

Contracting Tobacco Growing in Turkey

O. M. Koçtürk *¹, A. N. Cebeci¹

Abstract

Tobacco is a very important product in Turkish agriculture and economy. As a result of a change in the privatization policies, the support of the state in tobacco (production) is abrogated. With the introduction of the new law (No: 4733) the marketing system of tobacco has totally changed and has been replaced with the auction system and contract production. In this study the tobacco production in the year 2002 is scrutinized in order to evaluate the effect of the contract production system on tobacco production by means of a field research in Manisa. The auction system will be launched in 2003, that is why it is not included in this study. According to the research findings the majority of the producers are not satisfied with the contract production system as the contractions are being prepared one-sided and producers do not have the right to haggle. The problems that occurred in the application of this new law are suggested to be eliminated by adapting the auction system, akin to the one in the USA, which enables producers to partake in the marketing of the product.

Keywords: tobacco, contracting tobacco, marketing, contract production, tobacco production, Turkey

1 Introduction

Tobacco is one of the most talked about and debated agricultural products not only in Turkey but in the whole world. The reason why the auction system is used in the USA and in many other countries is that it gives even chances to producers and provides buyers with complete opportunity to select what kind of product they want (GÜLER, 1999). In India, since 1985, a new kind of structure has been established by adapting the auction system similar to the ones in the USA, Canada, and Zimbabwe, taking the conditions of producers and merchants into consideration (ANONYMOUS, 2002). It could clearly be seen in these experiences that in contract production the price is mostly dictated to the producers, however, on the other hand, the auction system brings about a fairer price (ANONYMOUS, 2003b,a).

As to a research on contract/non-contract farming and auction system, it is suggested that contract system is likely to back up big producers and will gradually eliminate the

* corresponding author

¹ Celal Bayar University, Alaşehir Vocational School Alaşehir-Manisa/Turkey, phone: +90 236 6541201, email: kocturkom@hotmail.com; anuraycebeci@hotmail.com

small scale producers. In short, in the U.S.A producers will either accept to act in accordance with the policies of the firms, or will take the risk of being market surplus. It is stated that in the U.S.A, under the regulations of the auction system, selling tobacco is bound to the level of competition in the market and to the amount of the support buyings, and at the meantime there has begun to emerge new cooperatives or agents (haggling on behalf of producers) who take part in the dispute whether the auction system is a genuine cure or not. It is stated that in recent years the tobacco quotas in the southeast regions of the U.S.A have reduced, and producers have begun to make contracts directly with firms, and as a result less amount of goods has been auctioned (APAC, 2002). According to another research, though the extend of producers working with contracts were 10% in 2000, the estimated percent for 2001 is 80% (ANONYMOUS, 2003c).

Main constituents of tobacco sector in Turkey are: growers, in production phase; buyers-public or private-, in buying and upkeeping; and public and private organizations dealing with tobacco based industrial products, and their workers (MERCIMEK, 2002).

Being a country which has an important place in oriental tobacco production, the crop has a distinctive importance in Turkish economy as Turkey has 400.000 families with 40.000 sectoral workers whose main income is from tobacco production (THE OFFICIAL JOURNAL OF THE TURKISH REPUBLIC, 2002). In 2002, with the introduction of the new law which aims to regulate the production and marketing of tobacco, the privatization of TEKEL (The General Directorate of Tobacco, products of tobacco, salt and alcohol management) (the tobacco monopoly) was decided. The new law abolishes the support buyings, and, instead, brings contract farming and auction system into effect. In this study the primary focus is on the effects of the change in the law on tobacco producers and the method of making contracts, and there is an evaluation of contract farming from the producer's point of view by the help of a public survey that has been done in Manisa which is the most important / leading tobacco production area in Turkey.

TEKEL has always had a key role in marketing of tobacco. It is also one of the most important State Economic Enterprises. TEKEL holds 75% of the cigarette market and 95% of the alcohol market. Its proportion in Turkey's gross national product is approximately 3%. On the other hand its contribution in the tax and fund income provided by the treasury is 5%. The below chart shows the share in import and the amount of goods bought in the tobacco market of TEKEL and the private sector between the years 1995 – 2002.

Between 1995 – 2000 the share of TEKEL's buyings in tobacco was in a constant rise, however, for the first time in 2001, the private sector surpassed TEKEL with 56%. According to the contracts made in 2002 the share of private sector in contract farming is 61.8%. The reason of the rise in the amount in private sector's buyings is that the prices were at their lowest in the recent years and the gradual increase in import of the private sector, this can be traced in Table 1. Another reason is the announcement of TEKEL that no support buyings will be made from the year 2002 onwards and that

Table 1: The share of TEKEL and private sector in the tobacco market.

