must be sorted, eliminated and packed in order to find a value in supermarket chain stores. These services cannot be performed by small farmers. So although supermarket supply chain prefer to have direct link with producers this cannot be fully sustained.

This situation leads to a new business area in FFV wholesaling. There are firms which contract with producers and then sort and pack the crops and supply to supermarket chains. They also provide supplies to the internal market (to commission agents at wholesale markets) and to export firms. Therefore a new business has been developed, similar to the wholesalers at production areas of thirty years ago. These companies are more developed, using higher technology (for sorting and packing) and has power to interfere the production process and control producers attitude during the production. They provide farmers pesticide, fertilizer, seeds, and other inputs in conformity with to the requirement of the retailers or exporters, and supervise the production process.

#### **5.4. The supply chain of Migros**

Today, the biggest supply chain belongs in Turkey belongs to Migros firm, which the author found a change to study its FFV flow in 1982, as mentioned in Chapter 4. In 2011 Migros succeeded to reach a gross revenue of 6,36 billion TL with its 1190 stores of various sizes, mainly in Turkey and some at overseas. It is the greatest retail chain in Turkey, the supply mechanism was the point of interest of this study. In this respect the author made a visit to its FFV distribution site in Sarayköy, Ankara and made an interview with its FFV department head<sup>55</sup>.

##### ***3.4.1. FFV procurement organization of Migros***

As mentioned above Migros has a gross revenue of 6.36 billion TL annually (2011). Approximately 7-8 % of this amount is from FFV sales. The FFV revenues are higher in small stores and relatively smaller in bigger stores compared to average.

Migros has its headquarters in İstanbul and branch directorates in Ankara, İzmir, Adana, Antalya, and two in İstanbul one being in the European side of İstanbul and the other being in Anatolian side.

For FFV Migros has procurement offices in Antalya, Bursa, Mersin, Ankara, İzmir, Samsun and reporting to the İstanbul head office. Bursa and Antalya are the largest ones with sorting and packing capacities.

The FFV branch managers at mentioned procurement centers make timely meetings and determine their procurement plan. During these meeting they determine i) the amount of FFVs to be supplied next season, ii) the expected price of the products to be purchased, and iii) the amount and schedule of the supply to

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<sup>55</sup> Interview with Ergin Şahintürk, FFV branch manager of Migros firm Ankara Branch, Ankara February 23<sup>rd</sup>, 2012.

be provided by each branch office to the others. After reaching the agreement on the purchasing plan, every local department manager mobilizes his sources to contract and supply with his part of the plan. As an example, following the meeting İzmir branch office may go for contracting for grapes in late spring and summer season, and Ankara branch office mobilize to procure potatoes and onions at fall and winter, both of them targeting the supply for the whole firm.

The number of different items to be provided annually is about 500. Ankara branch provides FFVs to 86 stores in Ankara and its close periphery.

### ***3.4.2. FFV procurement methods of Migros***

Migros has four essential procurement methods:

#### ***Direct sales from producers and merchants:***

Especially Antalya and Bursa branches buys FFVs from large producers, making time bargains as mentioned in Chapter 4, very similar to

the method preferred by merchants. Otherwise Migros buys products from merchants. In procuring from merchants the deals are made daily or with short notices not exceeding 2-3 weeks. Mainly, Antalya and Bursa branch offices; the ones' with sorting and packing facilities uses this method. When supplied from merchants the products are supplied sorted and packed. The amount of FFVs provided with this method accounts for the 50% of the FFVs supplied to Migros.

#### ***Direct sales from FFV firms:***

There are firms in Turkey which are acting like merchants but for the export market. These firms has large packing and sorting capabilities and provide high standard of products. Their prices are normally higher than the other sources. They make time bargains with producers, support the producer in terms of inputs

that are crucial from the food safety point of view in terms of exporting to Europe and Russia. These firms provide FFVs also to the domestic market; to retail chains like Migros. In Migros case 35-40% of the FFV supply are provided from these firms.

