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**Turkey**

**Tobacco**

**Annual report**

**1999**

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**Report Highlights:**

**Despite Turkish Government efforts to limit oriental tobacco production, the 1998 crop still reached an estimated 254,000 MT. Exports of oriental tobacco declined twenty percent while cigarette exports declined over forty percent, reflecting the economic downturn in Turkey's export markets, and resulting in higher ending stock levels. Domestic cigarette consumption is continuing to grow, with TEKEL supplying over 70% of the market, and "value-brands" increasing in popularity.**

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Includes PSD changes: Yes  
Includes Trade Matrix: Yes  
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## Executive Summary

Total 1998 tobacco production is now estimated at about 261,000 MT (farm weight) for all types of tobacco, including 254,000 MT oriental tobacco. Non-oriental tobacco (flue-cured and burley) production for 1998 remains low, despite increasing domestic consumption. Turkish flue-cured production is about 5,100 MT and burley about 1,650 MT. After two consecutive years of record exports, Turkish oriental tobacco exports declined to 125,508 MT in 1998, leaving importers holding high stocks. The United States continued to be the main buyer (50,652 MT), followed by the EU (34,883 MT), and the FSU (16,861 MT). According to the official (but nondifferentiated) data for 1998, Turkey imported a total of 37,200 MT of non-oriental tobacco, of which 23,700 MT is estimated to be flue-cured and 13,500 MT of burley tobacco. The United States was again the leading supplier of both types with total exports of 22,350 MT. In 1998, for the first time, Turkey exported 3,300 MT of non-oriental tobacco, including 2,100 MT flue-cured and 1,200 MT was burley.

According to US-BICO trade data, Turkey exported \$293 million worth of tobacco to the United States in CY 1998, accounting for about 67% of Turkey's total agricultural exports to the United States. U.S. tobacco exports to Turkey (BICO data) reached a record \$171 million, accounting for about 25% of total U.S. agricultural exports to Turkey.

Cigarette production and domestic consumption increased in 1998, although exports declined due to economic problems in the importing markets. Despite a high inflation rate, for much of the year, TEKEL, the industry price setter, increased prices at a rate below the inflation rate and other manufacturers were forced to follow suit. Total domestic disappearance reached 109 billion pieces for 1998 and is estimated at 111.5 billion in 1999. Blended cigarettes in 1998 captured 59 percent of the local market, while non-filtered oriental cigarette consumption decreased to less than two percent. Competitively priced value-blended cigarettes continue to gain market share. The BAT-TEKEL proposed joint venture was side-lined by heavy resistance from trade unions and other interested groups. Overall privatization of TEKEL is also on hold due to frequent changes in ruling government coalitions and their inability to reach agreement on controversial issues. Turkish cigarette exports declined by about 25 percent, to 8.7 billion pieces in 1998. Two thirds of the exports are done by one private

manufacturer and the rest by TEKEL. Middle Eastern countries were the main export destinations.

PSD Table						
Country	Turkey					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	Revised	1997	Preliminary	1998	Forecast	1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/1999		01/1999
Area Planted	323000	323000	293300	288300	0	263600
Beginning Stocks	268172	268172	287612	292898	292612	310010
Farm Sales Weight Prod	296000	310850	266500	260750	0	238600
Dry Weight Production	244960	250836	221350	217570	0	196310
U.S. Leaf Imports	32000	26000	32000	22350	0	24500
Other Foreign Imports	13000	17300	13800	14850	0	18000
TOTAL Imports	45000	43300	45800	37200	0	42500
TOTAL SUPPLY	558132	562308	554762	547668	292612	548820
Exports	160860	160360	151000	128808	0	125000
Dom. Leaf Consumption	69660	69550	68350	67350	0	65500
U.S. Leaf Dom. Consum.	29000	26500	30000	26000	0	26000
Other Foreign Consump.	11000	13000	12800	15500	0	17500
TOTAL Dom. Consumption	109660	109050	111150	108850	0	109000
TOTAL Disappearance	270520	269410	262150	237658	0	234000
Ending Stocks	287612	292898	292612	310010	0	314820
TOTAL DISTRIBUTION	558132	562308	554762	547668	0	548820

PSD Table						
Country	Turkey					
Commodity	Tobacco, Unmfg., Oriental				(HA)(MT)	
	Revised	1997	Preliminary	1998	Forecast	1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Area Planted	320000	288000	290000	285000	0	260000
Beginning Stocks	253429	253429	268069	274069	271069	297561
Farm Sales Weight Prod	290000	296000	260000	254000	0	230000
Dry Weight Production	240000	246000	216000	212000	0	190000
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	493429	499429	484069	486069	271069	487561
Exports	160360	160360	150000	125508	0	125000
Dom. Leaf Consumption	65000	65000	63000	63000	0	61000
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	0	0	0	0	0	0
TOTAL Dom. Consumption	65000	65000	63000	63000	0	61000
TOTAL Disappearance	225360	225360	213000	188508	0	186000
Ending Stocks	268069	274069	271069	297561	0	301561
TOTAL DISTRIBUTION	493429	499429	484069	486069	0	487561