<i>Production year</i>	<i>Tobacco purchasing (%)</i>			<i>The share in export (%)</i>		
	<i>Tekel</i>	<i>Private sec.</i>	<i>total</i>	<i>Tekel</i>	<i>Private sec.</i>	<i>total</i>
1995	59.9	40.1	100.0	58.0	42.0	100.0
1996	52.3	47.7	100.0	53.9	46.1	100.0
1997	54.6	45.4	100.0	51.7	48.3	100.0
1998	68.0	32.0	100.0	39.1	60.9	100.0
1999	73.6	26.4	100.0	30.1	69.9	100.0
2000	72.5	27.5	100.0	33.4	66.6	100.0
2001	44.0	56.0	100.0	-	-	-
2002	38.2	61.8	100.0	-	-	-

Source: TEKEL, 2003

made an impact resulting a decrease of 25-35 % in the number of producers of tobacco. There were 550,000 growers in 1995. The number increased to 622,000 in 1998, but in 2001 It decreased to 478,000, and finally in 2002 it came down to 403,000. In 2002, 71.2 % of the producers had their contracts with TEKEL, 25.8 % of them had their contracts with the private sector, and 3 % of them produced independently without a contract (TEKEL, 2001).

2 Materials and Methods

The material of this study is obtained mainly from two sources. One of these is the original data gathered from field (district) research. The other is the TEKEL reports, the text of the new act, texts of the contracts, sketches of the contracts in preparation, and other studies made before on the subject. Manisa has been chosen as the area of the survey since oriental tobacco production is mostly done throughout this district. The producers registered to three Tobacco Management in Manisa have been chosen as the main body and by using the method of random sampling it has been calculated that 96 producers should be interviewed with. The people to be interviewed have been selected randomly from seven different settlements. In the evaluation of the data gathered from the survey, methods as arithmetical average and percentage calculations are used.

3 Results and Discussion

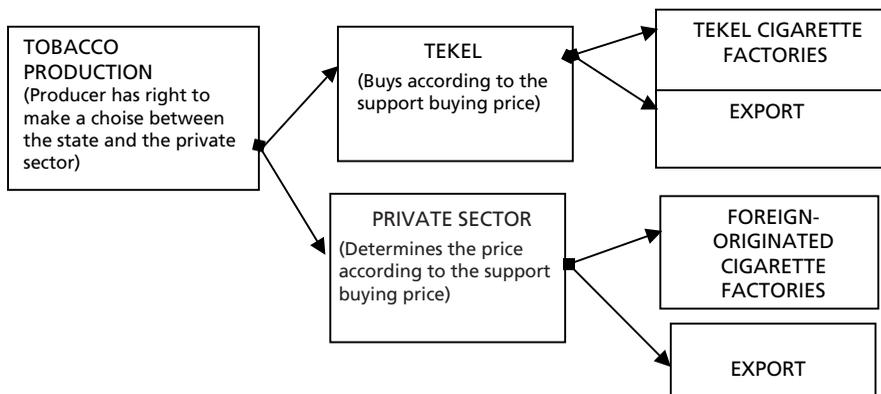
In Turkey the products which were supported either with price regulations or with support buyings have changed in time and today all support buyings except for the wheat are abolished. The products related with tobacco have always been regarded as a sector

that both private sector and the state are involved. In our country tobacco production is done by tobacco growers in the form of family farming.

Before the acceptance of the new act it could be assumed that there was an oligopson market in tobacco production. In this system both private sector and the state used to determine the value of tobacco, depending on its quantity and quality, and then the grower would sell his product either to TEKEL or to the private sector on the basis of the price of the support buying. Tobacco which remained was bought by the state. The major shortcoming of this system was that the surplus tobacco, usually of lesser quality and untreatable, was bought by the state.

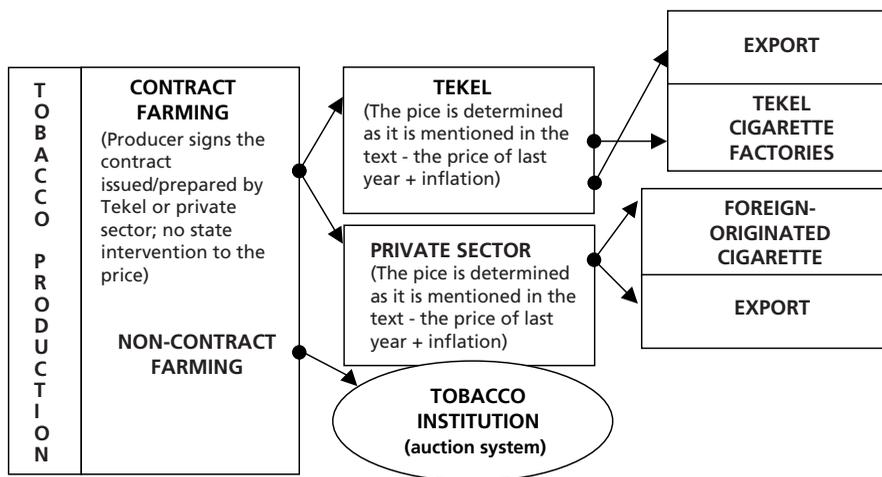
The marketing system in tobacco has changed totally after the release of the new law 4733 (THE OFFICIAL JOURNAL OF THE TURKISH REPUBLIC, 2002). The support buyings have abolished and the producers have obliged to continue production with the contract farming system as the alternative that they had not been involved in the process of its formation. Another alternative is to produce without a contract and to sell their products in the Auction centers arranged by TEKEL. In 2001, with the new