***Contract farming:***

Migros makes contract farming with FFV producer firms. In this type of procurement the contract is made with a FFV producer firm, 2 maybe 3 seasons ahead of the supply date. The contract covers the amount of the product to be supplied with an approximate date of supply, the quality of the product to be supplied, and the price of the product. An example can be given for this type of procurement: In İzmir region, Migros made a contract with a FFV producer firm<sup>56</sup> for the supply of 1,000 tons of various winter vegetables. The firm rented a land which is owned by an old politician with approximate size of 1,000 decares. The price of the products and delivery times are determined in the contract, and the firm delivers products according to this determined schedule. It must be noted that the contract is under the terms of “good agricultural practice”, a program developed by Migros in cooperation with Ministry of Agriculture, Food and Animal Husbandry. As per the program the activities of the firm is monitored by an independent agricultural audit firm. This audit firm monitors the activities of the producer under 144 headings.

Mr. Şahintürk, the FFV department of Migros Ankara Branch states that this type of contracting has two substantial risks: i) If the countrywide supply of a product is very high, i.e. if the product is very copious during the season, the prices are very low and Migros shall have loses because of misestimating the price levels, and ii) if the countrywide supply is scare then there is a risk of contracted producer selling his product to other suppliers at higher prices than the contract price.

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<sup>56</sup> Name of the firm is withheld upon request.

Another example of contract supplies is the supply made by Bursa FFV Branch of Migros. Bursa FFV Branch has established a long run strategic relationship with a Narlıdere producers, a village development cooperative in Bursa Region. Migros Bursa and Narlıdere do not make rigid contracts with respect to price of the future product, but rather they discuss and agree on the prices observing the FFV wholesale market prices of Bursa. Although they are not making rigid contracts for the future sales they mutually agree on the amount of products to be supplied for the incoming season. The particulars of this relationship shall analyzed in detail further in this chapter.

It must be noted that procurement by means contract farming accounts for the 5% of total FFV supply.

***Direct sales from FFV wholesale Markets:***

The remainder of the unsupplied portion of the daily demand requested by the stores of Migros are provided from the local FFV wholesale markets; from AWM in Ankara case. Ankara FFV branch is responsible to make the purchase and supply to stores of its chain. Mr. Şahintürk states that this method of procurement is the less preferred type of procurement as the quality and price of the products cannot be controlled. This accounts 5-7% of the total FFV procured by Migros.

***3.4.3. The future outlook of Migros to FFV supply***

Mr. Şahintürk states that their preference for procurement is the type they used with Narlıdere Village Cooperative and Bursa Branch. He states that, in this type of contracting they can control the quality of the product and do not unnecessarily assume the risk.

He also states that the quality of FFV products produced and the market are positively affected from the exports.



He also states that contract farming is superior to the traditional methods and procurement via FFV wholesale markets. The problem he sees with FFV wholesale markets is the sanitary conditions and the unprofessional behavior of the commission agents.

He also states in the case contract farming, lack of insufficiency of legal framework appears as the problem. He suggests if there is a better legal structure for contract farming defining the duties and rights of parties involved contract farming has potential to make a progress, and this shall effect the FFV product and marketing quality.

He suggests that market tendencies for registered natural products is not expected to make a substantial improvement as the prices of the said products are high for average household..

