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A Critical Rewiev of Recent Sectoral Structure Proposal for Turkish Tea Sector

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Abstract: Ranking fifth among the tea producing countries, Turkish tea sector have very important advantages and very significant obstacles as well. Is it possible to eliminate disadvantages and realize advantages of the industry by restructuring the sector? When permission is given to the private sector on tea processing and marketing, an unattended area has emerged through absence of necessary legal arrangements that occurred as a public management problem. As a result of that unfavorable conditions, it is aimed a change of law to restructure the sector and to give direction to the sectoral activities but the conclusion couldn't be reached. Turkish tea industry needs to establish tea exchange and tea board by a structural change to solve the problem of public administration. By performing this change, the fundamentals can be established for completely transition to organic tea production in Turkish tea sector, benefiting from the great advantage of pesticide free tea cultivation.

Key words: Turkish tea sector · Tea law proposal · Restructuring tea sector · Organic tea

INTRODUCTION

Turkish tea sector are isolated from other tea producing countries and it has a feature of introverted without communication and co-operation with others. Even the industry representatives participate rarely to the works within the frame of the FAO Intergovernmental Group of Tea and they have limited knowledge about the world tea.

Turkish tea industry perceives the teas of other countries as a threat to its own domestic market, because of lacking competitive advantage due to high labor costs. For this reason, it stayed away from useful practices and positive sectoral structures of other tea producing countries.

Turkish tea industry does not transfer successful sectoral structures from other countries and it has also not developed a successful industrial restructuring itself. Especially in 1984, that was given tea processing and marketing permissions to the private sector, but not formed a new industrial structure for management and control which is not easy to understand. Unregulated new situation that led to formation of an uncontrolled area can also be considered as a public management problem.

Years later, new approaches have emerged revealing the problems of sectoral structure and suggesting resolution by the establishment of new institutional structures. These approaches are giving hope for the future of the industry, although it is still not reached a conclusion.

The purpose of this study is to review the recently proposed sectoral law and its problems solving ability and also to address the necessary conditions of restructuring Turkish tea sector. In the meantime, providing advantage of a very important sectoral feature of pesticide free tea production and opening new horizons to the Turkish tea sector will be discussed.

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Historical Development: Tsarist Russia had noticed first that tea could be grown outside of the tropical belt as main tea growing countries of China, India, Sri Lanka and Kenya located. Then, they manage to cultivate tea in Georgia's Black Sea coast in the late 19^{th} century.

The first phase in the historical development of tea industry in Turkey is the report of Professor Erten [1]. A study tour was organized to the city of Batumi in 1917, where tea was grown in. The city is in the hands of Georgia today. The post-trip report has been claimed that tea could be grown in Rize province, on the northeastern end of the Turkey.

In the second phase, the first tea garden was established in Rize, in 1924. The report of Erten was taken into account by Agriculture General Manager Zihni Derin and he proved agriculturally that tea could be grown in Rize province. The same year first Tea Act was introduced and tea cultivation supported by Turkish Government [2]. Unfortunately, the agricultural production did not proceed further up to the year 1936.

As third phase, Professor Hatiboglu addressed the issue in economic sense in tea sector with an unpublished report dated 1936 [3]. So that economic activities started with a program of five years in 1938. New program contained the processing of fresh tea leaves in factories, including the establishment and marketing of produced black tea as well as growing of tea in the gardens. These studies have been successful and state monopoly operated in tea processing and marketing area from 1938 to 1985.

The private sector was allowed for tea processing and marketing activities with a Tea Act which to be considered as the fourth stage in 1984. After that date, 312 large and small private tea processing factories or facilities has been established. By the year of 1994, 46% of those factories have been closed in corresponding to the number of 144, as shown in the table below:

As shown in the table, the average capacity of the facilities closed is significantly lower than those continued to operate. So, the size of business capacity is an important parameter to operate successfully in Turkish tea industry.

Since the beginning, there were not existed factory owned tea gardens in Turkey; only small tea growers have taken place in the sector. Private sector plant closures have created negative impacts on the small tea growers. They were used to take the payments of sold fresh tea leaves along same years from Çaykur as a state enterprise, until 1985. Since then they have faced the problem of taking product prices from private sector enterprises. They could never obtain their payments from closed factories, as well as in a delay of 1-2 years from operating ones.

The number of operating factories can vary in the range of 175-180 currently. An increase witnessed in the number of working factories, because of re-opening of some closed factories in recent years.

