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## Turkey

## Tobacco and Products

## Annual

## 2003

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### Report Highlights:

**The new tobacco law which requires contract farming limited the over-production of poor quality tobacco in Turkey's Southeastern region. However, total tobacco production increased year-to-year due to an increase in production in the Aegean region. Non-oriental tobacco imports decreased – especially from the U.S. – as manufacturers used existing stocks and sought low-cost suppliers. TEKEL's privatization tender is expected to take place in June. Cigarette exports are up twenty-four percent in 2002 and are expected to continue to increase.**

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Includes PSD changes: Yes  
Includes Trade Matrix: Yes  
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Table of Contents:

Executive Summary .....	1
Oriental Tobacco Production .....	2
Consumption .....	3
Trade .....	3
Stocks .....	3
Policy .....	3
Marketing .....	3
Flue-Cured Tobacco Production .....	3
Consumption .....	4
Trade .....	4
Burley Tobacco Production .....	4
Consumption .....	5
Trade .....	5
Cigarette Production .....	5
Consumption .....	5
Trade .....	6
Prices .....	6

## **Executive Summary**

The new tobacco law which requires contract production effectively reduced poor quality oriental tobacco production in Turkey's Southeast Anatolian Region. Total production increased year-to-year, however, due to an increase in non-contract production in the Aegean region where farmers will be obliged to sell via auctions. MY2003 total un-manufactured tobacco production is now estimated at about 171,314 MT (farm weight) including 165,533 MT oriental tobacco, 3,870 MT flue-cured and 1,911 MT burley. Total tobacco production is expected to decline in coming years as incentives to produce alternative crops – and the disincentives to produce tobacco – become well established .

The new tobacco law which was approved by Parliament last year changed the way tobacco and tobacco products are produced and marketed in Turkey. Production is now controlled through contracts and out-of-contract tobacco needs to be sold at auctions. TEKEL is not purchasing excess tobacco and its cigarette manufacturing and leaf tobacco buying sections will be separated. The new law allows TEKEL to form partnerships with other firms and requires that new cigarette factories have capacity to produce two billion pieces. The new law includes a 40 cents per pack import fund assessment for cigarette imports.

Turkish oriental tobacco exports continued to decrease during 2002, totaling about 88,840 MT compared to 95,700 MT in 2001. Reasons for the decline in exports include the anti-smoking movement in the western world and economic difficulties in some export markets including SEA and FSU. During 2002 the United States continued to be the leading importer (33,768 MT) of Turkish tobacco, followed by the EU (28,069 MT) and FSU (8,792 MT). Turkish exports of non-oriental tobacco were negligible at 505 MT.

Turkey imported about 37,277 MT of non-oriental tobacco in 2002, down from 52,730 MT in 2001, of which 25,000 MT is estimated to be flue-cured (unstemmed and stem) and 12,277 MT burley. The United States was again the leading supplier of both types. While private companies continued to import U.S. tobacco, TEKEL did not buy U.S. leaf during 2002. Turkey also imported 4,088 MT of scrap tobacco during the year. During the same period 10,424 MT of reconstituted tobacco was imported, primarily from the United States. Precut tobacco imports were about 4,741 MT. Switzerland continues to be the leading supplier.

The GOT is determined to privatize TEKEL's cigarette production units and brands. An international tender is expected to take place in June. According to trade sources, Turkey is listed as the seventh largest cigarette market in the world. The total size of the market is estimated to be about US\$5 billion annually. The GOT has decided to sell all the cigarette production units and brands of TEKEL as one unit rather than dividing it by facilities and brands. Private manufacturers are concerned that such a sale - creating the country's largest cigarette manufacturer - will prevent competition in the market.

While existing private companies are using their full capacity to meet the domestic and international demand, British American Tobacco (BAT) opened up its new facility in Tire, Izmir in mid-October 2002. The plant has two billion pieces annual capacity as required by the new law. BAT has also announced that it plans to invest about US\$200 million in the Turkish cigarette market during the next eight years and increase its capacity to ten billion pieces.