### **5.5. Changes in FFV distribution in other developing countries: Argentina as an example**

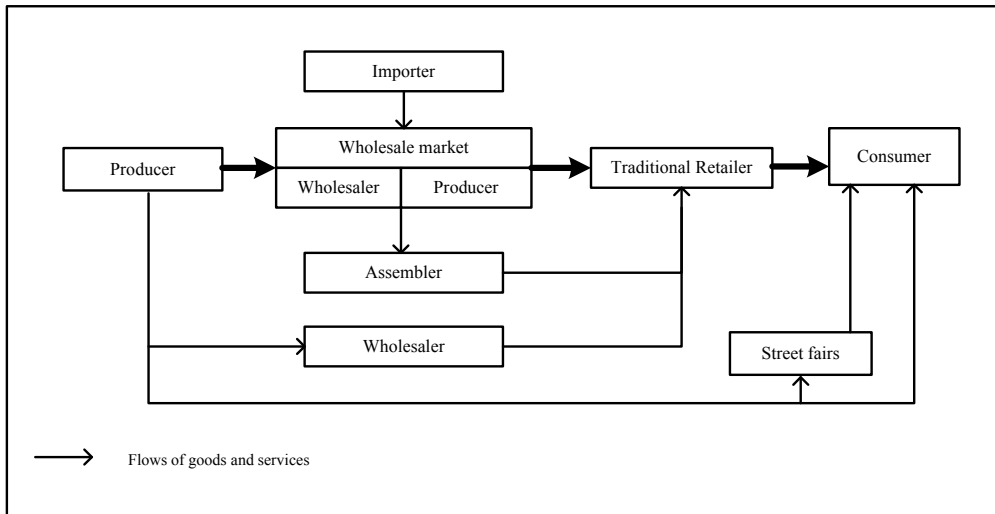
Triggered by the new pattern of demand changed the FFV distribution system in other countries of the world. A good example can be from Argentina, a developing country lived the similar economical and social (also may be political) problems in 1980's and 1990's. The distribution pattern changed in parallel with the demand from supermarkets and fast-food chains<sup>57</sup>. The most important actor involved in the system are distributors (*repartidor*).

The traditional and modern FFV system are shown on Figure 11. The past and new actors involved in FFV marketing resembles to Turkey's marketing system very much.

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<sup>57</sup> GHEZÁN, Graciela, MATEOS, Mónica, and LAURA Viteri (2002), *Impact of Supermarkets and Fast-Food Chains on Horticulture Supply Chains in Argentina*, Development Policy Review, 20 (4), pp. 389-408.

### Traditional marketing system of FFV



### Modern (post-1990) marketing system of FFV

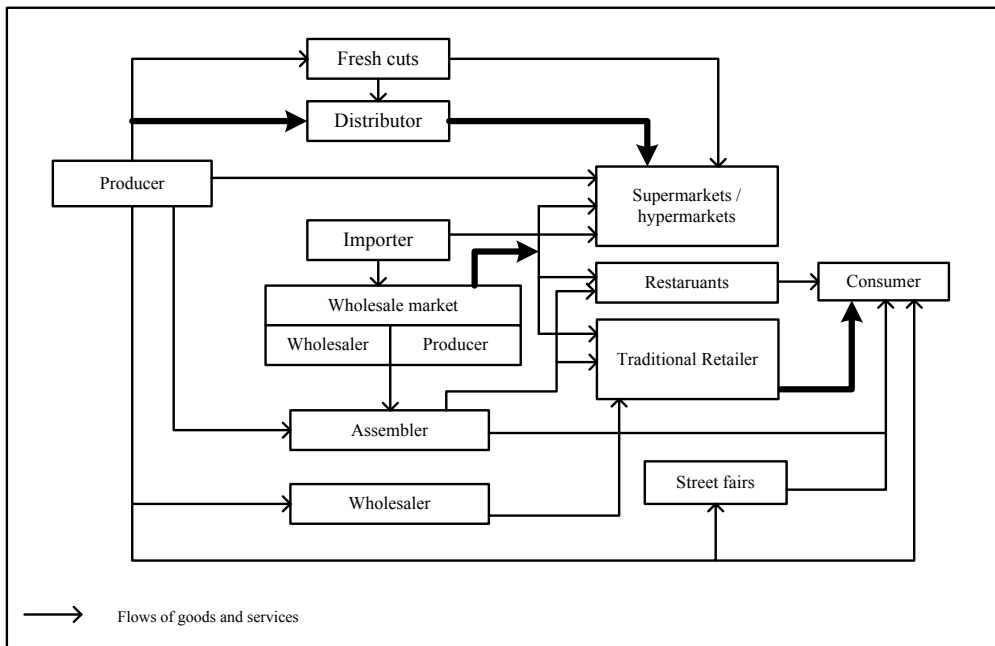


Figure 14: Traditional and Modern marketing system of FFV in Argentina

Source: G.GHEZÁN, et.all., p. 102

## **5.6. The New Forms of Relations in FFV Distribution: Scope and Effect of Contract Farming**

Until now the effect of changes in the overall economy and retail marketing of FFVs on wholesale and distribution of the same since 1980's were discussed. The important tendency is the implication of contract farming. So it is important emphasize, have a deeper look of contract farming.

