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Turkey

Tobacco and Products

Cigarette Tax Structure Change

2004

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Report Highlights:
The GOT announced a new decree that changes the tax structure on cigarettes favoring consumption of oriental tobacco. The new decree lowered the proportionate tax on cigarettes and issued a fixed tax based on oriental tobacco content in formulations. The decree charges a lower tax rate for cigarettes that have a higher oriental tobacco content. The decree is expected to stop the decline in government tax revenues due to cigarette price cuts and assist TEKEL to protect its market share and maintain its value before the next privatization attempt. In the long-run, the change will result in an increase in utilization of oriental tobacco and a decline in imports of non-oriental tobacco, including those from the United States.

Includes PSD Changes: No
Includes Trade Matrix: No
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The GOT announced a new decree that changes the tax structure on cigarettes favoring consumption of oriental tobacco. The new decree lowered the proportionate tax on cigarettes and issued a fixed tax based on oriental tobacco content in formulations. The decree charges a lower tax rate for cigarettes that have a higher oriental tobacco content. The decree is expected to stop the decline in government tax revenues due to cigarette price cuts and assist TEKEL to protect its market share and maintain its value before the next privatization attempt. In the long-run, the change will result in an increase in utilization of oriental tobacco and a decline in imports of non-oriental tobacco, including those from the United States.

According to the new decree, the GOT lowered the proportionate tax on cigarettes from 55.3% to 28% and issued fixed tax based on oriental tobacco content of cigarettes. The majority of oriental tobacco consumed in Turkey is produced domestically. Accordingly, cigarettes that contain 0-24% oriental tobacco are subject to TL 50,000 per piece (TL 50,000 X 20= TL 1,000,000 or USD 0.69 per pack) fixed tax. Cigarettes that contain 25-49% oriental tobacco are subject to TL 30,000 fixed tax per piece (TL 600,000 per pack), cigarettes with 50-75% oriental tobacco are subject to TL 22,500 per piece (TL 450,000 per pack) and cigarettes with 75-100% oriental tobacco are subject to TL 17,500 per piece (TL 350,000 per pack). Cigarettes are also subject to 15.25% VAT which remains the same. Oriental tobacco is grown in Turkey and in neighboring countries such as Greece, Bulgaria, Former Yugoslavia and Armenia. (1 USD=1,450,000 TL)

The decree also decreased the proportionate tax on cigar and cigarillos from 55.3% to 50% but increased the fixed tax to TL 180,000 per gram from TL 110,000 per gram, which is expected to raise local prices.

Turkey also produces non-oriental tobacco, flue-cured and burley, but not in sufficient quantities to meet domestic demand. In 2003 Turkey imported about 61,000 MT of various types of tobacco including flue-cured, burley, scrap, pre-cut and homogenized tobacco. The United States was the leading supplier of non-oriental leaf and homogenized tobacco with exports of 12,000 MT and 10,000 MT respectively. The decree is expected to adversely affect U.S. tobacco exports to Turkey in the long run. Tobacco imports are subject to 25% customs tax and US$ 3 per kilogram customs fund.

The new decree is expected to stop the decline in GOT tax revenues and assist TEKEL to protect its market share and maintain its value before the next privatization attempt which is planned for October. In the long run, the decree will increase utilization of domestically produced oriental tobacco. Current domestic stocks of oriental tobacco are quite large, at over 250,000 MT. Oriental tobacco domestic consumption declined to 65,000 MT in 2004 from 80,000 MT in 1995 while cigarette production grew to 125 billion pieces from 95 billion during the same period.

The Turkish domestic cigarette market is the seventh biggest cigarette market in the world with estimated consumption of 110 billion pieces at a value of USD 8 billion. Turkey also exports about 15 billion pieces of cigarettes annually to neighboring countries and to the Middle East. TEKEL is estimated to control 58% of the domestic market followed by Phillip Morris 30%, Japan Tobacco International 10% and British American Tobacco 2%. TEKEL will be the least affected manufacturer from the recent change since its product line consists mostly of oriental brands. However, all other manufacturers will need to increase their prices since most produce blended cigarettes with less than 24 percent oriental tobacco content. The usual oriental tobacco content of blended cigarettes is about 10 to 20 percent. Among the private manufacturers only one producer already has a one hundred percent oriental brand cigarette. Other brands will have to introduce oriental brands to compete.

Sales price increases are already taking place for value-blended (low cost) cigarettes as a result of the decree, which is one of the biggest cigarette segments. Prices for premium brands will also increase, but that market segment is expected to be able to easily absorb the cost increase. Sources also indicated that higher prices for value-brands might cause increased smuggling of these brands.

Manufacturers are reportedly not happy with the recent changes since they may have to change composition of their brands, introduce new brands, increase prices and declare their cigarette compositions to the Ministry of Finance or to the Tobacco and Alcohol Committee. In the long run, private manufacturers, with their newly-introduced oriental cigarettes, will remain significant competitors for TEKEL.