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Food Service - Hotel Restaurant Institutional

HRI Food Service Sector Report for Turkey

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Report Highlights:

The year 2016 has been very difficult for Turkey's hotel, restaurant, and institutional food service (HRI) sector due to political, security, and economic instability. This is expected to result in a steep decline in the growth rate of the sector compared to 2015, and sector representatives do not expect a full recovery in 2017. The downturn is reflected as a decrease in the number of people dining out, as well as traveling and staying at hotels, though fast food consumption has increased as consumers switch from full-service restaurants to fast food outlets. This year the major drop in tourists, particularly from Russia, is significant, as is the depreciation of the local currency, which has made imported goods more expensive.

Executive Summary:

The Turkish economy is expected to slow to 3.3 percent growth in 2016 and 3.0 percent in 2017, according to International Monetary Fund projections. GDP contracted by 1.8 percent in the third quarter of 2016 on weak consumer spending and exports, marking the first contraction in 27 quarters. The Turkish Lira (TL) has declined considerably against the U.S. dollar in recent years, thereby increasing the costs of imported goods. One U.S. dollar bought 2.34 TL on January 1, 2015, 2.92 TL on January 1, 2016, and is now over 3.50 in December 2016. The volatility affects investments as well as imports.

The political crisis between Russia and Turkey following the downing of a Russian airplane, coupled with terrorist attacks and threats, plus a coup attempt in July, hit the tourism sector badly in 2016. The number of tourists visiting Antalya decreased 45 percent in the first ten months of 2016 and a general 30 percent decrease is expected in Turkey's tourism revenues by the end of 2016. This has brought many hotels to the verge of bankruptcy. Twenty percent of tourism sector employees throughout Turkey were laid off and operating costs increased 11.2 percent (despite an inflation rate of 7.89 percent). Even though Russia lifted the flight ban to Turkey in the last quarter of 2016, the peak summer season when most Russians visit Antalya had already passed.

European tourist numbers also declined in 2016, mostly due to security concerns following terrorist attacks and the attempted coup. As the political and economic indicators are not changing substantially, and there is still ongoing turmoil on the south-eastern Turkish border, sector representatives are not hopeful about a full recovery in 2017 either. They believe that 2017 will be better than 2016, but will not be close to 2015 figures. The tourism industry is driver for food imports from Europe and the United States, as well as a driver for feed imports needed for poultry and meat production. The United States is one of the major suppliers of feed inputs for the Turkish poultry, meat, and dairy sectors.

Despite the negative atmosphere and events of this year, food consumption outside of the home is increasing in general. There are currently more than 3,800 hotels, 5,000 catering companies and 150,000 restaurants/cafes in Turkey. Despite the slowing in investments, Turkey has 360 shopping malls, 130 of which are located in Istanbul and Istanbul currently generates 43 percent of the food and beverage service revenues according to the Restaurant Investors and Managers Association.

In 2016, there has been a substantial decrease in hotel and restaurant expenditures throughout Turkey. While fine dining restaurants lost more of their customers, fast food consumption has increased as consumers switched from full-service restaurants to fast food outlets. The institutional food service market also felt the negative impacts of the economic shrinkage in 2016. This sector saw some companies being closed, a decrease in the number of employees, and the tightening of cash flows.

Table of Contents**I. MARKET SUMMARY**

- A. Market Volume and Trends
 - 1. Coffee Shops
 - 2. Tourism
- B. Value of Imported Food
- C. Advantages and Challenges

II. ROAD MAP FOR MARKET ENTRY

- A. Entry Strategy
 - 1. Trade Shows
- B. Market Structure
- C. Sub Sector Profiles
 - 1. Hotels and Resorts
 - 2. Restaurants
 - 3. Institutional Food Service Sector
 - 4. Shopping Malls
 - 5. Online Food Ordering

III. COMPETITION

IV. BEST PRODUCT PROSPECTS

- A. Products Now Present in the Market
- B. Products with Strong Sales Potential and Not Present Substantially in the Market
- C. Products Not Present in the Market

V. POST CONTACT AND FURTHER INFORMATION

SECTION I. MARKET SUMMARY

A. Market Volume and Trends

The Turkish food and beverage sector is a \$300 billion market with approximately 40,000 companies operating in this sector, 536 of which are foreign (100 of them are German, 47 are Dutch, 30 are French, 29 are American, and 26 are Italian). Turkey has a population of 80 million, almost half of which is below the age of 30. This young and urban population is one of the major factors that drive consumer behavior such as traveling and eating out.

In Turkish culture, eating is a form of socialization that brings together family or friends. There are around 150,000 cafes and restaurants in Turkey. The HRI sector is around a US\$20 billion market in Turkey and 43 percent of the HRI sector's revenue is generated in Istanbul. Thirty percent of the revenue is generated in Bodrum, Antalya, Izmir, Bursa, and Ankara, and the remainder is generated throughout the rest of Turkey.

As more people from the same household are starting to work and the number of working women is increasing, this reflects positively on the food service sector. Also, as more families have dual incomes, this means that many parents have less time to prepare meals from scratch, which in turn means more dining out or order-in occasions. In addition to this, urbanization is increasing as well as education levels, which translates into an increase in the amount of time spent outside the home socializing. In line with these trends, food consumption outside of the home increased in 2015. Over half of this revenue belongs to fast food and restaurants combined, with hotels as the next largest, and then under ten percent each for bakeries/patisseries, coffee shops, food stalls, and catering companies/schools.

Even though independent players (such as local cafes & bars, and Turkish cuisine serving restaurants) account for the majority of outlets in consumer food service in Turkey, chain companies are growing due to their financial power to open new outlets and offer attractive menus and promotions.

Due to the saturation in large urban centers, leading chain restaurants have started to shift their investments towards second and third-tier cities in which the infrastructure in terms of shopping malls and universities is set to see further development. Additionally, rent is usually relatively low in those cities compared to Istanbul, Izmir, and Ankara, which further increases the appeal of these cities. This trend is most evident in categories such as fast food, home delivery/takeaway restaurants and cafés/bars. An increasing number of university students are staying in their home towns for their university education rather than migrating to big cities, which creates a good potential for the abovementioned categories as their main target audience is the country’s young population, especially students. To benefit from this potential, leading fast food chains such as McDonald’s, Burger King and KFC are increasingly considering these second and third-tier cities for outlet expansion.

The institutional food sector is growing by catering to private companies, military, and schools. Cooking schools and blogs on food and drinks have also helped increased interest in cooking and dining in Turkey. Even though the institutional sector was also affected by the negative environment of 2016, their losses were not as significant as those of hotels and restaurants since their customers are mostly businesses and public institutions.