### ***3.6.1. Types of Contract Farming in the World***

As definition, contract farming types can be classified under five headings<sup>58</sup>: i) the centralized model, ii) the nucleus estate model, iii) the multipartite model, iv) the informal model, v) the intermediary model. The particulars are summarized as follows:

***Centralized:*** This kind of farming entails a well defined format where there is a large scale sponsor defines the purchasing level for each producer and at cropping time buys all product from the farmer. Former tobacco farming under TEKEL (Turkish State Monopoly) was a good example of this type.

***Nucleus Estate:*** This is a variation of Nucleus model. The difference from the previous one is that the sponsor owns and manages the estate plantation, which is close to processing plant.

***Multipartie:*** This is the contract farming with a joint venture of a number of parties like state development agencies, state marketing authorities, private

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<sup>58</sup> Charles EATON, and Andrew W. SHEPHERD, (2001), Contract Farming – Partnerships For Growth, FAO Agricultural Services Bulletin No: 145, Rome, pp. 43-56.

corporate sector, landowners, farmer cooperatives. Similar joint ventures or interdependent bodies can be seen at tangerine production in İzmir.

***The Informal Model:*** This model embraces the informal contracts between sponsors and producers. ‘Alivre Satış’ is a version of this type of informal contracting.

***Intermediary (tripartite) model:*** In this model the sponsors make written contracts with producers or producer unions, and sometimes they use intermediates to act on behalf of themselves. This increases the quality of the product, so does its value, except the times where the intermediates act on their own to maximize their benefits.

Of the listed contract farming structures the last one; intermediary (tripartite) model seems to reflect the current relation between the producers and the supermarket supply chain in Turkey.

Table 14: Characteristics of Contract Farming Structures

<b>STRUCTURE – MODEL</b>	<b>SPONSORS</b>	<b>GENERAL CHARACTERISTICS</b>
Centralized	Private corporate sector State development agencies	Directed contract farming. Popular in many developing countries for high value crops. Commitment to provide material and management inputs to farmers.
Nucleus estate	State development agencies Private/public plantations Private corporate sector	Directed contract farming. Recommended for tree crops, e.g. oil palm, where technical transfer through demonstration is required. Popular for resettlement schemes. Commitment to provide material and management inputs to farmers.
Multipartite	Sponsorship by various organizations, e.g. • State development agencies • State marketing authorities • Private corporate sector • Landowners • Farmer cooperatives	Common joint-venture approach. Unless excellent coordination between sponsors, internal management difficulties likely. Usually, contract commitment to provide material and management inputs to farmers.
Informal developer	Entrepreneurs Small companies Farmer cooperatives	Not usually directed farming. Common for short-term crops; i.e. fresh vegetables to wholesalers or supermarkets. Normally minimal processing and few inputs to farmers. Contracts on an informal registration or verbal basis. Transitory in nature.
Intermediary (tripartite)	Private corporate sector State development agencies	Sponsors are usually from the private sector. Sponsor control of material and technical inputs varies widely. At time sponsors are unaware of the practice when illegally carried out by large-scale farmers. Can have negative consequences.

Source: Charles EATON, and Andrew W. SHEPHERD, (2001), Contract Farming – Partnerships For Growth, FAO Agricultural Services Bulletin No: 145, Rome, p.56

### ***3.6.2. Producers Position Against Contract Farming***

Until now it was emphasized that the traditional distribution process thirty years

ago was charging the risks and all kinds of negative influences to the producer, including the under value payments, whereas the present producer-supermarket (or the supplier chain) gives a better opportunity for the producer. This evaluation shall be made in the light of two separate studies, at separate locations but at the same region, separate customers but belonging to the same mother firm. Both studies made at Bursa, one of them examining the tomato producers at Sultaniye producing for six tomato paste companies<sup>59</sup>, the other at Narlıdere supplying FFVs to Migros<sup>60</sup>.