Turkish cigarette exports in 2002 increased to 15.3 billion pieces. The majority of the exports are done by one private manufacturer and the rest by TEKEL. The Middle Eastern and EU countries were the main export destinations.

The newly introduced consumption tax that replaced taxes on cigarettes has been renewed and increased again. The total tax on cigarettes is now 74.5 percent which makes Turkey one of the highest taxed cigarette markets in Europe.

The 2003 import regime kept the import duty and fund tax the same as last year, 25 percent and US\$3 per kilogram respectively.

PSD Table						
Country	Turkey					
Commodity	Tobacco, Unmfg., Total			(HA)(MT)		
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2001		01/2002		01/2003
Area Planted	237318	237318	207140	206817	0	210398
Beginning Stocks	380820	380820	392427	392427	371022	354576
Farm Sales Weight Prod	207261	207261	160476	161266	0	171314
Dry Weight Production	172027	172027	133195	133812	0	142190
U.S. Leaf Imports	21315	21315	23000	14267	0	11000
Other Foreign Imports	31415	31415	32750	23010	0	44500
TOTAL Imports	52730	52730	55750	37277	0	55500
TOTAL SUPPLY	605577	605577	581372	563516	371022	552266
Exports	96450	96450	90750	88840	0	98000
Dom. Leaf Consumption	69200	71200	66600	71300	0	71700
U.S. Leaf Dom. Consum.	24500	23500	25500	17000	0	12000
Other Foreign Consump.	23000	22000	27500	31800	0	39300
TOTAL Dom. Consumption	116700	116700	119600	120100	0	123000
TOTAL Disappearance	213150	213150	210350	208940	0	221000
Ending Stocks	392427	392427	371022	354576	0	331266
TOTAL DISTRIBUTION	605577	605577	581372	563516	0	552266

## **Oriental Tobacco Production**

Oriental tobacco production for MY2003 is estimated at 165,533 MT (farm weight) reflecting the GOT's efforts to keep production at manageable levels. The Aegean region continues to be the leading tobacco producing region (111,055 MT). Tobacco production continues to decline in the Southeast Anatolian region where mostly low quality tobacco is produced. The MY2003 crop in the Southeast region declined to 21,153 MT from 29,478 MT in MY2002. Production for other regions was 23,020 MT in the Black Sea, 4,770 MT in Eastern Anatolia and 2,535 MT in Marmara.

The new tobacco law has been instrumental in keeping oriental tobacco production at a reasonable level. In accordance to the new production law of 2002 TEKEL, private companies and merchants are buying tobacco according to the pre-season production contracts that they signed with the farmers. Last year TEKEL signed production contracts for a total of 60,000 MT of with farmers while private merchants contracted a total of 92,000 MT. TEKEL is not willing to increase its contract amount in coming years due to its high stocks, low exports and upcoming privatization. Following the privatization of TEKEL's cigarette production facilities, TEKEL is expected to gradually lower its leaf tobacco related activities and cease operation in a few years.

Even though TEKEL announced that it will not buy non-contracted tobacco in excess of more than ten percent of the contracted amount, it is estimated that about 10,000 MT of MY2003 tobacco has been produced without contracts. Auction sales were proposed for this type of tobacco but auction grounds were not prepared. Catalog sales were also proposed with no interested buyer in sight. Producers are expecting the GOT to come up with a 'solution' in coming weeks. This highlights the problem which is central to the transition from state-run enterprises such as TEKEL – the farmers still expect the state (TEKEL in this case) to buy their products.