Table 1: Value of overall sales and growth rates of the HRI sector in the past 5 years

	2011	2012	2013	2014	2015
Million TL	35,610	37,066	38,774	40,726	43,585
Change compared to previous year	0%	4%	5%	5%	7%
Million \$	20,995	20,626	20,423	19,340	17,434
US/TL Average exchange rate	1\$ = 1.7 TL	1\$ = 1.8 TL	1\$ = 1.9 TL	1\$ = 2.1 TL	1\$ = 2.5 TL

Source: Euromonitor International (from official statistics, trade associations, trade press, company research, trade interviews, trade sources)

1. Coffee Shops

High-end specialty coffee shops have increased rapidly in the past couple of years fueled with growing interest from the younger urban population. Considering that Turks introduced coffee to Europe in the 17th century, younger Turks have quickly embraced the new coffee culture after Starbucks entered the market in 2003, and other similar coffee shops began to emerge soon after (referred to as “second wave

coffee shops”). Following the rapid spread of specialty and flavored coffee trends, being promoted both by international coffee chains and their Turkish competitors, boutique coffee shops started to open in 2014 as part of the “third wave” trend. These shops are providing an alternative to their mass market rivals with unique and rare coffee varieties, and ritualized coffee preparation. Their motto is “coffee is the new wine”. They also offer a limited variety of desserts to go with the coffee such as cakes and cookies.

As the general interest in coffee increases in Turkey, new events have started to take place. The Istanbul Coffee Festival was held for the first time in 2014 in order to support coffee culture and to create a meeting point for those who are interested in coffee. In 2015, the festival attracted 25,500 visitors. While coffee beans and cacao are imported by all the players in the sector, Starbucks imports many of the bases for its flavored coffees and other ingredients directly from the United States.

2. Tourism

Antalya, located on the Mediterranean coast, is the resort tourism capital of the country. Sixty percent of the visitors that come to Turkey enter the country from Istanbul and Antalya. Fifty-one percent of Turkey’s 5-star hotels are located in Antalya and thirteen percent are located in Istanbul.

The top three nationalities that visit Turkey are Germans, Russians, and the British. Antalya has historically been a favorite destination for Russian tourists. In November 2015, after the downing of Russian fighter jet by Turkey, Russia enforced some sanctions including an advisement for Russians not to travel to Turkey as well as imposing some trade barriers for Turkish food exports to Russia, particularly on citrus.

Turkey accommodated over 41 million tourists and registered US\$31.5 billion in tourism revenues in 2015. However, in the first three quarters of 2016 (January-September), the number of tourists visiting Turkey decreased 27 percent compared to the same period of 2015 and the tourism revenues fell 31 percent. Tourists spend almost an equal amount of money on food as they do on their accommodation (each accounts to 20 percent of total expenditure).

Turkey has always been a popular destination with its beautiful natural and historic sites. In recent years, ecotourism and health tourism have also been developing. The Ministry of Health formed a Health Tourism Department in 2011. As a result of such efforts, foreign patients coming to Turkey have increased steadily over the last four years. Providing cutting edge medical services with the latest techniques, public and private hospitals saw a substantial increase in the number of foreign patients. The Ministry of Health aims to attract 2 million foreign patients in 2023 to generate US \$20 billion, up from its 2015 target of 500,000 foreign and US \$7 billion.

The Hotel Association of Turkey (TUROB) states that despite the recent problems in tourism, there is currently an ongoing investment worth \$1.3 billion for a capacity of 47,000 additional beds in Istanbul which already has a capacity of 186,000 beds.

B. Value of Imported Food

According to the data obtained from Global Trade Atlas, Turkey’s leading import category has been bulk commodities with US\$4.2 billion in the first 9 months of 2016. This category is mainly composed of oilseeds, cereals, wheat, legumes, sugar and sugar confectionary, rice and coffee. Wheat is mainly imported under the Inward Processing Regime to be processed into wheat flour, pasta and biscuit

products which are then exported. The next largest category is the consumer oriented products with US\$1.6 billion in the first 9 months of 2016 which includes meat, dairy and eggs, prepared foods, sauces, yeast, vegetables, fruits and nuts and snack foods as major items. Government policies are influential in determining which products are imported.

Turkey is one of the world's leading producers of a variety of agricultural commodities such as hazelnuts, pistachios, figs and apricots. Turkey's major export destinations are the Middle East, Europe and Russia for food products such as nuts, raisins and apricots, fresh vegetables, dairy products, prepared foods and bakery ingredients. Turkey is a global leader in wheat flour exports.

Despite being a leader in the production of tree nuts, Turkey also imported \$227 million worth of tree nuts (primarily walnuts and almonds) in the first 9 months of 2016. United States is the major supplier of these tree nuts to Turkey accounting for 41 percent of all imports, followed by Uzbekistan (13 percent) and Chile (11 percent). Tree nuts are mostly imported in-shell and then cracked in Turkey due to cost reasons. The end product is then either re-exported or used domestically. Walnuts are consumed by the industry primarily as an ingredient in the traditional Turkish dessert *baklava*. Consumers prefer to eat walnuts and almonds mainly as snacks. Chandler is the preferred walnut variety by consumers due to its light color.

In terms of consumer oriented products, Germany has been the largest supplier to Turkey with 11.45 percent, followed by Netherlands (10.27 percent), and United States (8.86 percent) in the first nine months of 2016.

As for the imported food items preferred by the HRI sector, 5-star hotels and high end restaurants usually seek sauces that are not domestically produced, foreign wine and beer varieties, foreign cheese varieties, in addition to commodities such rice, pulses and tree nuts.

Table 2: U.S Exports of Agricultural Products to Turkey

US Exports of Agricultural Products to Turkey (in millions of dollars)	2014 FY (Oct-Sep)	2015 FY (Oct-Sep)	2016 FY (Oct-Sep)
Bulk Agricultural Products			
Wheat	0	0	0
Corn	0	5.1	0.8
Rice	120.2	82.3	26.7
Soybeans	210.2	345	124.6
Cotton	852.6	487.2	504.4
Pulses	23.7	19	11.1
Tobacco	22.3	46	43.7
TOTAL	1,245.2	994.5	718.2
Consumer-Oriented Agricultural Products			
Eggs & Products	2.1	2.2	2.4
Processed Fruit	3.4	4.9	4.6
Processed Vegetables	13.5	23.8	8.2
Tree Nuts	296.5	289.8	291.3
Snack Foods (NESOI)	1.8	1.4	2.2
Prepared Food	27.2	33.4	33.2

Non-alcoholic beverages (ex. Juices)	1.9	1.8	4
Wine & Beer	2.3	2.1	1.9
TOTAL	439.3	401.3	376.1
Other Agricultural Products			
Fish Products	7.8	6.1	1.4
Distilled Spirits	19.3	16.6	12.3
TOTAL Agricultural Products	2,089.8	1,572.6	1,365.7

Source: USDA Global Agricultural Trade System

Note: Some products have been left off this table for the purposes of this report.