### ***3.6.3. The case of Sultaniye producers contracting with tomato paste firms***

Sultaniye is a village in Bursa and close to 6 tomato paste factories. It has 80 households and the study was made by conducting a thorough survey to 32, and interviews with 19 of them. The average land size owned by the farmers is 85 da. The firm make preliminary contract a head of the season with producers, and expect the products at harvesting time at the prices set during contract. To avoid producers to sell their crops to other companies or to the wholesale market at better prices, the firms make it compulsory the producers by to sign a blank deed (*beyaz bono*) which could be put into force upon the breach of the contract by farmer.

As soon as the contract is signed, the whole production process is controlled by the industry. The quality is controlled *via* supply of the inputs; namely, the fertilizers, pesticides and other chemicals necessary in production. The price is controlled by the pre-determined price, and also the amount is determined within

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<sup>59</sup> Umut ULUKAN, (2009), *Türkiye Tarımında Yapısal Dönüşüm ve Sözleşmeli Çiftçilik: Bursa Örneği*, Published Ph.D. Thesis submitted to T.C. Marmara Üniversitesi, Sosyal Bilimler Enstitüsü, İstanbul.

<sup>60</sup> LEMEILLEUR, S. and S. TOZANLI (2007), A Win-Win Relationship Between A Producers' Union and A Supermarket Chain in the Turkish Fresh Fruit and Vegetables Sector, Regoverning Markets Innovative Practice Series, IIED, London.

limits. This way the industry safeguards himself against potential risks, and his production is “controlled” in all respects. However, the producer is tied by all means and do not have any power to compensate the risks and any kind of financial accumulation is not possible.

As per the interview results 22 (69%) of the farmers are unhappy with the contract they make and give the reason as firm unilaterally determining provisions of the contracts and transferring all the risks to producers.

#### ***3.6.4. The case of Narlıdere producers with contracting with Migros***

Farmers organized in Narlıdere Bursa, under a ‘Village Development Cooperative’ in 1967 and the obtained ‘Producers Union’ when the respective code for producers’ unions ratified in 1995. Bursa has always been a source of good quality FFVs, especially for İstanbul. The first contact was made by the incentive of the Migros Bursa branch assigned to supply FFV in 1995 on oral basis, and this continued to date. Today the union has 241 members. At the mean time the quality of products provided by the cooperative progressively increased, and recently upon the request of the Migros the cooperative took a government credit and erected a warehouse with a packing platform of 11 000 m<sup>3</sup> and a cold storage with capacity of 2,400 tons.

The parties are free to have contracts with other parties; Migros to other producers and the Cooperative with other merchants. The Cooperative succeeded to locate a shop at Bursa FFV Wholesale Market.

Prices are set not by bargaining but by following the current prices at the wholesale market by both parties. Migros also pay additional amounts to sorted commodities. As the Cooperative wishes to keep Migros as a continuous customer, Migros controversially wishes to keep a good supplier at hand. Total sales of the cooperative is approximately 6.5 million TL per year and nearly 2/3 of the

produce (4.5 million TL) is sold to Migros, representing 60-70 % of Narlıdere Cooperative's annual sales. The rest is sold to other supply chains like METRO and Özdilek, and some at the wholesale market of Bursa, at their own shops.

For Migros a FFV supplier like Narlıdere Cooperative is very important. 35% of their supply is provided from 2 or 3 cooperatives. This reduces the risks and employment costs for Migros.

It must be stressed that Narlıdere Cooperation and Migros do not have a contract between each other, but they are loyal to each other in informal basis for more than 10 years by now.

### ***3.6.5. The assessment of Sultaniye individual contract farmers and Narlıdere Cooperative's contract with Migros***

The tacit contract of Narlıdere Cooperative with Migros is far superior than the written contracts made between Sultaniye producers and tomato paste firms. The reason clearly is the organizations power. The organized cooperative created a win-win relation and their benefits are continuous, whereas the Sultaniye producers overwhelmed by six tomato paste firms. This indicates that for producer in the FFV distribution process it is important to have direct contract with the supplier, however it is also important to be organized and act together.