Figure 1: The marketing channel before contracting tobacco growing in Turkey.



law the producers were able to market their products by signing the contracts prepared by tobacco merchants. In 2002 they again had the chance to make a contract with merchants and TEKEL. When the texts of these contracts are examined it can be seen that the regulations are almost always in favour of the buyers, such as that the producers shouldn't grow tobacco in the fields other than the ones appointed as the areas of tobacco production, that the contract could be repealed in case a certain dose of disinfectant higher than the acceptable limit is detected on the product, that the quality of the product will be determined by buyers and in the event of an objection the decision will be made by a commission consisting of members from the Tobacco Company, Aegean Tobacco Export Union, and an expert appointed by the producer himself. Finally in 2003 the "Tobacco Production and Purchase Contract" is prepared by The Association of Tobacco, Tobacco products and Alcoholic Drinks but this contract is announced to be in effect in 2003 (TILLER, 2001).

Figure 2: The marketing channel after contracting tobacco growing in Turkey.



Contracting and non-contracting tobacco production amounts in Manisa province in which the survey conducted and in Turkey are given in Table 2.

Table 2: The percentage of the numbers of the tobacco growers and the production amounts in the research area and in Turkey.

Tobacco production center	Number of producers (%)		Production amount (%)	
	contracting	non-contracting	contracting	non-contracting
Akhisar	92.4	7.6	94.0	6.0
Manisa Center	95.2	4.8	94.3	5.7
Saruhanli	99.8	0.2	99.8	0.2
Manisa Total	94.1	5.9	94.7	5.3
Turkey	97.0	3.0	96.8	3.2

Source: TEKEL, 2003

In 2002 the 94.1% of the producers of three “Tobacco Purchasing Center” were in the scope of contract farming and the share of the production done with contract farming was 94.7%. the share between the state and the private sector in the research area are given in Table 3. Although the share of the producers doing contract farming with TEKEL is 42.4 % throughout Manisa, the amount of the product produced in this way is as low as 13.8% the reason being that TEKEL limits its buyings to 200 kg the most per grower and he goes into the market late, and also the private sector had already

Table 3: Contract farming share of Tekel and private sector within the research area.

<i>Farm central</i>	<i>Number of producers (%)</i>			<i>Production amount (%)</i>		
	Tekel	priv. sec	total	Tekel	priv. sec	total
Akhisar	24.3	75.7	100.0	6.4	93.6	100.0
Manisa	71.0	29.0	100.0	37.2	62.8	100.0
Saruhanli	4.1	95.9	100.0	0.9	99.1	100.0
Total	42.4	57.6	100.0	13.8	86.2	100.0

Source:TEKEL, 2003

made the next year's contracts in 2002 by increasing the amount of the advance. The average total of agricultural area of 96 growers in the research area between 1998-2002 is 12 da, and its output is 80 kg/da. At the same period of time 48% of the producers sold their products to TEKEL and 52% sold theirs' to the private sector.

In Table 4, prepared to show the reasons behind the producers' decisions in determining which institution to make a contract, it can be seen that the 40.6 percent of the producers made contracts with TEKEL and the rest renewed their contracts with their previous firms.

Table 4: The producers' decisions in determining the institution to make a contract in examined tobacco farms.

<i>Producers preference</i>	<i>Number of producers (%)</i>
1.The firm he used to work with	41.7
2.TEKEL (without an agent in between)	40.6
3.Both TEKEL and private sector	5.2
4. Another	2.1
5.Working with a firm for the first time	10.4
TOTAL	100.0

After they began contract farming, the 73% of the producers examined kept their farming areas as they had been (Table 5). It has been revealed that 61.5% of the managements examined read the texts of the contracts, and 88.5% of them were not satisfied with contract farming. The 90.7% of the producers's answer to the question which was to evaluate the effect of the new tobacco law on them was that it would affect them negatively and highly negatively (Table 6).