One of the biggest challenges facing the HRI sector is the extreme taxation and strict regulation of alcoholic beverages. Currently, more than 60 percent of the price of an alcoholic drink is tax. (Please refer to GAIN reports [TR6001](#) and [TR5049](#) for more information on alcohol legislation and taxes in Turkey.)

C. Advantages and Challenges

U.S. food and beverages have a strong reputation and brand recognition in Turkey. Turkish consumers are introduced to U.S. foods and foreign cuisines through their travels abroad, and by incoming tourists to Turkey. As the HRI sector strives to serve the demands of tourists with foreign dishes, Turks also enjoy a wider variety in menus and are introduced to foreign sauces at hotels and restaurants. However, food import regulations in Turkey are complicated and are subject to change without prior notice, creating potential market access difficulties. Currently, the most challenging requirement in Turkey is related to agricultural biotechnology under the Biosafety Law. Turkey has not authorized the use of any biotech traits in food products, and maintains a zero-tolerance policy (Please refer to GAIN report Number TR 6054 for the latest [Turkey Agricultural Biotechnology Annual Report](#)).

Table 3: Advantages and Challenges

Advantages	Challenges
Increase in purchasing power and urbanization rate combined with the good reputation of U.S. food products lead to a fairly constant increase in U.S. agricultural sales to Turkey.	Turkey's Customs Union with the EU leads to lower import duties, and regulatory advantage due to harmonization creates price advantages for Europeans. EU and neighboring countries also enjoy lower freight costs and shipping time advantages.
Some U.S. products are better priced than local products, such as pulses, and in general are of better quality than the competition.	High value of the dollar against the Turkish Lira and the volatile exchange rate makes all imported products more expensive.
Increased preference for organized retail stores leads consumers to discover new products, and to become more aware of imported brands.	High import duties are imposed on some agricultural products in order to protect domestic production.
An increasing young population is eager to buy and try imported products, and consumers have a positive perception of	Local food processing sector is well developed and high quality goods are sold at competitive prices. Rich diversity in agricultural production provides ingredients

U.S. products in terms of quality, and are willing to pay more for them.	for most sub-sectors.
There is a growing demand for specialized products such as Tex-Mex, diabetic and diet foods, sauces, ready-to-eat foods and frozen food products, which are imported, as well as locally produced.	For confectionaries, there is a risk of products being copied by a local producer and introduced into the market under a different name.
International retailers who market a wide range of imported products, and are well established in the sector, have a strong influence on purchasing patterns.	There is the overall problem of receivables collection. Firms in all sectors are having difficulty in collecting their payments from customers because of the stall in the economy.

SECTION II. ROAD MAP FOR MARKET ENTRY

A. Entry Strategy

Since import procedures are extensive and complex, HRI entities generally do not engage in direct importation. Specialized companies that import food products also distribute these to hotels and restaurants in major cities. Therefore, the best approach for new-to-market exporters is to contact importers and distributors first through specialized institutions such as TUGIDER (Association of Food Importers) and DEIK (Foreign Economic Relations Board) that are involved in international trade servicing.

TUGIDER has 148 members, the majority of which are food importing companies. This organization can be contacted at:

Phone: (+90-212) 347 2560
 Fax: (+90-212) 347- 2570
 Website: <http://www.tugider.org.tr/eng/index.htm>

DEIK is a government organization that assists Turkish businesses engaging in international trade. DEIK can be contacted at:

Phone: (+90-212) 339 5000
 Fax: (+90-212) 270 3092
 Website: <http://www.turkey-now.org>

The table below lists some of the top importers of processed products who supply the HRI sector.

Company & Contact Name	Distribution Channel	Location
Dolphin Food Mrs. Selin Yavuz Tel: 90-212-612 47 00 Fax: 90-212-612 47 57 selin.yavuz@dolphin.com.tr	HRI, Retail	ISTANBUL
Demak Trade Mr. Nikola Marincic Tel: 90-212-289-0033 Fax: 90-212-289-8033	Retail	ISTANBUL

info@demaktrade.com		
Koza Food Mr Kerem Sezer Tel: 90-212-332-2040 Fax: 90-212-332-0700 info@kozagida.com.tr	HRI, Retail	ISTANBUL
ADCO Food Ind. & Trade Mr. Randolph Mays Tel: 90-212-322-0400 Fax: 90-212-322-0419 randy@kemergida.com	HRI, Retail	ISTANBUL
Foody & Lami Food Company Mr. Beri Benarolya Tel: 90-212-451-1622 Fax: 90-212-451-1379 beri@fudi.com.tr	HRI, Retail	ISTANBUL
Impeks Food Mr. Ogunc Yuncu Tel: 90-232-422-2622 Fax: 90-232-463-3370 ogunc@impekscomp.com	Retail	IZMIR
Ekol Food Mr Onder Bilen Tel: 90-212-321-3171 Fax: 90-212-321-4977 onder@ekolfood.com.tr	HRI, Retail	ISTANBUL

1. Trade Shows

A good way of getting to know the market and meeting potential buyers is to visit trade shows. Turkey holds a number of large-scale trade shows that attract visitors and participants from all around the world, as well as from Turkey. The biggest of these trade shows is the EMITT (East Mediterranean International Tourism and Travel Exhibition) to be held on January 26-29, 2017 in Istanbul (at TÜYAP Exhibition Center) where HRI representatives from all over Turkey participate.

The economic and political situation has also affected trade shows in Turkey. There has been a significant decrease in the number of visitors and participants in almost all trade shows. As a result, some trade shows (such as Food Ingredients Istanbul) decided to go biennial, whereas some (such as Anufood Eurasia) has not announced yet whether or not it will be held in 2017. As for Emitt, the number of visitors decreased from 142,000 in 2015 to 56,000 in 2016 and the number of participants decreased from 4,550 to 882.