## Production, Oriental Tobacco

Oriental tobacco production for 1998 is estimated to be about 254,000 MT (farm weight). After three years of a quota system that was intended to limit the oriental tobacco production to about 220,000 MT per annum, in 1996 the government took a populist stand and announced that TEKEL would buy all of the tobacco produced. This caused oriental tobacco production to increase in all regions, but especially in Southeast Anatolia, where mostly lower quality tobacco is produced. Oriental tobacco production reached 296,000 MT in 1997. To avoid both further growth of costly stocks and the need to dispose of the excess by burning, the next government announced another oriental tobacco reduction program and 1998 oriental tobacco production was targeted at 235,000 MT (plus or minus ten percent). While production in other regions was within projected limits, in Southeast Anatolia farmers produced a 20,000 MT surplus.

## Consumption

Domestic consumption of oriental tobacco is decreasing due to the expanding popularity of blended cigarettes and newly introduced, moderately priced brands. Attractive export prices for lower quality oriental leaf has kept TEKEL from burning the excess stocks, which was done in the past.

## Trade

After two years of record exports, Turkish oriental tobacco exports decreased by about twenty percent in 1998. Low demand in various export market, particularly Russia, reflecting an economic downturn, and relatively high export prices were the reasons for the decline.

During 1998 A grade tobacco exports reached 43,916 MT with an average price of US\$5.64 kg and B grade tobacco exports were 23,326 MT, at an average price of US\$4.88 kg. Average prices for other types were: US\$2.79 kg for “kappa”, US\$2.18 kg for “kappa-kappa”, and US\$0.59 kg for scrap tobacco. In recent years Turkey has been exporting an increasing amount of mixed quality tobacco known as “class unique”. Exports of this type of tobacco in 1998 reached 32,018 MT, with the average price of US\$2.49 per kg.

Export Trade Matrix			
Country	Turkey		
Commodity	Tobacco, Unmfg., Oriental		
Time period	1998	Units:	
Exports for:			
U.S.	50652	U.S.	
Others		Others	
Germany	10087		
Belgium	7814		
Ukraine	7758		
Russia	5799		
Holland	5003		
South Africa	5415		
Greece	3146		
France	3106		
Czech Rep.	2399		
Italy	2195		
Total for Others	52722		
Others not Listed	22134		
Grand Total	125508		

## **Stocks**

GOT efforts to lower oriental tobacco stocks to acceptable levels, using a combined approach of production controls (quotas), higher exports, and stock disposals via burning, were successful until 1997. But increases in production, especially in the Southeast Anatolian region, pushed 1998 year end oriental tobacco stocks to higher levels.

## **Policy**

### **Import Duties**

Tobacco imports are subject to a 25 percent customs duty, plus a US\$3 per kg. tobacco import fund charge. Private importers continue to try to get the government to reconsider the \$3 extra charge, on the grounds that the funds provide added support to TEKEL programs, giving it an unfair competitive advantage.

### **Anti-Smoking Law**

The anti-smoking regulation approved by parliament in November 1996 is now in full practice. The regulation limits public smoking and forbids tobacco sales to individuals under the age of 18, and also required that large size street (billboard) advertising be removed.

## **Marketing**

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

PSD Table						
Country	Turkey					
Commodity	Tobacco,Unmfg., Flue Cured				(HA)(MT)	
	Revised	1997	Preliminary	1998	Forecast	1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Area Planted	2000	2000	2200	2300	0	2600
Beginning Stocks	9781	9781	14081	12881	15581	8281
Farm Sales Weight Prod	4000	4000	4300	5100	0	5600
Dry Weight Production	3300	3300	3500	4200	0	4650
U.S. Leaf Imports	21000	18000	20500	15350	0	17000
Other Foreign Imports	10000	11300	10500	8350	0	10000
TOTAL Imports	31000	29300	31000	23700	0	27000
TOTAL SUPPLY	44081	42381	48581	40781	15581	39931
Exports	500	0	1000	2000	0	0
Dom. Leaf Consumption	3000	3000	3500	3000	0	3000
U.S. Leaf Dom. Consum.	18500	18500	19000	18000	0	17500
Other Foreign Consump.	8000	8000	9500	9500	0	11000
TOTAL Dom. Consumption	29500	29500	32000	30500	0	31500
TOTAL Disappearance	30000	29500	33000	32500	0	31500
Ending Stocks	14081	12881	15581	8281	0	8431
TOTAL DISTRIBUTION	44081	42381	48581	40781	0	39931

## Production, Flue-Cured Tobacco

Flue-cured tobacco production for 1997 and 1998 remains low but has continued to increase. To meet the demand for flue-cured and burley tobacco from local production, TEKEL and RJReynolds (RJR) formed a joint venture company, REYTEK. The goal of the company is to increase production 10 to 15 percent each year and reach 10,000 MT total production for both types by the year 2005. In 1996, Phillip Morris (PM) contracted an international tobacco company to produce flue-cured and burley tobaccos in the Marmara region, but the high cost of initial investment (drying barns) and operation costs (especially fuel) has prevented achieving the desired level of production.

