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## Turkey

## Tobacco and Products

## Annual

## 2002

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### Report Highlights:

**The GOT is determined to reduce oriental tobacco production to about 150,000MT to keep stocks at manageable levels and to comply with the spirit of agreements signed with the IMF and the World Bank. MY2002 production is projected at about 154,600 MT compared to 199,600 MT in MY2001. Oriental tobacco exports decreased as well by about five percent. Imports of non-oriental tobacco continue strong as cigarette manufacturers increased their capacity to meet local and international demand. BAT's new plant is expected to start production before the end of the year. The new tobacco law will expedite privatization of TEKEL and reduce government outlays to the tobacco sector.**

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

MY2002 total un-manufactured tobacco production is now estimated at about 160,476MT(farm weight) including 154,626 MT oriental tobacco, 3.995MT flue-cured and 1,857MT burley. The GOT is determined to reduce oriental tobacco production to about 150,000MT to keep stocks at manageable levels and comply with the spirit of agreements signed with the IMF and IBRD.

Turkish oriental tobacco exports continue to be low during MY2001 at about 95,700MT. Another 10,000MT of oriental tobacco is shipped to the United States by TEKEL to be produced and shipped back under contract as reconstituted tobacco. Reasons for the decline in exports include the anti-smoking movement in the western world and economic difficulties in the FSU. During MY2001 the United States become the leading importer (37,090MT) of Turkish tobacco, followed by the EU and FSU. Turkish exports of non- oriental tobacco were below 1000 tons.

Turkey imported about 46,000MT of non-oriental tobacco in 2001, of which 30,000MT is estimated to be flue-cured (unstemmed and stem) and 16,016 MT burley. The United States was again the leading supplier of both types. Turkey also imported 3,364MT of scrap tobacco during the year. During the same period 9,575MT of reconstitute tobacco was imported, primarily from the United States. Precut tobacco imports were about 4,298MT,with Switzerland the leading supplier. While private companies continue to import U.S. tobacco, shipments to TEKEL were through previous year purchases.

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

Turkey continues to be a large cigarette consuming country. To meet domestic and export demand, manufacturers have increased their production capacity and invested in new plants. PM finalized its project at Torbali, Izmir and increased capacity to 30 billion pieces. JTI increased its production to 28 billion from 20 billion pieces.

BAT failed to buy TEKEL's facilities but purchased land to build a two billion pieces capacity plant in Tire, Izmir. The plant is expected to begin operation toward the end of 2002. Pressured by the privatization cost-cutting efforts, TEKEL cancelled its plans to equip an idle cigarette plant in Manisa. Turkish cigarette exports in MY2001 remained about 12.4 billion pieces. Ninety-five percent of the exports are done by one private manufacturer and the rest by TEKEL. According to the sources the Middle Eastern countries are continuing to be the main export destinations.

A newly proposed "consumption tax" will replace existing taxes on tobacco products-cigarettes- and increase it to seventy-three percent from sixty-nine percent. There is no change in tobacco import duty

and fund since our last report 25 percent and US\$3 per kilogram respectively.

PSD Table						
Country	Turkey					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Area Planted	257230	270475	213300	237318	188190	207140
Beginning Stocks	329499	329499	364454	380820	362462	392427
Farm Sales Weight Prod	230780	250495	187300	207261	167000	160476
Dry Weight Production	191545	207911	155458	172027	137810	133195
U.S. Leaf Imports	27750	27750	21000	21315	22500	23000
Other Foreign Imports	30660	30660	29000	31415	29500	32750
TOTAL Imports	58410	58410	50000	52730	52000	55750
TOTAL SUPPLY	579454	595820	569912	605577	552272	581372
Exports	100900	100900	90750	96450	85750	90750
Dom. Leaf Consumption	68600	68600	69200	69200	67600	66600
U.S. Leaf Dom. Consum.	25000	25000	25500	24500	25500	25500
Other Foreign Consump.	20500	20500	22000	23000	26500	27500
TOTAL Dom. Consumption	114100	114100	116700	116700	119600	119600
TOTAL Disappearance	215000	215000	207450	213150	205350	210350
Ending Stocks	364454	380820	362462	392427	346922	371022
TOTAL DISTRIBUTION	579454	595820	569912	605577	552272	581372