Table 5: The effects of contract farming on the farming area in the examined tobacco farms.

<i>The effects of contract farming on the farming area</i>	<i>Number of producers (%)</i>
1. Remained the same	73.0
2. Decreased	23.9
3. Increased	3.1
TOTAL	100.0

Table 6: The producers' decisions on the effect of the new tobacco law to the growers.

<i>The effect of the new tobacco law on grower</i>	<i>Number of producers (%)</i>
1. Positive	4.1
2. Negative	16.7
3. Highly negative	74.0
4. No idea	5.2
TOTAL	100.0

The 87.5% of the producers are against the privatization of TEKEL. The 94.8% of the producers who are against the privatization are also in favour of the previous marketing system before the new tobacco act. When it comes to the producers opinion concerned with the determination of the price; 72.9% stated that the price should be determined by the state (TEKEL)(Table 7).

87.5% of the managements examined regard The Union of the Turkish Agricultural Chambers, the professional association of farmers, as insufficient. Ones who find it sufficient is only 1%. In 1969 with the introduction of the act 1196 it was permitted to found "tobacco sale cooperatives" and the act regulated its activities, then in june 16, 2000, this act was abolished and replaced with the act 4572. According to the data provided by The Ministry of Industry and Commerce only 29 of the tobacco sale cooperatives are active out of the existing 67, and it came out that there was no active cooperatives left in our research area after the year 2000 due to the inconvenient conditions such as the recent economic crisis and the privatization preparations of the "turkish bank of agriculture" whose primary function is to provide farmers with bank loans.

The problems of the managements related with tobacco and organization are given at Table 8. When the table is examined it can be seen that the problems are mostly due to the abolishment of the support of the state.

Table 7: The producers' opinion concerned with the determination of the price.

<i>Tobacco price</i>	<i>Number of producers (%)</i>
1. Should be determined by TEKEL	72,9
2. Auction	19,8
3. By merchant	6,3
4. By the haggling of state and private sector on the price	1,0
TOTAL	100.0

The solutions suggested by the growers to overcome these problems are given at Table 9. The reason why 67.7% of the producers are in favour of the continuation of the support buyings is the fact that they are deprived of the opportunity to haggle and the contracts are prepared one-sidedly. Only 17.7% of them came up with suggestions related to organizations like cooperatives or labour/trade unions, and this can be interpreted as their distrustfulness to organizations of this kind. 6.3% of the producers suggestions based on auction system or tobacco stock exchange, this can be interpreted as their insecurity towards this kind of marketing.

Table 8: Major problems concerning tobacco sector in the examined tobacco farms.

<i>Problems</i>	<i>Number of producers (%)</i>
1. Abrogation of state support	47.9
2. Lack of alternative product to tobacco	19.8
3. Contracts being one-sidedly	17.7
4. Lack of confidence to cooperatives	8.3
5. Lack of leadership	5.2
TOTAL	100.0

Table 9: The suggestions to the problems of examined tobacco farms.

<i>The suggestions by the growers</i>	<i>Number of producers (%)</i>
1. State support should continue	67.7
2. There should be organisations such as cooperatives and unions	17.7
3. Tobacco stock exchange should be established	6.3
4. Other	8.3
TOTAL	100.0

4 Conclusions

The privatization of TEKEL, one of Turkey's most important kamu iktisadi kuruluşu, has long been debated. With the regulations in 2002, this process has gained acceleration and in that same year support buyings in tobacco production were abolished. The contract farming brought by the new law began in 2002, and production took place by the contracts which had been prepared by buyers one-sidedly.

The contract farming system applied for the first time was not adapted by the majority of producers in Manisa which had been chosen as the research field. They reported that they were obliged to sign those one-sidedly prepared contracts since they had no alternatives. Approximately 70% of the producers emphasized that TEKEL must remain as a part of the Tobacco marketing system and 6.3% of the producers came up with the suggestion that a new tobacco stock market must be established. It can clearly be seen that producers are not very much fond of organizations like cooperatives and unions.

The new marketing system foresees a production planning in the tobacco growing and no more excessive product left on hand. An important part of about 400,000 tobacco producers, whose number has decreased by 25-30% comparatively to the past, will probably continue producing tobacco until they produce an alternative product. It is quite difficult for thousands of producers to make contracts with a few number of buyers one by one. The experienced tobacco experts who will have been left the TEKEL after the privatization might be employed in the present Tobacco Agricultural Sale Cooperatives. While some growers are keeping on the contract farming, the others might take place in the auction system, so marketing their products in the auction tobacco purchasing centers. Thus, it is thought that such an approach would be more useful in terms of a competitive market economy.

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