Assuming TEKEL purchases of low quality and non-contract tobacco are truly discontinued, oriental tobacco production is expected to continue to decline in coming years. With the assistance of IBRD, the GOT is pursuing an alternative crop program for tobacco producers. According to the program farmers who shift from tobacco to an alternative crop are eligible for a US\$80 per dekar support payment. This program will end in 2004. As a result of the program, the number of farmers that cultivated oriental tobacco was reduced to 376,000 in 2002 from 516,000 in 2001. The major reduction of oriental tobacco under the new law is taking place in the Eastern and Southeastern parts of Turkey where mostly low quality tobacco is produced. Farmers in the Eastern and Southeastern regions are said to be planting grains, pulses and vegetables and in the Aegean region grains and grapes in place of tobacco.

PSD Table						
Country	Turkey					
Commodity	Tobacco, Unmfg., Oriental				(HA)(MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2001		01/2002		01/2003
Area Planted	210000	234445	185000	204507	0	208648
Beginning Stocks	336132	352244	332532	357260	317532	331420
Farm Sales Weight Prod	180000	199658	160000	155416	0	165533
Dry Weight Production	149400	165716	132000	128995	0	137392
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	485532	517960	464532	486255	317532	468812
Exports	90000	95700	85000	88335	0	97500
Dom. Leaf Consumption	63000	65000	62000	66500	0	68000
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	0	0	0	0	0	0
TOTAL Dom. Consumption	63000	65000	62000	66500	0	68000
TOTAL Disappearance	153000	160700	147000	154835	0	165500
Ending Stocks	332532	357260	317532	331420	0	303312
TOTAL DISTRIBUTION	485532	517960	464532	486255	0	468812

## Consumption

Domestic oriental tobacco consumption is up marginally due to increased cigarette production supported by increased exports. MY2003 domestic consumption of oriental tobacco is expected to be about 68,000 MT. TEKEL did not destroy any low quality oriental tobacco during 2002, a practice it has used in the recent past to free warehouse space and reduce stocks.

## Trade

Turkish oriental tobacco exports remain low in 2002 compared to average exports of 150,000 MT in the mid-nineties. MY2002 oriental exports were 88,335 MT, down from 95,700 MT of a year ago, of which about 8,000 MT were scrap tobacco that TEKEL annually ships to the United States for further processing as recon tobacco that will later be shipped back to Turkey. Low demand in the western world, particularly in the United States, due to anti-smoking efforts, and economic difficulties in SEA and FSU countries have continued to cause exports to decline. MY2003 exports are expected to rebound to 97,500MT due to TEKEL's efforts to clear stocks.

During MY2002 grade A tobacco exports reached 22,806 MT with an average price of US\$5.14 kg and grade B tobacco exports were 11,072 MT, with an average price of US\$4.28 kg. Average prices for other types were: US\$2.48 kg for "kappa", US\$1.51 for "kappa kappa", and US\$0.53 kg for scrap tobacco. Turkey also exported mixed quality tobacco known as "class unique". Exports of this quality tobacco in MY2002 reached 36,453 MT, with the average price of US\$2.35 per kg.

## Stocks

Stocks currently remain quite large due to TEKEL's former practice of purchasing unneeded poor quality tobacco. In coming years the decline in oriental tobacco stocks is expected to continue due to GOT efforts which include a combined approach of production controls, exports and stock disposal via burning.

## Policy

The 2003 import regime has kept the tobacco import duty and fund tax the same as last year; 25 percent customs duty, plus a US\$3 per kg tobacco import fund charge.

## Marketing

Current regulations require a notice stating that cigarette smoking is harmful to health but do not require manufacturers to print tar and nicotine levels on cigarette packages.

## Flue-Cured Tobacco Production

MY2003 flue-cured production is estimated at 3,870 MT which is slightly less than last season due to the high domestic production cost and availability of cheaper tobacco in the other producing countries in Africa, South America and Southeast Asia.

In 1998, TEKEL and RJ Reynolds (RJR) formed a joint venture company, Reytek, to meet their demand for flue cured and burley tobacco through local production. The objective was to increase production by ten percent per year and reach 10,000 MT total production for both types by the year 2005. Also, Phillip Morris (PM) has been cooperating

with another company since 1996 to produce flue cured and burley tobaccos in the Marmara region. However, the high cost of initial investment (drying barns) and operation cost (fuel, LPG) prevented both ventures from increasing production.