PSD Table						
Country	Turkey					
Commodity	Tobacco, Unmfg., Oriental				(HA)(MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Area Planted	254000	267465	210000	234445	185000	204100
Beginning Stocks	313821	313821	336132	352244	332532	359260
Farm Sales Weight Prod	223500	242912	180000	199658	160000	154626
Dry Weight Production	185505	201617	149400	165716	132000	128340
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	499326	515438	485532	517960	464532	487600
Exports	100194	100194	90000	95700	85000	90000
Dom. Leaf Consumption	63000	63000	63000	63000	62000	62000
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	0	0	0	0	0	0
TOTAL Dom. Consumption	63000	63000	63000	63000	62000	62000
TOTAL Disappearance	163194	163194	153000	158700	147000	152000
Ending Stocks	336132	352244	332532	359260	317532	335600
TOTAL DISTRIBUTION	499326	515438	485532	517960	464532	487600

## Oriental tobacco

### Production

Oriental tobacco production for MY2002 is estimated at 154,626MT(farm weight) reflecting the GOT's successful efforts to reduce production. The Aegean region continues to be the leading tobacco producing region with 92,090MT, despite a decrease from 114,009MT in MY2001. A significant decrease (from 51,904 MT to 29,478MT) also occurred in the Southeast Anatolian region where mostly low quality tobacco is produced. Production for other regions was 24,707MT in the Blacksea, 4,709MT in Eastern Anatolia and 3,642 in Marmara.

### Consumption

Domestic consumption of oriental tobacco is decreasing steadily due to the increasing popularity of blended cigarettes and availability of moderately priced value brands. In some years TEKEL burns low quality old tobacco to free up warehouse space. In 2001 TEKEL only burned about 284MT of low quality tobacco.

## Trade

Turkish oriental tobacco exports continued to be low in MY2001 compared to average exports of 150,000MT of mid-nineties. MY2001 oriental exports were 105,769MT including 10,000MT from TEKEL which was shipped to the United States for further processing as recon tobacco and which will later be shipped back to Turkey. Low demand in various market, particularly the United States, due to anti-smoking efforts, and economic difficulties in FSU countries have caused the exports the decline.

During 2001 A grade tobacco exports reached 23,348MT with an average price of US\$5.41 kg and B grade tobacco exports were 11,838MT, with an average price of US\$4.71 kg. Average prices for other types were: US\$2.65 kg for "kappa", 1.54 "kappa kappa", and US\$0.56 kg for scrap tobacco. Turkey also exported mixed quality tobacco known as "class unique". Exports of this quality tobacco in 2000 reached 38,680MT, with the average price of US\$2.87 per kg.

Export Trade Matrix			
Country	Turkey		
Commodity	Tobacco, Unmfg., Oriental		
Time period	MY2001	Units:	
Exports for:			1
U.S.	37090	U.S.	
Others		Others	
Germany	8361		
Russia	5698		
Holland	4535		
Japan	3874		
Switzerland	3824		
Indonesia	3371		
S.Korea	2828		
France	2802		
Italy	2694		
Czech	2116		
Total for Others	40103		0
Others not Listed	18507		
Grand Total	95700		0

**Stocks**

GOT efforts to lower oriental tobacco stocks to acceptable levels, using a combine approach of production controls (quotas), exports, and stock disposal via burning, were successful until 1997. Increases in production since then, especially in the Southeast Anatolian region, pushed oriental tobacco stocks to higher levels.

**Policy**

Tobacco imports are subject to a 25 percent customs duty, plus a US\$3 per kg tobacco import fund charge.

**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	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Area Planted	2350	2140	2400	2026	2300	2300
Beginning Stocks	10331	10331	19790	20127	19355	22410
Farm Sales Weight Prod	5280	5683	5200	5160	5000	3993
Dry Weight Production	4380	4717	4315	4283	4150	3314
U.S. Leaf Imports	18750	18750	14000	14000	15000	15000
Other Foreign Imports	21035	21035	18000	20750	19000	22000
TOTAL Imports	39785	39785	32000	34750	34000	37000
TOTAL SUPPLY	54496	54833	56105	59160	57505	62724
Exports	706	706	750	750	750	750
Dom. Leaf Consumption	4000	4000	4500	4500	4000	3000
U.S. Leaf Dom. Consum.	17000	17000	17500	17500	17000	17000
Other Foreign Consump.	13000	13000	14000	14000	18000	19000
TOTAL Dom. Consumption	34000	34000	36000	36000	39000	39000
TOTAL Disappearance	34706	34706	36750	36750	39750	39750
Ending Stocks	19790	20127	19355	22410	17755	22974
TOTAL DISTRIBUTION	54496	54833	56105	59160	57505	62724