## **CHAPTER 6**

### **AN APPRAISAL OF FFV DISTRIBUTION FROM THE VIEWPOINT OF INVOLVED ACTORS AND CONCLUDING REMARKS**

In this chapter, an overall appraisal of FFV wholesaling will be made from the view point of actors involved. This assessment shall be Before this, the important characteristics of FFV distribution that effects the wholesale at cities will be summarized. Secondly the impact of law about FFVs and related legitimacy that affects it will be discussed. As a conclusion, the future of FFV wholesaling and the role of municipalities will be discussed.

#### **6.1. FFV Distribution Structure and Problems in 1980's**

FFV distribution structure and associated problems can be summarized as follows:

##### ***4.1.1. Summary of Basic Characteristics of FFV Wholesaling***

It has been stated that the FFV producer is small in scale, and reasons of this smallness in scale were explicitly discussed in the second chapter. Also it has been stated that FFV producer is dependent to a credit mechanism integrated to market mechanism. Another important outcome of it is about the scale of the usurer or of the pre-harvest merchant. An unofficial business that pays the money

of a product two or more months in advance cannot develop whatever is its profitability. In the case of the usurer, the business of FFVs may be a source for him up to a level. If he succeeds in developing his capital he will change his business to a more profitable business. That is because the power control of the usurer on producers is limited. A usurer may have a limited number of producers in his control and cannot control more. So the scale of the usurer is also limited.

In the case of the pre-harvest merchant likely situation is valid. The pre-harvest merchant have to give make his payment two months in advance to the farmer. In spite of the profitability in pre-harvest contracting three issues are important:

- i. They have to invest to a crop and keep the control of the crop; that is he had to detect the grower, whether the disease control is satisfactory or the hoeing has been made properly or has the irrigation made periodically, etc.;
- ii. He had to detect the pick-up process so when the pick-up period comes the period of picking the crops the formerly contracted must not interfere with each other;
- iii. Most important of all that he had to pay extreme attention to following the prices of his commodity at wholesale markets of different regions.

These three processes must be performed by the merchant himself. So whatever is the profitability of business, the merchants scale is limited with his human capacity, thus his scale must not exceed a limit, regardless of his capital strength.

The scales of the commission agents are limited too. Their scale are limited with their customers and potential of selling within a day. So the main characteristic of the distribution process of FFVs is **economies of scale** from producer to retailer.

The second characteristic may be **the rigidity of the structure**. The source of the rigid structure is the development potential of the grower. It has been stated

that, the growers are small in scale. An increase in the scale is impossible for vegetable growers because of type of farming (e.g, necessity to labor-force, etc.) and for fruit growers very limited and slow because of long term of investment. This characteristic is reflected to whole marketing mechanism. The aggregation of crops and redistribution are made in very small amounts too. This causes the marketing services such as using cold stores or packinghouses be not economical. So the marketing mechanism cannot pass a threshold. The distribution process is very rigid. There is no internal dynamics in the distribution process to cause a change in the nature of this threshold. The export potential in recent years became an external dynamic that could be a reason for development. How it may affect the nature of the solidness of distribution process to and to what extend worths discussion, but exportation is a wide topic and beyond the scope of this study.

The rigidness of structure of distribution process causes the process remaining still for a very long time. This causes the distribution process be **traditional**. That is the distribution process doesn't have the ability of renewing itself to new possible processes of marketing. The effect of solidness and traditional character can be observed in Migros experience. Migros firm had efforts to establish a modern supply structure. It somehow succeeded in establishing a new set-up, but created a new alternative to the traditional FFV distribution process which will beneficial for the producers also, however they are still obliged to continue their supply articulated to the traditional FFV distribution network.

The economies of scale, rigidness of the structure and traditional character of distribution process of FFVs are reflected to wholesale marketing process in cities. Besides, the legal aspects of FFVs wholesale at municipalities also highly contributed to those characteristics.