PSD Table						
Country	Turkey					
Commodity	Tobacco, Unmfg., Flue Cured				(HA)(MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2001		01/2002		01/2003
Area Planted	2400	2026	2300	1548	0	1400
Beginning Stocks	19790	20127	19355	23410	17755	14919
Farm Sales Weight Prod	5200	5160	5000	3393	0	3870
Dry Weight Production	4315	4283	4150	3314	0	3212
U.S. Leaf Imports	14000	14000	15000	9500	0	7500
Other Foreign Imports	18000	20750	19000	15500	0	29500
TOTAL Imports	32000	34750	34000	25000	0	37000
TOTAL SUPPLY	56105	59160	57505	51724	17755	55131
Exports	750	750	750	505	0	500
Dom. Leaf Consumption	4500	4500	4000	3300	0	3000
U.S. Leaf Dom. Consum.	17500	17500	17000	12000	0	8000
Other Foreign Consump.	14000	13000	18000	21000	0	26000
TOTAL Dom. Consumption	36000	35000	39000	36300	0	37000
TOTAL Disappearance	36750	35750	39750	36805	0	37500
Ending Stocks	19355	23410	17755	14919	0	17631
TOTAL DISTRIBUTION	56105	59160	57505	51724	0	55131

## Consumption

Total flue-cured consumption continues to increase as a result of the increasing popularity of blended cigarettes and due to increasing exports. The great majority of exports are blended cigarettes and industry analysts now forecast that blended cigarettes will capture over 60 percent of the local cigarette market in 2003. Consumption of U.S. flue-cured tobacco has decreased dramatically in recent years due to an increase in imports of lower-cost alternatives (see below).

## Trade

Existing official trade data does not properly distinguish types of tobacco imported. Based on information from a range of sources, Turkey's imports of non-oriental tobacco in MY2002 dropped to 37,277 MT from 52,730 MT a year ago. About 25,000 MT of imports are estimated to be flue-cured (unstemmed and stem) tobacco. The decline in imports is attributed to TEKEL's loss of market share and decision to utilize available tobacco in its stocks. Imports are forecast to go up again in MY2003 and in future years due to increases in demand.

Imports from the U.S. declined in MY2002 due to the high cost since private cigarette manufacturers and later TEKEL introduced low-cost blended cigarettes containing low-cost African and South American and Asian flue-cured tobacco. Imports from the U.S. are expected to decline further in MY2003.

Turkish imports of flue-cured tobacco from Zimbabwe in MY2002 were 1,393 MT - significantly less than 9,020 MT in MY2001. However, TEKEL announced a new tender to be finalized in May 2003 to buy 9,175 MT of flue-cured tobacco with stem from Zimbabwe during 2003. TEKEL also bought 3,366 MT of flue-cured tobacco with stem from Brazil and 2,173 MT from S. Korea during MY2002.

Turkey also imported 4,087 MT of scrap tobacco in 2002. Canada was the leading supplier, exporting 882 MT. Homogenized tobacco imports during the same period have reached 10,424 MT of which U.S. and Germany were the leading suppliers with 8,833 MT and 801 MT respectively. Turkey also imported about 4,741 MT of pre-cut tobacco in 2002. Switzerland was the leading supplier, exporting 2,617 MT.

Turkish exports of non-oriental tobacco during 2002 were about 505 MT all of which were flue-cured. Switzerland was the main importer.

Since available official data do not differentiate between flue-cured, stem and burley tobaccos it is not possible to create trade matrices for these items.

## Burley Tobacco Production

As with flue-cured tobacco, burley tobacco production suffered from high production costs, more attractive alternative crops, and the availability of lower-priced supplies from Africa, South America and Southeast Asia. MY2003 production of burley tobacco is estimated at 1,910 MT. According to the trade contacts ReYTEK is planning to halt burley production for next season due to cost and quality concerns.