## Consumption

Flue-cured consumption continues to increase as a result of the increasing popularity of blended cigarettes. Industry analysts expect blended cigarettes will capture about sixty-five percent of the local cigarette market at the year 2000 compared to a market share of about 59 percent in 1998.



## **Trade**

Official trade data does not differentiate between non-oriental tobacco types, but according to official and industry sources, in 1998 Turkey imported a total of 37,200 MT of non-oriental tobacco, of which 23,700 MT is believed to be flue-cured (stemmed and unstemmed) tobacco, including 15,350 MT from the United States. (US customs data shows 1998 exports to Turkey at 10,112 MT flue cured and 7,740 MT burley tobaccos.)

Until 1994 the U.S. was the only supplier of non-oriental tobacco to Turkey. Since then, private cigarette manufacturers and later TEKEL introduced low cost blended cigarettes containing low cost Canadian and Zimbabwe flue-cured tobaccos. Turkey imported a total of 3,012 MT of flue-cured tobacco from Zimbabwe in 1997, but sources report that these imports declined to 540 MT in 1998. During 1998 Turkey also imported 3,337 MT of scrap tobacco, including 1,150 MT from Brazil, the leading supplier. Homogenized tobacco imports during the same period reached 11,194 MT, of which United States and France supplied 5,397 MT and 5,387 MT respectively.

For the first time Turkey exported a total of 3,300 MT of non-oriental tobacco during 1998, including an estimated 2,100 MT of flue-cured tobacco. Belgium imported about 3,000 MT.

Trade matrices are not available for flue-cured, stem, and burley tobaccos as the official data does not differentiate between these items.

PSD Table						
Country	Turkey					
Commodity	Tobacco, Unmfg., Burley				(HA)(MT)	
	Revised	1997	Preliminary	1998	Forecast	1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Area Planted	1000	800	1100	900	0	1000
Beginning Stocks	4962	4962	5462	5948	5962	4168
Farm Sales Weight Prod	2000	1850	2200	1650	0	2000
Dry Weight Production	1660	1536	1850	1370	0	1660
U.S. Leaf Imports	11000	8000	11500	7000	0	7500
Other Foreign Imports	3000	6000	3300	6500	0	8000
TOTAL Imports	14000	14000	14800	13500	0	15500
TOTAL SUPPLY	20622	20498	22112	20818	5962	21328
Exports	0	0	0	1300	0	0
Dom. Leaf Consumption	1660	1550	1850	1350	0	1500
U.S. Leaf Dom. Consum.	10500	8000	11000	8000	0	8500
Other Foreign Consump.	3000	5000	3300	6000	0	6500
TOTAL Dom. Consumption	15160	14550	16150	15350	0	16500
TOTAL Disappearance	15160	14550	16150	16650	0	16500
Ending Stocks	5462	5948	5962	4168	0	4828
TOTAL DISTRIBUTION	20622	20498	22112	20818	0	21328

## Production, Burley Tobacco

Domestic production of burley tobacco, which takes place in the Marmara region, is expected to increase in 1999, if weather conditions are favorable. As with flue-cured tobacco, high production costs, more attractive alternative crops, and the availability of lower priced supplies from Africa and South America, adversely affect local production.

## Consumption

The same factors which affect flue-cured tobacco affect burley, as both depend on the increasing popularity of blended cigarettes.

## Trade

According to available data and trade sources, Turkey imported about 13,500 MT of burley tobacco during 1998, about half of which was U.S. origin. Turkey's 1998 imports of burley tobacco from Malawi decreased to 493 MT compared to 1,940 MT in 1997. Official figures are not available but TEKEL had planned to purchase about 6,000 MT of U.S. burley during the 1998 auctions.