Table 1: Established and Closed Private Tea Facilities as Capacities (1985-1993) [4]

Factory Status	N	%	Total Daily Capacity (tons)	%	Average Capacity (tons)
Established	312	100	11.089	100	35,5
Working	168	54	7.294	66	43,4
Closed	144	46	3.795	34	26,4

Table 2: World Tea Production (Tons) [6]

Countries	2005	2006	2007	2008	2009
China	953,660	1,047,345	1,183,002	1,275,384	1,317,384 (*)
India	893,000	928,000	949,220	805,180	N.A.
Kenya	328,500	310,580	369,600	345,800	314,100
Sri Lanka	317,200	310,800	305,220	318,700	290,000
Turkey	217,540	201,866	206,160	198,046	198,601
Indonesia	177,700	146,858	150,224	150,851	160,000(*)

(*) FAO estimation

Table 3: Purchased Fresh Tea Leaves by Private and Public Enterprises in Quantity and Rates [8]

The nature of the Business	2006 (tonnes)	%	2007 (tonnes)	%	2008 (tonnes)	%	2009 (tonnes)	%	2010 (tonnes)	%
Private Companies	494.00	44	487.24	43	464.46	42	510.44	46	713.72.000	55
State Enterprise (Çaykur)	627.21	56	658.03	57	650.10	58	593.54	54	590.39.000	45
Total	1,121.21	100	1,145.27	100	1,114.56	100	1,103.98	100	1.304.11	100

Current Status of the Sector: Turkish tea industry produces about 200,000 tons of tea and it is the fifth largest tea manufacturer in the world scale. A very large part of the Turkish tea production was black tea and very little of it was green tea as 19 tons [5]. World tea production figures obtained from FAO, presented in the following table:

Until recent years, only Çaykur's production statistics serviced as Turkey's production figures, because the production statistics related to the private sector were not available. For that reason, Turkey ranked sometimes over and sometimes under the Indonesia [7]. Beginning with 2004, tea production figures have revealed the true location with the data obtained from Rize Trade Exchange.

Çaykur, as a state enterprise, seems ahead as the largest enterprise of the sector, due to fresh tea leaves purchased from small tea growers. Rize Trade Exchange keeps a record of fresh tea leaves sold in tea enterprises by tea growers. Its records are presented, in the basis of public and private enterprises, in the table below:

As shown in the table, Çaykur's purchase share of fresh tea leaves is usually above 50%. Harvest in 2010 was 16% higher than average of previous years, then the surplus of that fresh tea leaves was purchased by private sector enterprises. Therefore, Çaykur's purchase rate has fallen to 45%, when compared with the sum of the private sector purchases. This situation is considered temporary as caused by excess harvest.

The market share of Çaykur was in the range of 50-55% in recent years. However, the sales of 125,000 tons of black tea declared in 2010 [9], is closer to 60% market share. Figures of the same year are interesting, because purchased raw materials decreased to 45% and sales climbed to 60%.

As the largest organization in the private sector, Dogus Tea is expressed a market share reached to 16% in 2010 [10]. Sales growth figures for two largest companies in the industry explaining that each of the small businesses, with the market share of fewer than 10%, is considered a negative influence.

Problems of Sectoral Structure: Small tea growers, private sector companies and public enterprises face different problems in Turkish tea sector. Main problems of small tea growers are apparent as excessive fragmentation of tea gardens, low product prices, late payments and lack of powerful solidarity organization. Excessive employment, inefficiency, high costs, low capacity utilization and lack of export are the main problems, observed in the public enterprise. In the private sector a series of problems are met such as; technical failure, low quality, very low capacity utilization, lack of professional management, non-standard black tea production, lack of effective marketing and lack of working capital [11].

Aside from the presence of these problems, the absence of a sectoral structure for solution remains as a major problem itself. The lack of a top administration board, that it would solve the sectoral challenges, inveterate the problems in the sector.

After Monopoly Administration, Çaykur was founded in 1971 and it has been given tea processing, packaging and marketing tasks, as a public enterprise. Turkish Tea Act (1984) has given to private companies the rights of trade, processing and marketing tea [12]. The Act was only in five articles, without any special measurement or new rules for sectoral activities.

All of the organized activities of tea production and marketing are considered as a state mission traditionally and all tasks related to this issue were given to Çaykur as a state economic enterprise. Çaykur, with its structure of the autonomous, carried out the tea related activities without intervention of the Ministry of Agriculture and Rural Affairs. In these circumstances, the right of tea processing and marketing to give the private sector has created an area outside control of the government. Çaykur went on controlling tea cultivation activities, but it could not control private sector that was in competition with. No public body controlled private tea processing area and the relations between those private factories and small tea growers. As tea industry ceased to exist of public direction and supervision, it could be considered as a public management problem.