PSD Table						
Country	Turkey					
Commodity	Tobacco, Unmfg., Burley				(HA)(MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2001		01/2002		01/2003
Area Planted	900	847	890	762	0	350
Beginning Stocks	8532	8449	10575	11757	11635	8275
Farm Sales Weight Prod	2100	2443	2000	1857	0	1911
Dry Weight Production	1743	2028	1660	1541	0	1586
U.S. Leaf Imports	7000	7315	7500	4767	0	3500
Other Foreign Imports	11000	10665	10500	7510	0	15000
TOTAL Imports	18000	17980	18000	12277	0	18500
TOTAL SUPPLY	28275	28457	30235	25575	11635	28361
Exports	0	0	0	0	0	0
Dom. Leaf Consumption	1700	1700	1600	1500	0	1500
U.S. Leaf Dom. Consum.	8000	6000	8500	5000	0	4000
Other Foreign Consump.	8000	9000	8500	10800	0	13200
TOTAL Dom. Consumption	17700	16700	18600	17300	0	18700
TOTAL Disappearance	17700	16700	18600	17300	0	18700
Ending Stocks	10575	11757	11635	8275	0	9661
TOTAL DISTRIBUTION	28275	28457	30235	25575	0	28361

## Consumption

Factors affecting consumption are similar to those for flue cured tobacco. Increases in consumption are driven by the increasing consumption of blended cigarettes in domestic and export markets.

## Trade

Turkey imported about 12,277 MT of burley tobacco during 2002. According to the available information TEKEL bought 1,092 MT of burley tobacco from Argentina and 923 MT from Malawi in 2002. TEKEL announced a new tender that will take place in May to buy 3,040 MT of Malawi burley during 2003.

## Cigarette Production

MY2002 cigarette production was about 130.3 billion pieces, a slight increase from 2001. In MY2003 we expect a further increase. Oriental cigarette production accounted for about thirty-three percent of the total production compared to thirty-eight percent in 1999. TEKEL's production consists of about sixty percent oriental cigarettes and the balance is blended cigarettes. The great majority of the production of private manufacturers is blended cigarettes. TEKEL's oriental cigarette production remained the same as last year but blended cigarette production has declined due to loss of market share.

While private manufacturers are opening new plants and using larger part of their existing capacities, TEKEL is not undertaking any new investment in view of the upcoming privatization. Phillip Morris (PM) annual production capacity is about 30 billion pieces and Japan Tobacco International (JTI) production capacity is about 28 billion pieces. Both plants are located in Torballi, Izmir.

British American Tobacco (BAT), which failed to purchase some of TEKEL's brands and facilities, built a two billion pieces capacity plant in Tire, Izmir which started production last October. BAT plans to increase its production to 10 billion pieces in coming years. British Imperial Tobacco company has also applied for a license to build a plant in Mersin Free Trade zone but it is not clear yet whether the plant will produce cigarettes or precut tobacco and paper.

The GOT is determined to privatize TEKEL's cigarette facilities. The tender for sales is planned to take place in June. A large number of international cigarette manufactures are said to be interested in participating in the tender. After lengthy discussion the government has decided to sell all the facilities as one unit rather than dividing it by brands and factories. This decision has led to concern on behalf of the private cigarette producers. Only a small group of companies has the ability to purchase all of TEKEL's facilities, and the result will be the creation of a dominant cigarette producer in the market.

## Consumption

Turkey is reported to be the seventh largest cigarette market in the world. Historically, cigarette consumption increased two to three percent per year despite the strict anti-smoking legislation. In recent years, however, consumption growth has slowed due to slow economic recovery and health concerns.

Fierce competition is taking place between cigarette manufacturers to increase their shares of the local cigarette market. Companies that cannot advertise their products are competing by creating new brands with fancy packages. There is also fierce price competition (see below).