PSD Table						
Country	Turkey					
Commodity	Tobacco, Mfg., Cigarettes				(MIL PCS)	
	Revised	1997	Preliminary	1998	Forecast	1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Filter Production	109500	109500	112000	116000	0	118000
Non-Filter Production	2500	2500	2500	2020	0	2000
TOTAL Production	112000	112000	114500	118020	0	120000
Imports	30	30	30	0	0	0
TOTAL SUPPLY	112030	112030	114530	118020	0	120000
Exports	12000	12000	12500	8720	0	8500
Domestic Consumption	100030	100030	102030	109300	0	111500
TOTAL DISTRIBUTION	112030	112030	114530	118020	0	120000

## Production, Cigarette

Cigarette production has continued to increase, despite constrained export sales. Oriental cigarette production in MY 1998 accounted for an estimated 41 percent of the total production, compared to 45 percent in 1997. About 58 percent of TEKEL's production is oriental cigarettes while the remainder is blended cigarettes. About 99 percent of the production of private manufacturers is blended cigarettes.

Fierce competition is taking place between cigarette manufacturers to gain larger shares of the growing local cigarette market. TEKEL now controls about 72 percent of the market, while PM has 23 percent and RJR 5 percent. TEKEL has about 54 percent of the blended market and TEKEL 2000 is still the most popular blended cigarette, with about 35 percent of the blended market. The market shares for oriental brands are decreasing, the full-flavor brands' share are remaining constant, and value blended brands are beginning to capture a larger share of the market.

To meet domestic and projected export demand, manufacturers are increasing production capacity. PM is about to complete a project which will increase production capacity at its plant in Torbali, Izmir, from 20 billion to 28 billion pieces per year. RJR is also in the process of increasing its production from 12 billion to 20 billion pieces. Meanwhile, TEKEL's new cigarette plant, with a 5 billion piece per shift capacity in Samsun Ballica started production in early summer, 1997. The plant can produce both oriental and blended cigarettes. All the attempts to privatize TEKEL are on hold, pending a change in the national government following April 1999 general elections.

## Consumption

Despite strict anti-smoking legislation, cigarette consumption has been increasing 2 to 3 percent per year in normal years. A higher increase in 1998 is attributed to the volatile political and economic environment which prompted manufacturers and retailers to carry larger stocks on-hand to avoid the expected, sudden price increases that can be expected to occur in these conditions. Prices increases were also held lower than the inflation rate throughout most of the year.

## Prices

Manufacturers normally adjust prices periodically against the high local inflation which has been about 70 percent the past year. Following general elections, TEKEL adjusted its cigarette prices on April 23.

<b>Company &amp; Brand</b>	<b>April 1998</b>	<b>April 1999</b>
<b>(Pack of 20)</b>	<b>Price (US\$1=250,000 TL)</b>	<b>Price (US\$1=390,000 TL)</b>
<b>Phillip Morris</b>		
Marlboro 100's	300,000	450,000
Marlboro Light	300,000	450,000
Marlboro 85's	275,000	400,000
Parliament	300,000	450,000
L & M 100's	180,000	275,000
L & M 85 mm	160,000	250,000
Chesterfield	250,000	350,000
<b>RJ Reynolds</b>		
Camel 100's	300,000	425,000
Camel 100's Light	300,000	425,000
Camel 85 mm	275,000	400,000
Monte Carlo 100's	130,000	210,000
Winston	180,000	250,000
<b>TEKEL</b>		
Maltepe 100's	90,000	140,000
Maltepe 85 mm	70,000	115,000
Samsun 100's	120,000	140,000
Samsun 85 mm	70,000	115,000
TEKEL 2000 100's	200,000	320,000
TEKEL 2000 85 mm	70,000	115,000
TEKEL 2001 100's	200,000	320,000
Yeni Harman	90,000	140,000

## Trade

Turkey is becoming a major exporter of cigarettes due to its strategic location and competitive costs of production. Nonetheless, 1998 exports declined more than 25 percent, because of the economic downturn in export markets. Two thirds of the cigarette exports from Turkey are done by private manufacturers and the rest by TEKEL. The Gulf States and the neighboring Middle Eastern countries are the main destinations..

Export Trade Matrix			
Country	Turkey		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	1998	Units:	
Exports for:			
U.S.		U.S.	
Others		Others	
U.A.E.	4200		
Lebanon	2026		
Belgium	897		
Syria	776		
Switzerland	193		
N.Cyprus	110		
England	41		
Holland	40		
Paraguay	18		
Bulgaria	4		
Total for Others	8305		
Others not Listed	415		
Grand Total	8720		

## Policy

A controversial joint venture by TEKEL and BAT, which would have given BAT 52% control of TEKEL was sidelined by protests from trade unions and other groups. Private cigarette manufacturers expressed their concerns that TEKEL, whose prices are controlled by the Government, was directed to keep price increases to a minimum this year, in line with anti-inflationary government efforts. Since TEKEL is the price leader, the private manufacturers were also forced to delay increases. The manufacturers were also concerned about a draft law which was circulated (but not passed) and would have required domestic tobacco purchases equivalent to tobacco imports. End of report.