Table 4: Upcoming Major Food Shows

Dates	Major Food Trade Shows in Turkey	Location
December 8-	Travel Turkey Izmir: International Tourism Trade Show and	Izmir

11 2016	Conference http://www.travelturkeyexpo.com/en	
January 26-29, 2017	Emmitt: East Mediterranean Intl Tourism & Travel Exhibition http://www.emittistanbul.com/?lang=en	Istanbul (TÜYAP)
February 15-18, 2017	Anfaş Food Product : International food and HRI equipment exhibition http://www.anfasfoodproduct.com	Antalya
September 7-10, 2017	Worldfood: International food & beverage, food ingredients and food processing exhibition. Co-held with IPACK Turkey http://www.worldfood-istanbul.com/home	Istanbul (CNR)
November 23-25, 2017	Sirha: International Food, Gastronomy, Hotel and Catering Services Tradeshow http://sirha-istanbul.com/en/	Istanbul (ICC)
May 2-4 2018	Fi Istanbul: Food Ingredients (bi-annual) http://www.figlobal.com/istanbul/home	Istanbul (ICC)

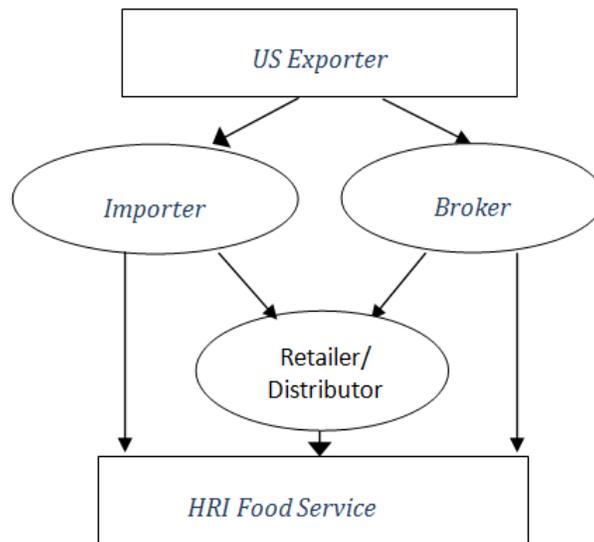
B. Market Structure

Players in the market are heading towards vertical integration in an effort to minimize costs. Major producers are purchasing major distributors and catering companies are establishing distribution and storage facilities to broaden their client basis. In this respect, major importers of packaged food products are also acting as distributors and wholesalers of the imported products.

Major importers also act as distributors to their HRI clients with their own fleet, but also make use of cargo delivery companies to supply food products to large supermarkets.

The Inward Processing Regime (IPR) allows importers to benefit from low customs duties and tax exemptions provided that they process the imported raw material and export the end product. This makes Turkey an attractive hub for trans-shipments to other Middle East and Central Asia countries.

Chart 2: Distribution network for HRI food service purchasers



C. Sub-Sector Profiles

1. Hotels and Resorts

There are currently 3,520 licensed accommodation facilities in Turkey including star-hotels, motels, boutique hotels, thermal hotels, chalets, hostels, camping places and lodges. The two major tourist capitals of Turkey are Istanbul and Antalya. Antalya is preferred mainly by Russian and German tourists for sea-sun-sand vacations and most of the hotels in Antalya are all-inclusive.

Tourism investments are no longer limited to the shores and major cities, and have spread to Anatolia. According to the data of Turizmdatabank (an online data bank of the Ministry of Culture and Tourism that collects tourism related data), currently there are 600 5-star hotels, 770 4-star hotels and 943 3-star-hotels. In the past year, licensed bed capacity of hotels throughout Turkey increased by 60,000 and reached 925,000. The major share in this capacity increase belongs to 4-star hotels with 35 percent. The share of 5-star hotels is 28.3 and the share of 3-star hotels is 12.7 percent, the remainder being thermal hotels, apart, boutique hotels and others.

In 2010, Istanbul was designated the European Capital of Culture and recently it has also become a popular wedding destination. Istanbul also serves as a center of conference tourism which adds to its attraction for international chain hotels. However, Istanbul was not spared from the big drop in tourism and lost over 3 million visitors (26.4 percent) in the first 11 months of 2016. Antalya on the other hand, lost 45 percent of its tourists in the same period and decreased from 10.3 million tourists in the same period of 2015 to 5.6 million.

Another rising star of the Turkish tourism sector in recent years had been cruise lines. The number of tourists visiting Turkey by cruise had quadrupled in the past 10 years. The top five ports carry more than 90 percent of all visitors; Istanbul, being the major point of destination, is followed by the ports at Kusadasi, Izmir, Antalya, and Marmaris. However the number of tourists visiting Turkey by cruise lines decreased 66 percent in the first 10 months of 2016, compared to the same period of 2015, and went down from 1.8 million to 610,000. After terrorist attacks in Turkey, many cruise lines rerouted and

avoided stopping in Turkey. Sector representatives are not hopeful for a full recovery in the upcoming season.

The table below shows the change in major 5-star chain hotel numbers (including the subsidiary brands of each group) compared to the previous year.

Table 6: Major Chain & Group Hotels in Turkey

Hotel Group and Brands	Number of Hotels		Local/International
	2015	2016*	
Wyndham Hotels (Wyndham, Ramada, TRYP)	42	51	International
Hilton Worldwide (Hilton, DoubleTree, Hampton, Conrad)	39	75	International
InterContinental Group (InterContinental, Crown Plaza, Holiday Inn, Holiday Inn Express)	19	23	International
Dedeman Hotels & Resorts	12	19	Local
TUI Travel Hotels (Robinson, TUI Blue, TT Hotels)	14	21**	International
Rixos Hotels	11	32	Local
Accor Hotel Turkey	26	28	International
Marriott International (Ritz-Carlton, Marriott, JW Marriott, Renaissance, AC Hotels, Courtyard, Edition plus Sheraton, Luxury Collection, Aloft, Four Points, Le Meridien, St Regis and W Hotels)***	12	26	International

* Figures include hotels in-construction as of 2016 and existing ones that are temporarily closed until 2017 due to lack of customers.

** Includes Club Magic Life hotels that used to be under Joy Group (which went bankrupt).

*** Includes former Starwood Hotels after the acquisition

Some foreign funds are making use of the current situation of the tourism sector by buying struggling hotels at competitive prices, especially in the Aegean and Mediterranean Regions. Press reports note that in the first quarter of 2016, 70 hotels have been for sale in Antalya, for a total sales value of US\$3.5 billion.