The quality image of TEKEL-2000 cigarette was shaken by smuggled imitations and availability was adversely affected by distribution problems. As a result, the market share of TEKEL-2000 has declined considerably to sixteen percent of the blended market, compared to thirty percent just four years ago. This also caused TEKEL's total market share to decline to sixty-one percent from sixty-seven. Phillip Morris increased its share to twenty-seven and Japan Tobacco International (JTI) to eleven percent in 2002.

During 2002 oriental types maintained their market share while some full-flavor brand shares decreased due to lower purchasing power of consumers. Value blended brands continued to capture a larger share of the market.

PSD Table						
Country	Turkey					
Commodity	Tobacco, Mfg., Cigarettes			(MIL PCS)		
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		01/2001		01/2002		01/2003
Filter Production	127500	127500	127900	130330	0	134000
Non-Filter Production	850	850	850	500	0	500
TOTAL Production	128350	128350	128750	130830	0	134500
Imports	0	0	0	0	0	0
TOTAL SUPPLY	128350	128350	128750	130830	0	134500
Exports	12400	12400	12750	15330	0	18500
Domestic Consumption	115950	115950	116000	115500	0	116000
TOTAL DISTRIBUTION	128350	128350	128750	130830	0	134500

## Trade

Turkey is becoming a major exporter of cigarettes due to its location and low cost of production. 2002 cigarette exports reached 15.3 billion pieces representing twenty-four percent increase compared to a year ago. One of the private manufacturers is continuing to undertake the majority of exports followed by TEKEL. The major destinations include the Middle east and EU Turkish cigarette exports are expected to continue to increase in coming years.

Export Trade Matrix			
Country	Turkey		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	MY2002	Units:	Mil. pieces
Exports for:			1
U.S.		U.S.	
Others		Others	
U.A.E.	7372		
Belgium	4382		
Slovenia	1010		
Iran	797		
Afghanistan	728		
Letonia	415		
Greece	214		
Yugoslavia	85		
Lebanon	61		
Romania	30		
Total for Others	15094		0
Others not Listed	239		
Grand Total	15333		0

## Prices

Local cigarette manufacturers which are not allowed to advertise can only compete with their varieties and prices. TEKEL kept its prices stable despite more than thirty percent domestic annual inflation for ten months to protect its market share during 2002. However, since November it had to increase it twice due to increases in production costs. High local prices are reported to increase smuggling of low quality cheap cigarettes into Turkey.

Company&Brand (Pack of 20)	April 2003 Price(US\$=1,600,000)	April 2002 Price(US\$=1,350,000)
=====	=====	=====
<b>Phillip Morris:</b>		
Marlboro 100's	2,750,000	2,000,000
Marlboro Light	2,750,000	2,000,000
Marlboro 85's	2,500,000	1,800,000
Parliament	2,750,000	2,000,000
L&M 100's	1,600,000	1,100,000
L&M 85 mm	1,500,000	1,000,000
Chesterfield	1,750,000	1,250,000
<b>RJ Reynold:</b>		
Camel 85mm	2,500,000	1,800,000
Camel 85 mm Light	2,500,000	1,800,000
Salem	2,750,000	1,800,000
Monte Carlo 100's	1,500,000	1,000,000
Winston	1,750,000	1,250,000
<b>TEKEL</b>		
Maltepe 100's	1,000,000	700,000
Maltepe 85 mm	950,000	650,000
Samsun 100's	1,000,000	700,000
Samsun 85 mm	950,000	650,000
TEKEL 2000 100's	2,250,000	1,600,000
TEKEL 2000 85 mm	2,150,000	1,500,000
TEKEL 2001 100's	1,600,000	1,100,000
Yeni Harman	1,100,000	750,000
<b>BAT</b>		
Viceroy	1,600,000	N/A
Kent	1,600,000	N/A

End Report.