## Flue-cured Production

The decrease in flue-cured production, despite a consumption increase, is attributed to international companies unwillingness to high domestic production cost which discourages investments and availability of cheaper tobacco in the other producing countries in Africa and South America. In 1998, TEKEL and RJR formed a joint venture company, Reytek, to meet their demand for flue cured and burley tobacco through local production. The objective is to increase production by ten percent per year and reach 10,000MT 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. However, the high cost of initial investment (drying barns) and operation cost (fuel) prevented firms from increasing production to higher levels.



## **Consumption**

Flue cured consumption continues to increase as a result of the increasing popularity of blended cigarettes. Industry analysts now forecast that blended cigarettes will remain at about 60 percent of the local cigarette market in 2002.

## **Trade**

Based on information from a range of sources, Turkey imported a total of 46,064MT of non-oriental tobacco in 2001, of which 30,000MT is expected to be flue cured (unstemmed and stem) tobacco.

The United States is Turkey's leading supplier and until 1994, had been Turkey's only supplier of non-oriental tobacco. Since then, private cigarette manufacturers and later TEKEL introduced low cost blended cigarettes containing low-cost African and South American and Asian flue cured tobacco.

Turkish imports of flue cured tobacco from Zimbabwe in 2001 become 9,020MT down from 9,790MT in MY2000. Turkey also imported 3470MT flue cured tobacco from S.Korea. In 2001 TEKEL bought a total of 4,751MT of Brazilian flue cured tobacco.

During 2001 Turkey also imported 3,364MT of scrap tobacco. Canada was the leading supplier with 1,500MT. Homogenized tobacco imports during the same period have reached 9,574MT of which U.S. and Germany were the leading suppliers with 8,735MT and 708MT respectively. Turkey also imported about 4,298MT of precut tobacco in 2001 of which Switzerland was the leading supplier with 3,700MT.

Turkey exported a total of 752MT of non-oriental tobacco during 2001 all of which were flue cured. Switzerland is the main importer.

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

PSD Table						
Country	Turkey					
Commodity	Tobacco, Unmfg., Burley				(HA)(MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Area Planted	880	870	900	847	890	740
Beginning Stocks	5347	5347	8532	8449	10575	10757
Farm Sales Weight Prod	2000	1900	2100	2443	2000	1857
Dry Weight Production	1660	1577	1743	2028	1660	1541
U.S. Leaf Imports	9000	9000	7000	7315	7500	8000
Other Foreign Imports	9625	9625	11000	10665	10500	10750
TOTAL Imports	18625	18625	18000	17980	18000	18750
TOTAL SUPPLY	25632	25549	28275	28457	30235	31048
Exports	0	0	0	0	0	0
Dom. Leaf Consumption	1600	1600	1700	1700	1600	1600
U.S. Leaf Dom. Consum.	8000	8000	8000	7000	8500	8500
Other Foreign Consump.	7500	7500	8000	9000	8500	8500
TOTAL Dom. Consumption	17100	17100	17700	17700	18600	18600
TOTAL Disappearance	17100	17100	17700	17700	18600	18600
Ending Stocks	8532	8449	10575	10757	11635	12448
TOTAL DISTRIBUTION	25632	25549	28275	28457	30235	31048

## Burley Production

As with flue cured tobacco, high production costs, more attractive alternative crops, and the availability of lower priced supplies from Africa and South America effects production adversely.

## Consumption

Factors affecting consumption are similar to those for flue cured tobacco as both depend on the increasing popularity of blended cigarettes.

## Trade

Turkey imported about 16,064MT of burley tobacco during 2001. According to the available information TEKEL bought about 2,963MT of burley tobacco from Argentina. TEKEL also imported 1,529MT of Malawi burley in 2001.