2. Restaurants

International fast food restaurants have existed in Turkey for 30 years, and are very prevalent. Istanbul has the most fast food restaurants in Turkey with 45 percent, followed by Ankara, Izmir, and Bursa. The largest international fast-food chains operating in Turkey and the number of stores they have are provided in the below table. As the following table demonstrates, U.S. franchises are dominating the fast food market in Turkey. Although Turkey's fast food consumption is climbing quickly, it still lags behind European levels and this potential is encouraging not only for new players to enter the market, but also existing businesses to expand their operations.

Table 7: Fast Food Restaurant Company Profiles

Company Name	Sales Million TL (2015)	Type of cuisine (Number of Outlets)	Location	Purchasing Agent(s)

Tab Gıda: - Burger King - Popeye's - Sbarro - Usta Donerci - Arbys	2,100	Fast Food (940)	Nationwide	Direct
Komagene	150	Turkish bulgur patty - fast food (882 domestic + 20 in foreign countries)	Nationwide	Direct
Simit Sarayi	500	Turkish bagels and other pastries (457)	Nationwide	Direct
Domino's	510	Fast Food (600)	Nationwide	Broker
Mado	N/A	Turkish ice cream and traditional dishes (344)	Nationwide	Direct
McDonald's	700	Fast Food (262)	Nationwide	Direct
Starbucks	N/A	Coffee shop (319)	Nationwide	Direct, Wholesaler
Kahve Dunyasi (Altınmarka Group)	1,700 *	Coffee shop (160)	Nationwide	Direct, Broker
Yum! Brands: - Pizza Hut - Kentucky Fried Chicken	N/A	Fast Food (KFC:102) (PH:23)	Nationwide	Direct
Little Caesars Pizza	82	Fast Food (85)	Nationwide	Broker
Midpoint	N/A	Turkish brasserie /bistro chain (Midpoint:30) (Well done:7)	Istanbul, Ankara, Izmir, Bursa, Mersin, Antalya	Direct, Broker
Subway		Fast Food (89)	Nationwide	Wholesaler
Kasap Doner	36.5	Fast Food - Doner (40)	Nationwide	

(1 US\$ = 3.5 TL as of December 2016)

* Figure belongs to the Group companies which includes cacao and coffee trade as well.

These fast food companies use locally produced ingredients whenever they can due to the difficulties in food import produces. Burger King primarily sources food items locally, importing only paper products directly from the UK. McDonald's not only prefers to work with local food manufacturers but it also produces its own beef to ensure quality and price competitiveness.

Traditional Turkish restaurants specializing in fast food service also continue to emerge. These restaurants serve traditional flat bread with cheese or meat dishes such as 'lahmacun', 'pide', or meats like 'kebab' and other Turkish dishes, but in a new fast food style.

In recent years, chains that target a higher-income segment have also entered the market. For instance, PF Chang’s, Jamie Oliver, and Tom’s Kitchen entered the market by opening restaurants in Istanbul. These foreign chains prefer to enter the market themselves instead of offering a master franchise.

There are approximately 17,000 restaurants in Istanbul. Of these restaurants, about 10,000 serve alcoholic beverages, 90 percent of which serve Turkish cuisine and the remaining 10 percent serve foreign cuisines, most of which are Italian or French. Lately, despite the long reign of Italian cuisine, Asian cuisine is also increasing in popularity. With this trend, the variety of imported items is diversifying as well.

Turkey is a very promising market for a wide range of seafood products, although the sector has been hit by the same economic woes as the HRI sector. There is a demand for high-end U.S. seafood products like lobsters, crabs, and scallops. The table below in Section III lists the highest unit value food imports to Turkey and the main countries of origin.

3. Institutional Food Service Sector

In the late 1970s and early 1980s, institutional food service providers began emerging in Turkey. The institutional food service sector has developed rapidly since then, sometimes with the help of foreign joint ventures, and is now a TL 20 billion market. The number of catering facilities, which used to be around 300 in the 1970s, increased to reach around 5,000 today, employing 400,000 people and providing meals to about 7 million people daily - half of which live in Istanbul.

Apart from offices and factories, catering companies are also serving camps, schools (including universities), hospitals, prisons, retirement homes and the military. Mostly Turkish cuisine is served, consisting of soup, a vegetable dish, a meat dish (accompanied with rice or bulgur), and a dessert and/or fruit. There is usually an additional salad bar in businesses, schools, and factories.

Companies that do not cater food in their premises offer meal vouchers that can be used at nearby restaurants. There are 4 major players serving over 2 million users in this sector: Sodexo, Multinet, Setcard, and Ticket. Among these, Sodexo also provides in-house catering facilities, such as in universities, hospitals, etc. The sector has grown at an average rate of 10 percent annually by reducing the operational costs of its client companies as well as being tax deductible. While the daily and monthly limits of the meal cards vary by the company, regulations suggest providing 14 TL to each person daily. Lately mobile payment systems are also integrated to the meal card system, providing ease of use and reducing costs. Recently companies that provide only mobile payment applications such as WinWin and Foodcard have also entered the market.

Following the usual pattern, the institutional food service industry also spread from Istanbul to other large cities such as Ankara, Izmir, Adana, Bursa, and Eskisehir. The main food inputs of this sector are fresh ingredients such as meat, grains, fruits, and vegetables. The use of imported food items is mostly limited to bulk commodity agricultural products such as rice, pulses, and vegetable oils.

The sector is now aiming to improve quality standards. Of the 5,000 catering companies, 3,800 are registered with the Ministry of Food Agriculture and Livestock (MINFAL), and the four largest companies in the sector - Sofra, Sardunya, Obasan, and BTA - are listed among the top 1,000 industry companies announced by the Istanbul Chamber of Industry.

Company Name	Sales	Type of cuisine (Number of	Location	Purchasing
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	Million TL (2015)	Outlets)		Agent(s)
BTA (Gida 360)	330.8	Institutional; Airport (149) Ferry (82) Bakery (200)	International (at airports)	Direct, Wholesaler
Sofra/Compass Group	1.3 billion	Catering Company (serves 1 million meals per day)	Nationwide	Direct, Wholesaler
Sardunya / ISS Catering	N/A	Catering Company (1000 clients) and a fine dining restaurant	Istanbul	Direct, Wholesaler

The Turkish Federation of Catering Associations (YESIDEF) is conducting various projects to increase sales to schools and the military. One of these projects is the “Feeding the New Generation” project which hopes to serve 17 million students and 555,000 teachers in 69,000 schools. In promoting healthy diets, sector representatives state that Turks spend \$30 billion each year on health expenses related to obesity, heart diseases, and diabetes, and that healthy food could be served in schools for only 20 percent of that amount (\$6 billion). As a response to these concerns, the government took action and banned the sales of sodas, chocolate, candy bars, muffins and other sweetened/processed food and beverages in school cafeterias. Instead, fresh and dried fruits, vegetables, nuts, salads, and freshly squeezed fruit juices or 100% juices, milk, cheese and eggs can be sold in the cafeterias.