Çaykur does not have an opportunity to put rules for private sector companies because it operates in competition with them. The Ministry of Agriculture and Rural Affairs also get into difficulty to use initiative on the sector, because tea picking, pruning and cultivation works of small tea growers are coordinate by Çaykur currently and local units of Ministry haven't got any task related to them. For this reason, the establishment of "tea board" is deemed necessary in Turkish tea sector that it is already exist in the old tea producing countries such as Sri Lanka, India and Kenya.

On the other hand, a significant proportion of private tea companies closed and rest of them could not operate very successfully. Because these companies haven't got sufficient and qualified staff adequate for packaging, marketing, advertising, promotion and brand-building activities. It is also not possible to fulfill all those activities successfully for small companies. Whereas these companies will escape packaging and marketing burden and focus on only high-quality bulk tea production, if "tea exchange" founded in Turkish tea sector. These companies will obtain payments of sold teas immediately and find a chance to raise their revenues in focusing to produce high-quality tea and sell it to a higher price in the tea exchange.

With the above reasons, It was created a model by Sakli for Turkish tea sector and suggested the establishment of tea board and tea exchange in Turkey, with a Master of Science thesis in 2004 [13]. Then a book was published through a well-known national publishing company and gave place to the model put forward in the thesis and tried to ensure public awareness for the foundation of tea board and tea exchange [14]. Turkish tea sector do not seem able to operate successfully with the lack of legislation due to the law of only five articles and lack the necessary sectoral institutions in the sector.

New Pursuits in the Industry: Some small packaging enterprises imitated Çaykur designs and packages illegally after 1984. The quality of tea was reduced in some unqualified tea processing units. Some private enterprises couldn't manage tea processing and marketing activities professionally and this was followed by factory closings. As a result, a sectoral structure emerged with huge problems, but even lack of required basic organizations for sectoral solutions. There was not a comprehensive act or any other regulation to put rules on; the relations of tea growers and tea manufacturers, tea production, packaging and marketing processes.

First attempt, to change the sectoral structure by preparing required law, was from Çaykur. The Tea Draft Law prepared by Çaykur, envisaged the establishment of tea board, but not tea exchange. This proposal did not attract attention much in the tea industry.

New efforts to change the sectoral structure have been accelerated, with the establishment of the National Tea Council in 2008. The Council began working on drafting a new law of tea in collaboration with the Rize Trade Exchange in 2009. A workshop took place and started to work on the first draft prepared by Çaykur. That workshop produced a new Tea Draft Law changing Çaykur's early work and the new one called as Tea Draft Law of Tea Council and Rize Trade Exchange.

The new tea draft law drew attention for its offers of four important applications; as the establishment of tea board, the creation of tea exchange, a quota allocation to the tea processing companies of the sector and excessive penalties for those acts outside of the rules. Tea draft law should be regarded as an agricultural policy tool, because of its sectoral restructuring; system building and comprehensive features [15].

The tea board and tea exchange, which projected in the draft, can make an important contribution to the sector, as it is applied for a long time in India, Sri Lanka and Kenya. However, some discussions and critics were made public about the new draft law, especially on tea exchange. Çaykur asked for removing the tea exchange out of the draft law. If not, it has demanded the right to sell its own packaged teas out of the tea exchange. However, all of the produced teas were obliged to be sold in the tea exchange by the draft law. Before the last session of workshop, powerful private sector enterprises have demanded to sell their branded packages out of the exchange and their request has been accepted. So this obligation removed from the draft.

Tea farmers have protested the allegations of privatization of Çaykur with this draft law. This is because; Çaykur buys about half of the total fresh tea leaves annually and makes on time payments to the farmers. Therefore, the draft law was criticized to be a private sector initiative because the chairman of the Tea Council was a private factory owner as well as Rize Trade Exchange management.

Çaykur has 6.770 tons of daily tea processing capacity currently, while private sector enterprises have more than 11.000 tons. The draft law anticipated to give a fresh tea purchasing quota to tea processing factories, according to their capacity. This process reduces the substantial weight of Çaykur in the sector. Currently, Çaykur buy as much as 50-55% fresh tea leaves of the sector annually, but it may take only 38% quota, according to the above figures. For that reason, the new quota system was criticized as undermining the successful activities of the public organization.