PSD Table						
Country	Turkey					
Commodity	Tobacco, Mfg., Cigarettes				(MIL PCS)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Filter Production	127000	127000	127500	127500	130000	127900
Non-Filter Production	800	800	1000	850	1000	850
TOTAL Production	127800	127800	128500	128350	131000	128750
Imports	0	0	0	0	0	0
TOTAL SUPPLY	127800	127800	128500	128350	131000	128750
Exports	12265	12265	12500	12400	15000	12750
Domestic Consumption	115535	115535	116000	115950	116000	116000
TOTAL DISTRIBUTION	127800	127800	128500	128350	131000	128750

## Cigarette Production

MY2001 cigarette production was about 127.5 billion pieces. MY2001 oriental cigarette production accounted for about thirty-two percent of the total production compared to thirty-three in 2000 and thirty-eight percent in 1999. An estimated fifty-seven percent of TEKEL's production is oriental cigarettes and the balance is blended cigarettes. About 99 percent of the production of private manufacturers are blended cigarettes.

Fierce competition is taking place between cigarette manufacturers to increase their shares of the local cigarette market. TEKEL currently controls sixty-seven percent of the market, while Phillip Morris has twenty-five percent and Japan Tobacco International(JTI) eight percent. The quality image of TEKEL-2000 cigarette were shaken by smuggled imitations and TEKEL 2000's market share has declined considerably to twenty percent of the blended market, compared to thirty percent of three years ago. There are many more brands now as TEKEL and other companies are introducing new labels and packaging.

While the market shares of the oriental types are decreasing and of full-flavor brands share are remaining constant, value blended brands are continuing to capture a larger share of the market.

To meet the domestic and export demand manufacturers have increased their production capacity. PM finalized its project to increase production capacity at its plant in Torbali, Izmir to 30 billion pieces per year. JTI is also reported to be investing to increase production from the current 20 billion to 28 billion pieces. Meanwhile TEKEL's newest cigarette plant with 5 billion per shift capacity in Samsun Ballica opened in the summer of 1997. The plant can produce both oriental and blended cigarettes. BAT,

which failed to purchase some of TEKEL's brands and facilities, is said to be buying land to build a 2 billion pieces capacity plant in Izmir.

## Consumption

An economic downturn (GDP shrunk by over 9 percent in 2001) and health concerns have adversely affected cigarette consumption which is expected to stagnate in 2002. In normal years, cigarette consumption had been increasing two to three percent per year in spite of the strict anti-smoking legislation.

## Trade

Turkey is becoming a major exporter of cigarettes due to its location and low cost of production and 2001 exports slightly exceeded their 2000 levels. The great majority of cigarette exports of Turkey are undertaken by one private manufacturer, and the rest by TEKEL with major destinations in the Gulf states and neighboring Middle Eastern countries.

Export Trade Matrix			
Country	Turkey		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	MY2001	Units:	Million pieces
Exports for:			1
U.S.		U.S.	
Others		Others	
B.A.E.	8160		
Lebanon	3058		
Belgium	546		
Slovenia	220		
Afghanistan	158		
Chile	56		
Moldova	45		
N.Cyprus	30		
Yugoslavia	23		
Panama	21		
Total for Others	12317		0
Others not Listed	83		
Grand Total	12400		0

## Prices

Manufacturers adjusted their prices in accordance of the recent sharp devaluation of Turkish Lira in recent months which also pushed local inflation to about fifty percent per annum.

Company&Brand (Pack of 20)	Oct. 2001 Price(US\$=1,575,000)	April 2002 Price(US\$=1,350,000)
=====	=====	=====
Phillip Morris:		
Marlboro 100's	1,800,000	2,000,000
Marlboro Light	1,800,000	2,000,000
Marlboro 85's	1,700,000	1,800,000
Parliament	1,800,000	2,000,000
L&M 100's	1,000,000	1,100,000
L&M 85 mm	950,000	1,000,000
Chesterfield	1,250,000	1,250,000
 RJ Reynold:		
Camel 85mm Light	1,600,000	1,800,000
Camel 85 mm Light	1,600,000	1,800,000
Salem	1,600,000	1,800,000
Monte Carlo 100's	900,000	1,000,000
Winston	1,100,000	1,250,000
 TEKEL		
Maltepe 100's	600,000	700,000
Maltepe 85 mm	550,000	650,000
Samsun 100's	600,000	700,000
Samsun 85 mm	550,000	650,000
TEKEL 2000 100's	1,400,000	1,600,000
TEKEL 2000 85 mm	1,300,000	1,500,000
TEKEL 2001 100's	1,000,000	1,100,000
Yeni Harman	600,000	750,000