The catering sector aims to expand by servicing the military, which currently mainly does their own food service. Currently 110,000 soldiers are served in 43 units around the country and the sector is trying to increase this number to 650,000 soldiers. The institutional food sector is composed mainly of small-to-medium-sized private enterprises with mostly local customers. Larger foreign catering companies such as Sodexo of France, Compass of England, and Klüh of Germany are also in the market.

There are also examples of vertical integration in the sector. Catering Company BTA established its Gida 360 company in 2014 as a supplier to the HRI sector. Gida 360 is supplying hotels, restaurants, and cafes with food and non-food items. Additionally, they import and export, store, distribute, and also provide consulting services to meet the needs of their clients. The growth and institutionalization of the food sector in Turkey has created an investment area for the education sector as well. The increasing demand for professional kitchen staff led private institutions to take initiative in developing cooking schools, which have reached \$9.7 million in total revenues.

Another trend in the sector is the rise of boutique catering companies that operate locally in a specialized type of cuisine. The company MealBox is a good example. The company was founded 2 years ago to provide gourmet Turkish meals to offices in Istanbul, and registered 400 percent growth in the last year, reaching over TL 10 million turnover. The sector promises good growth potential by providing more personalized options as an alternative to the large players.

In 2016, the institutional food service market also felt the negative impacts of the economic shrinkage. This sector saw some companies being closed, a decrease in the number of employees, and the tightening of cash flows.

4. Shopping Malls

The history of shopping malls dates back almost 550 years with the world famous Grand Bazaar, which

PRODUCT CATEGORY IMPORTS	MAJOR SUPPLY SOURCES in 2015	STRENGTHS OF KEY SUPPLY COUNTRIES	ADVANTAGES AND DISADVANTAGES OF LOCAL SUPPLIERS
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is still a major shopping destination in Istanbul today. The number of modern shopping malls in Turkey has increased 6 times in the last decade and reached 360 today, generating TL 90 billion in revenues in 2015. Of these shopping malls, 130 are located in Istanbul. Turkish consumers increasingly use shopping center food courts as an alternative to stand-alone locations. While the food courts in the shopping malls usually attract both domestic and foreign fast food restaurants, recently built higher-end malls also include full service restaurants of both local and foreign cuisines.

According to the Mall Investors Association (AYD) there is a 6 times decrease in the number of malls planned for 2017 compared to 2016, representing an investment of USD 750 million for 14 new malls due to a noticeable decrease in foreign investment appetite for new mall investments. As a result of the negative environment in 2016, the number of shoppers and mall visitors decreased and shop owners are asking for switching to paying rents in TL (versus the dollar).

5. Online Food Ordering

With the spread of internet use, online food ordering has also become more common in Turkey, especially for working people. Online sales currently account to four percent of total consumer foodservice sales. The online food ordering market is dominated by www.yemeksepeti.com (meaning “food basket”) a website linking consumers with 3,500 restaurants in 44 cities. Cashing in on the advantage of being the first in the market, the website today has over 700,000 registered users and receives 20,000 orders per day, and handles 99 percent of all online orders. In 2012 the company received a \$44 million investment from General Atlantic, which is among the 10 largest investment funds in the world.

Having seen this success, other retail websites that used to sell everything but food have also started a groceries section. Some major supermarkets also have online stores and they deliver their customers’ orders on the same day.

Section III. COMPETITION

Table 9: U.S. market share versus competitors by major product categories

<p>Beef:</p> <p>18,094 MT US\$ 109.5 million</p> <p>Poultry: Only transshipments</p>	<p>Beef:</p> <p>1) Bosnia & Herz.: 68%</p> <p>2) Poland: 32%</p> <p>Poultry: Turkey does not import poultry meat due to its highly developed domestic production and high tariff rates (100%). All figures in poultry trade data are transshipments.</p>	<p>European countries benefit from proximity advantage and bilateral agreements. Meat imports increased drastically in 2015 with special agreements between Turkey and Bosnia Herzegovina and Turkey's commitment to EU to import 19,500 MT meat from EU countries mainly because of the shortage of domestic meat production.</p>	<p>Local red meat production is volatile due to increasing feed prices and inconsistent government policies. Local poultry production is strong and well established.</p>
<p>Fish and Seafood</p> <p>Imports: 109,327 MT US\$ 229.7 million</p>	<p>1) Norway: 52.96%</p> <p>2) Iceland: 8.86%</p> <p>3) China: 5.06 %</p> <p>4) US: 1.48%</p>	<p>The most imported item is salmon and Norway dominates the market, having even created a brand name in the market enjoying the zero percent duty advantage. Turkey applies 30% duty to imported salmon but the tax is zero percent for EFTA countries</p>	<p>Local production is not as high quality in salmon, but is strong and developed in other fish varieties such as bream, bass and trout. Turkey produced 672,241 MT of seafood in 2015, up 25 % compared to the previous year. 51% of this production is sea fish, 36% is farmed fish, 5% is lake and river fish and 8% is other seafood</p>
<p>Processed fruits and vegetables</p> <p>Imports: 95,039 MT US\$ 164.6 million</p>	<p>1) Germany: 13.28%</p> <p>2) Spain: 11.92%</p> <p>3) Hungary: 7.78%</p> <p>4) China: 6.82%</p> <p>5) US: 4.27%</p>	<p>European countries supply niche products whereas Far East and other countries supply tropical fruits that cannot be grown domestically</p>	<p>Turkey has a great amount of domestic production which creates a vast supply for processors and the imported varieties are mostly tropical fruits that are not grown domestically</p>
<p>Milk and Dairy products (including cheese)</p> <p>Imports: 39,172 MT</p>	<p>1) New Zealand: 25%</p> <p>2) Turkish Republic of Northern Cyprus: 19%</p> <p>3) Ireland: 14%</p> <p>4) US: 0.28%</p>	<p>Butter, non-fat dry milk, lactose, and cheddar cheese were the primary U.S. dairy exports in 2014 with 13% market share but U.S. exports have fallen since then due to certificate issues and</p>	<p>Turkey has increased local production of cheese varieties in recent years but is still importing a large amount of specialty cheese</p>

US\$ 130 million		increased competition	
Wine and Beer Imports: 9.3 million liters US\$ 20.8 million	1) France:29.55 % 2) Italy:16.32 % 3) Belgium: 10.09 % 4) US: 3.10 %	France and Italy supply wine whereas Belgium and Germany supply beer. U.S. supplies whiskey but spirits are not included in this category.	Domestic wine production is improving. Beer production is limited and dominated by two big companies: Efes and Tuborg
Snack foods Imports: 30,440 MT US\$ 134.7 million	1) Germany: 25 % 2) Netherlands: 18 % 3) Italy: 11.69 % 4) US: 5.11 %	European countries benefit from proximity advantage and the customs union. Tariff rates vary between 8-10 % for U.S. whereas they are zero for EU countries.	Domestic snack food production is dominated by two major brands: Ulker and Eti. Multinationals like Frito-Lay, Kraft, and Pringles dominate the chips market with more than 90% market share in total.