The most positive aspect of the draft law was to give payment guarantee to the small farmers, the weakest link in the industry. Other positive aspects, with the establishment of tea exchange and tea board could lead to an acceptable environment by all parties with the condition of releasing the obligation to cover the entire bulk teas. However, the draft law is currently unable to find the necessary support, because of negative political debates. But present state of Turkish tea sector requires solving the above-mentioned problems and the sector needs a detailed law immediately. For that reason, this draft law will come up in the agenda again in the coming period.

The Great Advantage and Disadvantages of Turkish Tea: One of the important disadvantages is high costs of tea production in Turkey. Turkish tea has a problem in term of competition, due to the low living standards and labor costs in the other tea producing countries. As a result that, Turkish tea sector is protected with 145% customs tax. However, Turkish tea industry is threatened by illegal duty-free entries of foreign teas.

Another major problem is loss of quality arising from the tea harvest method. While hand-harvesting of tea are common in other countries, a kind of specially designed scissors are used in Turkey. Tea gathering with that scissors cause collecting some poor quality tea leaves by careless tea pickers, whereas manually collecting provide to be achieved only desired collection of fresh tea leaves. Turkish tea sector can not give up using scissors on tea picking because of high labor costs on picking tea by hand, but the collection of high quality tea leaves can be achieved with scissors through carefully picking practices.

Another important issue is the lack of a rational system in the industry. The solution of sectoral problems could not be realized without tea board and redirecting the industry to quality could not be managed without the tea exchange. Solution of these problems, arising from sectoral structure, can be provided with a new tea law and these important institutions established.

The biggest advantage of Turkish tea sector is that pesticides not used in agriculture. The winter conditions decease pests in natural means as it snow in Rize province situated in the north east of Turkey. As a result of that, there is no need to use any pesticides. It is seen a small amount of pests in Rize province actually, but they does not reach the population require to use pesticides.

Two important parameters prevent the production of organic tea in general. One of them is the pesticides and the other one is chemical fertilizers. All of the tea, produced in Turkey, will be organic product if it is used organic fertilizers instead of chemical ones, as the Turkish tea industry has already not been used pesticides. That feature is a great advantage of Turkish tea sector.

First time Çaykur has seen and used this important advantage of Turkish tea sector. Çaykur's organic tea production activities began in 2007 and a tea processing factory was activated for this purpose in 2010. It produced 150 tons of organic tea in 2010 and all of them were sold until March 2011 [16].

When there was such an important advantage of Turkish tea, the absence of essential attempt to assess by the private sector enterprises is so interesting. The reason for this is to regulate the relations between the tea growers and tea processing plants by the public organization (Çaykur). The structural change in the sector could create a favorable environment open to individual agreements between tea growers and manufacturers to produce organic tea.

Evaluation and Conclusion: It is clear that some major problems have been experienced in Turkish tea industry. Moreover, these problems are being experienced by the fresh tea growers and manufacturers both and it affects the sector negatively on the whole. Overcoming this negative effects and solving the problems in the sector depend on the creation of a new sectoral structure.

The willpower, to detect and solve problems in tea sector, will emerge by the establishment of tea board. Currently, various problems are experienced and complaints are vocalized in all areas, but the solution is not possible with current sectoral structure. Because, there is not a top administration of sector, that could use initiative for solution of the problems in the industry.

On the other hand, the tea exchange has to be established to guarantee payments to the tea growers and to eliminate problems of small tea factories such as; packaging, marketing, advertising and promotion. Tea exchange also provides small tea growers to collect their product prices timely.

Turkish tea, to have the advantage of producing organic tea, is an important opportunity. The increasing importance of healthy consumption today can be treat as an chance for consumers in Europe and in the World as well as Turkish consumers. For this reason, all necessary efforts should be initiated to produce organic tea in tea gardens of Turkey as soon as possible. The European Union currently supports the establishment of a factory to produce organic fertilizer in Rize. The establishment of tea board will be an important step for the emergence of the will necessary on organic tea production and to steer up the sector to success in the superior field of it.

The industry must tackle the problem of quality for use advantage of organic tea as needed. The high quality of fresh tea harvested and good quality black tea processed will be given high price in the tea exchange and this will play an important role in the system.

Organic tea to meet the high price in the market will eliminate the problem of competition about Turkish tea due to high costs. If organic tea production realized, the factories could pay a higher price to tea farmers and ask them to harvest higher quality fresh tea leaves.

The initiative, for re-establishing tea board and tea exchange, should be mobilized for a new tea law. However, the tea is a regional economic issue and should not be an instrument of public-private dichotomy and the political strife or polemic.

As a result, restructuring the tea sector can be evaluated as far more promising than the current status quo. It is in the interests of all segments in the industry; rationalize the sector within the framework of free market principles, productivity and quality.

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