



Global financial crisis and oil seed sector in Turkey

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Abstract

The financial crisis that started with the developments in the US mortgage market in August 2007 showed its impact on global financial markets and organizations in September 2008. Agricultural sector is one of the sectors which would be affected widely from crises. In this paper the impacts of global financial crises on oilseed sector in Turkey were studied. Therefore, general structure of global financial crises, economic and sectoral developments were given, and oil seed sub sector, which is expected to be mostly affected, was examined as a case study.

Key words: Global financial crisis, food crisis, agriculture, oil seed.

Introduction

The world economy went through major changes in 2007 and 2008. The period of excessive increase in food prices, termed food crisis, that started in 2007 and continued until the summer months of 2008 was replaced by the global financial crisis in autumn 2008. The global financial crisis is considered one of the most dangerous shocks in the financial markets since 1930s ⁵.

With its socioeconomic and nutrition aspects, the agriculture sector is both significant and strategic for any country. The strategic significance of agriculture has been perceived once more for all concerned with the evolvement of the food crisis. With its dimension, all the actors of the agriculture sector, led by producers of agricultural products, food consumers, those who obtain their raw materials from agriculture, those who export and import agricultural products, those who produce inputs for agriculture, and those who sell agriculture products will be affected by the crisis. The significance of agriculture within a country's economy is measured by its contribution to gross domestic product, exports and employment. The crisis is likely to alter these parameters as well.

This study examines the significance of the financial crisis that threatens the markets of the world with regards to the agricultural sector.

The materials utilized in the study included reports of international organizations, studies and compilations on the topic, and data from the World Bank, IMF, OECD, FAO, and TURKSTAT (Turkish Statistics Institute). In the study, a general outline of the global financial crisis is depicted, economic developments are analyzed, and evaluations on sectorial developments product-based evaluations have been made.

Economic Developments

In 2007 the agricultural products and food prices entered a period of rapid increase all over the world. Agricultural product prices

that were steady for long years started to increase as of the second half of 2007 and reached peak levels in May 2008. The prices of wheat, corn and rice rose up to more than 400\$, 200\$ and 740\$, respectively. Within the same period, oil prices had a course that was parallel to that of agricultural products. The rises in food prices lead to demonstrations and protests in many countries from the far East to Latin America. Governments have taken certain measures such as export bans, increases in exportation taxes, reducing exportation incentives or reducing importation taxes ³.

This period continued until the summer months of 2008, then it was replaced by the global financial crisis in autumn 2008. This shock is influencing not only the financial markets but also all the sectors, subsectors and markets within economy.

Oil Seed Sector

Oil seed sector, due to ever increasing consumption of edible oil, has attained critical importance in the economies ¹. According to FAO forecasts, world oil seeds production was 430 million tons in 2008 translating to a 7% increase as compared with the previous year. Oil seeds production comprised of 57% soy bean, 13% rapeseed, 10% cotton seed and approximately 8% sunflower seed. According to TURKSTAT for 2008, of the oil seeds production in Turkey, 81.7% was provided by sunflower and 6.7% by rapeseed⁶.

World vegetable oil production is led by soybean oil (30%), palm oil (32%) and colza oil (15V) while in Turkey, sunflower seed oil (55%) and maize oil (3.5%) take the lead. For liquid edible oil consumption, sunflower is used by 78% and corn oil by 14% ². In Turkey, production and consumption preferences are different from the rest of the world and low adequacy levels make importation inevitable (Table 1). Colza has a share of approximately 2% in liquid oil consumption in Turkey. An increase of nearly 3% is expected in its production in 2008, which is considered a positive development.

Table 1. Oil seed production, consumption in Turkey (1000 tons).

	Soybean	Rape seed	Sunflower	Oilseeds	Corn	Cottonseed	Total
Production	6	12	280	298	18	197	513
Consumption	20	20	661	701	120	30	851
Difference	14	8	381	403	102	-	505

Fig. 1 shows that sunflower and soya producer prices fluctuate more than that of maize in real terms. Particularly, in the dry year of 2007, sunflower and soy bean production decreased and when production increased again in 2008, a parallel development occurred in prices.

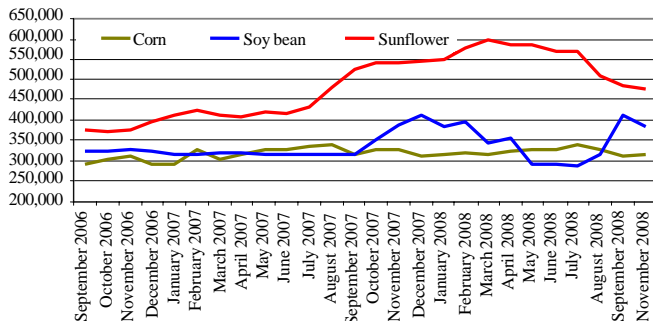


Figure 1. Producer price changes (2003 base year real price).

When examined in terms of increasing production and sustainability, a very slight increase in sunflower and a decrease in soy bean have occurred in product input parities of oil seeds. A slight decrease has occurred in corn, which is in the cereals group and used for oil production at the same time, and in cotton, which in fact is an industrial plant. When considered in terms of consumer prices, with 1 kg of sunflower seed and corn oil, it can be seen that more gasoline can be bought. Accordingly, the increase in consumer prices has been more than that in producer prices (Fig. 2).

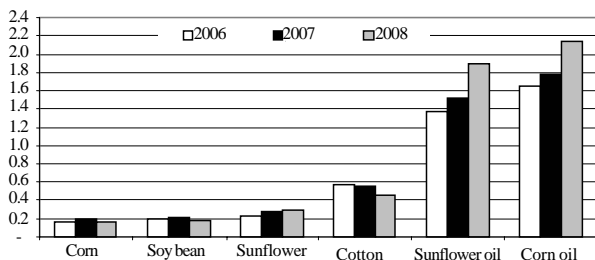


Figure 2. Product/gasoline parity.

Results and Discussion

The extraordinary characteristics of the global financial crisis prevent the estimation of its scale, duration, and negative impacts on the real sector⁴; still, with the general picture that emerged globally, it will definitely have an immense effect on not only financial markets, but also all the sectors and actors within economy.

With its socioeconomic and nutrition aspects, the agricultural sector is both significant and strategic for any country. The

strategic significance of agriculture has been perceived once more by all concerned with the evolvement of the food crisis. With its dimension, all the actors of the agricultural sector, led by producers of agricultural products, food consumers, those who obtain their raw materials from agriculture, those who export and import agricultural products, those who produce inputs for agriculture, and those who sell agriculture products will be affected by the crisis.

Oil seed sector is one of the sectors affected from food and global financial crises. During those crises the price fluctuations were seen and had effect on production decisions and consumption patterns. Since vegetable oil is an essential element in food diet in Turkey and a main income source of some regions of Turkey, some precautions must be enhanced to balance supply and demand and to get a reasonable price.

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