SECTION IV. BEST PRODUCT PROSPECTS

A. Products Now Present in the Market

The best product prospects for the imported food market are well-known-brand products in the following categories:

Cocoa and chocolate: Turkey is import-dependent in cocoa since there is no local production. The tariff rate for cocoa is 100 percent. Meanwhile, the Turkish chocolate sector has been growing approximately 10 percent annually for the past ten years compared to the 5 percent growth in the global chocolate sector. Chocolate consumption is in direct proportion to income level, and 40 percent of total chocolate consumption is in the Marmara Region, which is the region where Istanbul is located. The market is currently dominated by local production, but consumers are open to new tastes and brands.

Coffee: Despite the dominance of Nestle and Jacobs brands in the instant and filter coffee markets (respectively), a niche market for flavored gourmet coffee in the upscale cafes and restaurants emerged after the arrival of Starbucks and Gloria Jean's. The German coffee shop Tchibo also entered the Turkish market in December 2006 and has opened 52 stores in 11 cities. High quality coffee varieties can find a market in the high-end supermarkets such as Macro-Center or other international supermarkets. As third-wave coffee shops are increasing rapidly in number, specialty coffee is gaining more popularity in big cities. The tariff rate for roasted coffee beans is 100 percent and 75 percent for unroasted beans.

Dry nuts and confectionary items: Turkish people consume walnuts, almonds and sunflower seeds as confectionary items, and the United States is the largest supplier of walnuts and almonds to Turkey.

Turkey imported US \$299.8 million of tree nuts in total from the United States in 2015. There is always a market for U.S. nuts in Turkey provided that they are price competitive. U.S. cranberries have

also shown success in the Turkish dried fruits sector in the past five years. The tariff rate for cranberries is 62 percent and the tariff rate for all tree nuts is 43.2 percent (except for cashew, coconut and Brazil nut, which are 75 percent). The major competitors for U.S. tree nuts are Chile and Ukraine.

Beer: There is a shift in the beer choices of Turkish consumers after being limited to a few lager varieties available in the market for decades. Pubs and restaurants are offering foreign (mostly Belgian) beer varieties to differentiate themselves from the competition, and these beers have quickly become popular among customers. This trend also opens the door for premium U.S. beer brands, as customers are willing to pay double the price of what they are paying for local beer in these restaurants. The new malt varieties introduced in recent years have shown an incredible increase in market shares, and as more brands come into the market, consumers are opening up to new tastes and products. Beer consumption in Turkey has been increasing due to the increase in young population and foreign tourists. Per capita beer consumption is around 25 liters in Turkey according to the research conducted by the World Health Organization. While some foreign beer brands such as Miller, Becks, Mariachi, Kozel and Amsterdam, are produced domestically by a local beer company (Efes), there are currently more than 100 imported beer brands in the market. In 2015, Turkey imported US\$ 2.1 million worth of wine and beer from the United States, with beer/malt accounting for nearly US\$1.3 million. Tariff rate for malt beer is 100 percent. In addition to import tariffs, alcoholic beverages have an additional domestic sales tax. There are also many restrictions on marketing and promotion, which can make introducing new products difficult.

Baked goods: Imported crackers, cookies, diet breads, crisp breads, and special kinds of pasta are present in the Turkish market. These products tend to appeal to higher income consumers and are found at upper-middle income retail outlets (specialty shops, supermarkets, and hypermarkets). Products with an ‘edge’ that the local competition does not have such as being sugar free, gluten free, or other similar features would secure a better place on the shelves by offering consumers a reason to pay a relatively higher price for an added value. Tariff rate for baked goods are mostly 75 percent (except for some bread varieties which are 50 percent).

Non-alcoholic beverages: The soft drinks sector in Turkey is dominated by multinational companies such as Coca-Cola, Pepsi-Cola and Nestlé Waters. These players benefit from strong awareness of their well-established brands, sophisticated distribution networks, and large marketing budgets. In 2015, Turkey imported US\$ 1.8 million worth of non-alcoholic beverages (excluding juices) from the United States. The juice sector is a 1.7 billion TL market and is growing with the launch of new brands. The demand for juice is increasing due to health and wellness trends, and new brands that are marketed as “100 juice – not from concentrate” see the most growth. Tariff rate for fruit juices is 75 percent and for sodas it is 50 percent. Sports drinks are also included in this category. Currently the market volume is TL 13.4 million and it grew 10 percent in total in the past 5 years.

Sauces and syrups: In recent years the sauce tastes of Turkish consumers expanded from the ketchup-mayonnaise duo to new alternatives. Barbeque sauces and salad dressings started to take up more shelf space. Various brands of sauces for salads, meat, and international cuisines are popular in Turkey and form an important part of the HRI sector. In particular, the increasing popularity of Asian cuisine is promoting demand for specialty herbs, sauces, and syrups. Fine dining restaurants mostly demand items such as Dijon mustard, tonkatsu, mitsukan, wine vinegar, chili sauce, wasabi, balsamic vinegar, etc. in this respect. Most sauces are currently being imported from Germany, the UK, France, Asian countries,

and the United States. In 2015, Turkey imported US\$ 1.1 million worth of condiments and sauces from the United States. Soy sauce, hot sauces, and barbeque sauces are the most popular imported sauce varieties in the market. Tariff rates for sauces are 50 or 75 percent, whereas for syrups the rates vary between 35 to 150 percent.