#### ***4.1.2. The Impact of Legal Status of Wholesale Marketing in Municipalities to Distribution Process of FFVs***

As it has been stated, the legal status of FFV wholesales at municipalities are provided by two laws ratified by the parliament and regulations accepted by the assemblies of municipalities which are not different very much from one to another. The intentions and the outcome of this legitimacy will be discussed,

The basic characteristic of the legal aspects of FFV distribution that all the rights and duties about the control of marketing is given to municipalities. Municipalities are local authorities and don't have any controlling power or right to enforce sanctions on the facts that happen outside their boundaries. In spite of this; it is known that marketing process of a crop happens basically outside the municipalities. So whatever is the intention of municipality, an absolute control is impossible. That is there is a gap in the legal status of FFVs and it is impossible for municipalities to fill this gap.

The law though, rationalizes one type of distribution. That is the producer who picked and packed his crop will send his product to commission agent at the terminal wholesale market and sell his good with the use of this commission agent. The law neglects the integration of unofficial credit mechanism to marketing system of FFVs. Additionally the law disregards the existence of merchants, a powerful actor in FFV marketing. The intention of law was to exempt the merchants from wholesale process in wholesale markets and as the law itself is the only legal document about FFV distribution process, the merchants wholly neglected not only from the municipal process, but from the whole process of wholesale marketing also. Merchants can act by the authority of the "common trade law", this law do not have specifics with respect to wholesaling of FFVs. With this structure the merchants didn't cease to exist but gained the freedom of performing their business without any control.

Furthermore, the rationalization of one type of distribution causes the negligence of the role of wholesale markets at production locations. That is the law did not make a distinction between wholesale markets at consumer locations, and producer locations. As it has been stated, this characteristic can be observed in Mersin explicitly. In Mersin Wholesale Market most of the dealers are merchants and municipality cannot make any interference. The packinghouses have dispersed to the whole city without municipal control. Producers who are able to pack their commodities cannot use the Wholesale Market independent of commission agents. For example, it is impossible to perform auctions with this legal status. The law rationalizes a central city which all FFVs comes from its close periphery. The transfer of goods from cities to cities are wholly neglected. So the law neglects two aspects of the distribution process;

- i. The characteristics of distribution process at production centers,
- ii. Differences in the scale of municipalities both at the production end and the consumption end.

So the principle of equality of municipalities intended to be kept from the initial years of the Republic worth discussion from this point of view.

The law about FFV wholesale in municipalities proposed heavy control of municipalities on wholesale dealers. In spite of this, in practice the aims of municipalities and commission agents coincided. As municipalities charge taxes on the products value, and commission agents charge also on the value of the same product the municipality and commission agent has a solid shared goal: higher the price of the commodity sold brings higher municipal taxes and higher commission for commission agent. So providing cheap food to its citizens becomes a distant goal. This may be evaluated as a structural fault of the law and causes the authority of municipalities be weakened.

In those respects, the present legal status of FFV distribution is successfully

articulated to the ongoing distribution process instead of regulating it.

#### ***4.1.3. The Lack of Government Policy on FFV Distribution and Some Remarks***

During the past, none of the governments of Turkey made interventions to FFV distribution. In crops like tobacco, wheat, sugar-beets, cotton, etc. (the products in which most of them are non-perishable agricultural products and exports of Turkey) the government made interventions. Those interventions were ex-change markets opened periodically or support purchases (destekleme alımları). The government established state supported cooperatives such as Tariş, Fiskobirlik, Çukobirlik, etc. The government supported financing the investments of industries if the products are subjected to processing, For most of them the governments had a policy and marketing was the crucial part of this policy. But in FFVs the governments haven't had a policy.

A typical example of the lack of national policy about FFVs may be the MEYSEB. MEYSEB is the FFV Processing and Marketing Branch of Ministry of Food, Agriculture and Animal Husbandry. The initial motive of the organization for its foundation was World Bank credits provided to Turkish Government for the purpose of marketing FFVs. During the initial years MEVSEB worked as the credit distributors to entities entering packinghouse and cold store business. Subsequently they gave technical assistance and followed the developments of those entities. The organization didn't find the opportunity to develop itself on FFVs. Later on the organization was assigned the distribution of all credits given by World Bank about agriculture and began to deal also with flour and pasta industries, instead of sustaining a specialization on FFVs.

