

Box 3.2

Structural Problems in Unprocessed Food Inflation and Policy Recommendations

Driven by fresh vegetable products, the unprocessed food group stood out as the highest contributor to consumer inflation in the first half of 2018. Following a favorable outlook in the first quarter of 2018, unprocessed food prices increased well above seasonal averages in the second quarter due particularly to the notable acceleration in fresh vegetable prices (Table 1). The upsurge in fresh vegetable prices in the second quarter of the year is attributable to meteorological factors such as excessive rain, flood, and hail as well as production losses in various products such as potato and tomato due to diseases in plants.

The conjunctural reasons underlying the price hikes in unprocessed food products are evaluated from the perspective of structural problems, and policy measures that may solve structural problems are discussed in this box. In this respect, the structural problems that stand out are: cyclical supply shortages, stocking and price speculation behaviors, the excess number of intermediaries in the supply chain and underdeveloped logistic processes.

Table 1: Annual Inflation Across Product Groups (%)

Product Groups	March 2018	June 2018	2013-2017 March Averages	2013-2017 June Averages
Food and Non-alcoholic Beverages	10.37	18.89	9.89	11.12
Processed food	14.42	14.47	9.15	9.29
Unprocessed Food	6.31	23.23	10.61	13.47
Fresh Vegetable	-2.29	83.58	11.96	14.20
Fresh Fruit	4.79	4.15	12.06	17.40

Source: TURKSTAT.

In the second quarter of 2018, the sharp acceleration in unprocessed food prices is mainly attributable to the cyclical supply shortage in various fresh vegetable products. Occasional supply shortages in unprocessed food products in Turkey that lead to sudden and sharp price increases mainly stem from structural factors. Here, the inability to make an efficient and dynamic agricultural production plan is considered to be a significant structural problem. Developing a production plan requires strengthening of agricultural statistics, yield estimation and early warning system infrastructure. Accordingly, expanding the scope of agricultural statistics and enhancing their quality is of great importance. Moreover, establishing a systematic structure to facilitate a dynamic follow-up and estimation of agricultural yields will also contribute to the timely adoption of measures required to maintain sustainability of supply and price stability. Another structural problem causing cyclical supply shortages is the mismanagement of the field-greenhouse-field transition particularly in fresh vegetable products. Despite being short-lived, these transitions lead to supply shortages and enable the intermediaries who dominate the market to speculate on prices and achieve excessive gains. A holistic approach needs to be developed and enforced to ensure sustainable supply in field-greenhouse and greenhouse-field transition processes. Accordingly, rehabilitation of current greenhouses and encouraging the establishment of new and modern greenhouses is a priority.

In Turkey, occasional market failures may occur in the process of warehousing storable fresh fruits and vegetables like potato, lemon, onion and apple, and including these products in the supply chain. These market failures can lead to sudden and sharp price increases in the respective product particularly in periods of supply shortages. Accordingly, the importance of efficient functioning of licensed warehousing and a specialized commodity exchanges system needs to be underlined. This system allows for the storage of agricultural products such as grains and legumes that can be standardized and stored for a long time as well as trading them in a deep market. Licensed warehousing facilitates the access of the producer to financing, reduces unregistered activities, lays the ground for putting the product on the market in a proper balance in terms of timing and quantity, and thus contributes to a healthy and stable price formation in storable food products market (Songül ve Tümen, 2017). Moreover, arranging natural warehouses, in which products like potato and onions are stored, and registering warehousing activities are also of critical importance to avert market-distorting collective movements.

Another structural problem regarding unprocessed food products in Turkey is the excess number of intermediaries in the supply chain and logistic processes that lag behind the practices of advanced economies. In many advanced economies, production, distribution and marketing of food is mainly performed by producer unions, while the share of producer unions within the supply chain is rather limited in our country. Most of the functions regarding marketing such as the provision, transfer, preservation, packaging and classification of agricultural products in Turkey are undertaken by intermediaries. On the one hand, this increases the dependence of producers on intermediaries. On the other hand, it raises the final consumer price and distorts price stability by causing the marketing channels to get longer, costs to elevate and the share of marketing to increase (Songül, 2017). Meanwhile, small farmers being mostly indebted to the tradesmen and other intermediaries and being able to maintain agricultural activities through this unregistered indebtedness deprives the farmer of the deserved share from the agricultural value added. This deters production and exerts an upward pressure on prices.

Modernization of wholesale markets is of critical importance with regard to the improvement of logistic processes in the supply chains of unprocessed food. The 175 wholesale markets operating under impractical conditions in our country render the market structure shallow and fragmented. The current wholesale market management model and ownership structure relying on municipal management leads to imperfect competition. Moreover, current locations of wholesale markets (transport, logistics, technology etc.) are not suitable for changing infrastructural conditions and may fail to ensure efficient distribution between production and consumption points. In short, when the current status is compared to international standards and good practices, there are aspects to be improved in productivity and efficiency. As a result of all these, healthy and stable price formation cannot be ensured in unprocessed food products, and control and inspection services for food safety cannot be performed properly.

With a view to modernizing logistic processes in the supply chain of fresh fruit and vegetable products in Turkey, the communique on principles and procedures on standard practices to be obeyed in wholesale and retail trade of vegetables and fruits was published in 2017. According to this communique, new standards were set regarding fruit and vegetable products post-harvest packing with disposable and reusable packages compliant with international norms, transporting them by vehicles with cooling systems to enhance transportation, and displaying them on aisles with coolers in retail sales points. However, some lags are witnessed in practice.

As a result, although occasional, sudden and sharp price increases in unprocessed food products are considered to be natural consequences of meteorological and phenological factors, mainly structural problems are important in the production and storage of unprocessed food products as well as the supply chain. It is believed that the adverse impacts of meteorological and phenological factors on the prices of unprocessed food products can be minimized by efficient and dynamic production planning, arranging storage activities, modernizing logistic processes in the supply chain and reducing the number of intermediaries.

References

Songül, H. and Tümen, S. (2017). How Does the Licensed Warehousing System Contribute to Price Stability? CBRT Blog Post.

Songül, H. (2017). Price Formation in the Fresh Fruit-Vegetable Supply Chain CBRT Blog Post.