

COMPETITION AUTHORITY'S OBSERVATIONS ON THE AGRICULTURAL SECTOR

Mehmet Gerçek
Supervision Enforcement Department II
Deputy Head

Agricultural input sectors (fertilizer, seed, agricultural pesticide, fuel, etc.) have imperfect competition conditions

Beside its activities to enforce substantive provisions of the Act no 4054 on the protection of Competition, the Competition Authority tries to find the barriers to the growth of public welfare by means of sector inquiries. Recently, the agricultural sector has been one of the sectors examined in this context.

Since the price changes in agricultural products were frequently on the Competition Board's agenda and certain structural problems were discovered in inquiries and investigations, the issues were put under scrutiny by taking into account the opinions of all shareholders in the sector. The Final Report on Fresh Vegetables and Fruits Sector Inquiry, which was prepared within this framework, can be found on www.rekabet.gov.tr.

The Report highlights the following points:

- Since the most important input items of agricultural production - fuel, fertilizer, seed and pesticide - depend on import and thus foreign exchange rates, the costs of those items are very high in Türkiye. Therefore, the said inputs should be subsidized in the short term and should be provided from local production as much as possible in the long term.
- It is necessary to make "production planning", including export and import policies to ensure sufficient local production; support policies should be reviewed within the framework of the production planning.
- In order to allow farmers to shape their production preferences, updated planting data should be shared as transparently as possible. In this way, the fluctuations in the amount of production, which stem from the delayed response of the production to demand in agricultural markets can be prevented. Farmers can take more accurate decisions when the said transparency in the production level is guaranteed.
- For protecting the agricultural population, it is necessary to build social support mechanisms, increase farmers' income, develop production associations and marketing opportunities, terminate decreasing customs tariffs in import and spread agricultural insurance.

The invisible hand

The Report discusses market failures concerning many markets related to the agricultural sector, which result in disadvantages especially for producers. Before moving on to the said market failures, the fundamentals of the free market economy are given so that the subject will be clearer. There is a famous metaphor used for the solution of basic problems in a market such as which goods and services will be produced and the amount of production: "*invisible hand*". First introduced by Scottish economist Adam Smith, this notion forms the fundamentals of the free market economy. Accordingly, if the market is left to function on its own, the outcomes will be optimal. In other words, if there is no intervention to the market, the price level and the amount of production will be formed on an ideal equilibrium both for producers and consumers (perfect competition).

This argument made by classical economists is one of the most disputed issues of economics. The discussion focuses on the question whether perfect competition market, on which microeconomic theory is built, occurs in real life. Certain conditions are required to form the said equilibrium price in the perfect competition market. In the absence of one of those conditions (hypotheses), it means that there is a failure in the market. Those conditions are as follows: there is a large number of buyers/sellers in the market, products are homogeneous, entry and exit of firms are easy and lastly buyers and sellers have complete information about the market. In the absence of one or more of those conditions, the market is called an imperfect competition market.

For the sustainability of agricultural production, actions to strengthen producers financially at least in the short term seem inevitable.

We can see examples of imperfect competition markets when we look at the agricultural sector. For instance, in agricultural input sectors (fertilizer, seed, agricultural pesticide, fuel, etc.) - since there are a lot of sellers - the market has imperfect competition features. Similarly, while farmers are selling their products they often cannot find many buyers. Again in agricultural markets, it is obvious that the market is imperfect in terms of many fundamental products that the farmers need (fertilizer, seed, agricultural pesticide, fuel, etc.). There are not as many sellers as the theory requires in those markets.

State subsidies are necessary to support agricultural production

The Report's suggestions that producers' marketing opportunities should be enhanced, producers' associations should be promoted and buyer power should be created by means of producers' associations aim to decrease the negative effects of the said failures on producers to some extent. However, transfer of resources from the state budget to the agricultural sector is needed for some of the solutions. For instance, since agricultural input markets are

oligopolistic, there is a need for resource to support the producers for providing those inputs. We can say that our country is not the only country where such needs arise. We see that 36% of the EU Budget was spared to agricultural policies in 2020 within the scope of Common Agricultural Policy (CAP), which has been in effect since 1962. Therefore, we can say that countries, which can spare an adequate amount of money in their budgets for the subsidies to protect agricultural population and do not have to import agricultural inputs (fertilizer, diesel fuel, seed and agricultural pesticide) are in an advantageous position in terms of agricultural production. With respect to our country, actions to strengthen producers financially at least in the short term seem inevitable for the sustainability of agricultural production.

It is possible to protect producers, which constitute the locomotive of the agricultural sector, against the failures of free market economy without making an additional pressure on the budget. To do this, one of the functionalities of the invisible hand hypotheses should be supported: Improving the farmers' knowledge about the market. As stated in the report, for a well-functioning agricultural products market, sufficient information flow among all players in the supply chain - consumers, buyers and sellers- increases total welfare.

The most critical issue in increasing farmers' knowledge about the market is sharing the data that shape their production preferences in the most updated manner possible. In addition to the information about the demand for the product, various data such as the size of the area cultivated in the previous year, total export and import volume and agricultural support amount are critical for producers' profitability. When farmers make production preferences without such information, they may make irrational choices among alternative products. When there is excess supply as a result of this, the farmers who produce the said product will inevitably bear losses. Therefore, if producers are sufficiently informed about the market, it will be possible to prevent extremely high or extremely low prices resulting from the fluctuations in production. As a result, provided with such data, producers will have an increased amount of knowledge about the market, which will contribute to the functioning of the *invisible hand* in a relatively healthy way.

Another important point to be highlighted about agricultural products is that farmers receive a low share from the total added value created as a result of the prices reaching the final consumer beside the low producer prices/income. In other words, it is vital for the sustainability of agricultural activities that producers get a fair share from the distribution of the added value resulting from agricultural production. Beside jeopardizing future production, losses incurred by farmers (underpricing policy) may result in abandonment of agricultural areas and decrease in agricultural population. The Report suggest as a solution that the share of the farmers in the created added value be increased by means of shortening the supply chain through associations in addition to implementing various incentive policies.

Consequently, we can say that perfect competition mechanism dynamics do not function in terms of most of the markets within the agricultural sector. It seems inevitable that producers should be supported; thus, sources from the budget should be transferred to farmers - at least in the short term for solving the problems. In addition, it is possible to contribute to the well-functioning of the market without bringing a burden on the budget by means of providing farmers with access to updated data set they need.