The lack of government policy for FFVs caused misguided perception of duties by local administrations. Most of them perceived FFV distribution as a source of

municipal income. Nowadays the traditional and solid structure of FFV marketing continues in disfavor of the consumer and mainly the producers. This situation seems to be going to continue unless a comprehensive national policy about FFV put into force considering all active actors from producers to consumers.

## **6.2. FFV Distribution Structure and Problems in 2010's**

Since 1980's, and especially during the last decade FFV distribution showed a considerable improvement. The main characteristics of FFV distribution in 1980's; also the problem areas were described as i) Economies of scale, ii) Rigidness of the Structure, and iii) Traditionality of the Process. These areas shall be discussed in the light of the developments realized upto early 2010's.

**Economies of scale** is still a discouraging issue by the side of the farmers. The inheritance law still exists with its form in 1980's and division of land to smaller sizes still continues. The government made ratified a code for government initiative to resize lands to larger sizes in 2006, however it is effective in less productive areas where mostly the cereal crops are produced and until then it has been limited with applications we can call prototype. However mainly tomato producers in the South of Turkey, made improved their production and their income by building green-houses by making use of government funds. Still when it comes producers relations with supermarket chains, the producers size of production is again a problem for supermarket chains, consecutively the producers. To overcome the problems arising from the economies of scale Narlıdere Cooperative has a further solution. The unity of the members of the Narlıdere Cooperation overcame the problem of economies of scale, and has direct and powerful relation with the supermarket chain. This issue shall be handled again further in this chapter.

**Rigidness of the structure** was broken though the demands coming from i) supermarket chains, ii) fast food chains, and iii) exporters, and its form is contract

farming. Contract farming was in the agenda of agricultural production in Turkey for considerably long time, but supermarket supply chain and mainly changes in the tobacco regime made it revitalized. The code issued by the government in 2006 arranges rights and duties of the parties but it still is very weak in terms of regulating the system. Although the rigid system of FFV distribution was broken by means of contract farming, the old system somehow still exists because of the small size of the farmers. The old distribution structure was inevitably articulated to the new supply line.

**Traditionality** of the system was prevailed over by contract farming to a certain extent. The government initiatives for providing funds and credits to farmers in the past thirty years has been contributed to weaken the merchants role on production. Still the old system in a way continues as there is a wide difference of scale between the farmer and the superstore (and/or fast-food and/or exporter) chain exists.

Another development needs to be brought to discussion. Upon the requirements issued by the European Union as provisions for accession and more strict rules for importing, the Turkish Government modified the code for FFV wholesale marketing very recently<sup>61</sup>. According to this law all FFV be certificated beginning with the producer and has strict obligations on health conditions of FFVs. These meticulous conditions are inevitably expected to force merchants and wholesale commissioners to higher standard of operation and making mergers or other forms of collective behavior. However, the new code still missed to define the activities of the FFV merchant, in spite of substantial increase in the their role in FFV exports and articulating to retail supply chain.

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<sup>61</sup> Law on Merchandize of Fresh Fruits and Vegetables and Such Commodities Which Has Supply and Demand Depth (Sebze ve Meyve ile Arz ve Talep Derinliđi Olan Malların Ticaretinin Düzenlenmesi Hakkında Kanun), Law No: 5957, Ratification Date: March 11<sup>th</sup>, 2010, Official Gazette Publication Date: March 26<sup>th</sup>, 2010, No: 27553.



### **6.3. Concluding Words on FFV distribution**

FFV distribution have had a considerable progress within the last thirty years, unexpected by the author in 1980's. This changes have taken place because of exogenous reasons than indigenous reasons. Although Migros firm and development in exporting was giving clues for upcoming progress, the rise of supermarkets in the world in such extend was unexpected.

In 1980's the government made a sharp decision to leave direct support to producers and decided to regulate the process by indirect incentives. It had initially difficult for the producers of certain agricultural crops and producers of smaller scale, however new opportunities arouse with the mentioned incentives and indirect support.

In spite of the developments it has been understood through this study that the unity of farmers is compulsory not only for their better performance, but also for better performance of the FFV system. This is an issue coming also from the retail side and future government incentives directed to improve the unity of farmers seems to enhance the FFV system in general, all beneficiaries from farmers to consumers.

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