Whiskey: As the tax rates on Turkey’s favorite local alcoholic beverage, *raki*, increased continuously, the price gap between raki and whiskey has started to diminish, and consumers started to switch to whiskey instead of raki. Since whiskey is viewed as an expensive and charismatic drink, it is popular among the young population as well as the middle-aged and older consumers with established taste preferences. Popular whiskey brands sold in Turkey are Jack Daniels, Jim Beam, Johnny Walker, and J&B. According to data obtained from Euromonitor, whisky registered 21 percent increase in total volume sales and reached 7.8 million liters in 2015, benefiting from lower excise tax increases. Blended Scotch whiskey is the whiskey of choice and accounts for 79 percent of all whiskey sales in Turkey. Single malt Scotch whiskey also registered an 11 percent growth in total volume in 2015. Bourbon/other U.S. whiskey registered double-digit total volume growth of 13 percent in 2015 and reached 1.5 million liters, mainly due to the increasing popularity of the category’s leading brand, Jack Daniel’s.

Others: Demand for food items used in sushi and in Chinese dishes is increasing with the growing popularity of East Asian cuisine. The adoption of products popular in the West is a large part of modern Turkish life, so internationally known brand names are particularly well received. Exporters should be sensitive to brand positioning and be ready to invest in research and marketing to help their importing partners have a successful entry into the market. Exporters should also be aware that the Turkish biosafety regulation regulates the use of genetically engineered (GE) products – at this time no GE products have been approved for human consumption.

Table 10: Products Present in the Market with Good Sales Potential

Product Category	2015 Imports 1)Value 2)Volume	5 yr Avg. Annual Import Growth (2010 – 2015)	Import Tariff Rate	Key Constraints Over Market Development	Market Attractiveness for USA
Tree Nuts	1) 270 2) 73,968 MT	12.4 %	43.2%	Depreciation of Turkish Lira against US Dollar led to higher import costs. Political instability in Turkey’s re-export markets	Rising incomes translate into demand for new products; export demand requires mixing nuts not available in Turkey
Wine & Beer	1) 20.8 2) 9.3 million liters	30%	Wine 120% Malt Beer 100% (additional taxes and	Import tariffs, fees and sales tax raise the price of all spirits considerably. Strict advertising and	Rising incomes have contributed to growing interest in spirits and cocktails. Brand recognition and

			fees apply)	marketing restrictions are implemented since early 2013.	little local competition are advantages for U.S. products.
Fish and Seafood	1) 229.7 2) 109,327 MT	13%	20-25%	High prices limit the current market. Primary competition is from Norway.	Turkish cuisine includes varieties available from the Mediterranean and Black Sea. Consumers in large cities are open to new varieties.
Snack Foods (excluding nuts)	1) 134.7 2) 30,437 MT	3%	50-100%	Domestic production is abundant and inexpensive; Consumers are price sensitive; Biosafety Law prohibits imports that test positive for biotech content	U.S. varieties not available on the market; perceived high quality

Source: Global Trade Atlas

B. Products with Strong Sales Potential and Not Present Substantially in the Market

Organic processed products: In line with the health trend, organic products are gaining popularity in Turkey over the past few years. As the prices of organic products come down to more reasonable levels every year, the demand also increases in direct relation. Organic products currently account for only 1 percent of the total food products in the market and are mainly fresh produce, eggs, some dairy products, pulses, pasta, tahini and herbs. There are only a few processed goods available such as organic yogurt, chocolate, jams, tahini, etc. Post expects that organic processed product varieties will have sales potential in the Turkish market in the upcoming years.

Functional foods: Consumption of functional food products has been growing rapidly in line with the consumer demand for healthy products. Yet, despite a developed agricultural production, processed functional food varieties are still quite limited in Turkey. Currently diet and diabetic products, gluten-free products, probiotic yogurt varieties, and herbal teas are the major types of functional foods present in Turkey, but are quite limited in terms of product varieties. Functional food additives, toddler foods, and in general products that are ‘enriched’ in any way promise a high growth potential.

Prepared food / Ready meals: Pre-prepared and ready-to-consume food products are currently very limited in the market but present a great potential for the urban consumer. As more women join the work force and as work hours are extended in a competitive business environment, many people are

looking for quick meal solutions after they come home from a long commute exhausted after a long day. Ready-to-eat/cook meals have a high potential in this respect.

Gourmet/Foreign Ingredients: As Turkish consumers' tastes become more sophisticated, there is a growing interest in restaurants featuring novel foods such as "Tex-Mex", "Chinese", "Thai" and "Japanese." This is bound to spread into retail sales as well. Recently there is a visible increase in sauce varieties of different cuisines for instance. Ingredients used in making these types of ethnic dishes promise a growing sales potential, not only by the end users but also by restaurants who serve these cuisines.

Healthy Snacks: Health bars and other healthy snacks are not substantially present in the market but consumers are aware of the products. In 2015, Turkey imported US\$ 1.2 million of snacks from the United States, but this figure has reached US\$ 2.1 million in the first 10 months of 2016. This is a good sales opportunity for suppliers who would like to benefit the rising 'healthy consumption' trend before the void is filled.

C. Products Not Present in the Market

Genetically engineered ingredients: No genetically engineered (GE) products are approved for human consumption in Turkey. Regulations in Turkey may be subject to drastic changes over short periods of time, so exporters should be aware of the latest regulations before making any plans. For detailed and updated information, please refer to the related FAS reports:

<http://gain.fas.usda.gov/Lists/Advanced%20Search/AllItems.aspx>

Considerations for U.S. Exporters

It can be difficult to export products that have a shelf-life less than six months to the Turkish market due to the shipment time from the United States and because the extensive import procedures may take up to several weeks. Also, products like expensive wine varieties turn out to be even more costly when one or more bottles have to be given up at the customs for import testing procedures.

It is always useful to take into consideration that taste preferences of Turkish consumers can be quite different from U.S. consumers. Even though globalization has made urban consumers more open to trying and accepting new tastes, Turkish people in general can be quite resistant to try new tastes, so some products may need to be adapted according to the local taste.

Examples of failure of some products in the Turkish market in the past were mostly due to inadequate marketing and brand positioning strategies when the product lines were introduced. Adopting products popular in the west is a large part of the modern Turkish lifestyle, and internationally known brand names are useful in this respect. Exporters should be particularly sensitive to brand positioning and be ready to invest in necessary research and marketing activities for a successful introduction.

SECTION V. POST CONTACT AND FURTHER INFORMATION

For more information on import regulations and other agricultural sector reports for Turkey and other countries around the world, please refer to the FAS website at: <https://www.fas.usda.gov/> or contact the FOREIGN AGRICULTURAL SERVICE offices in Turkey:

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