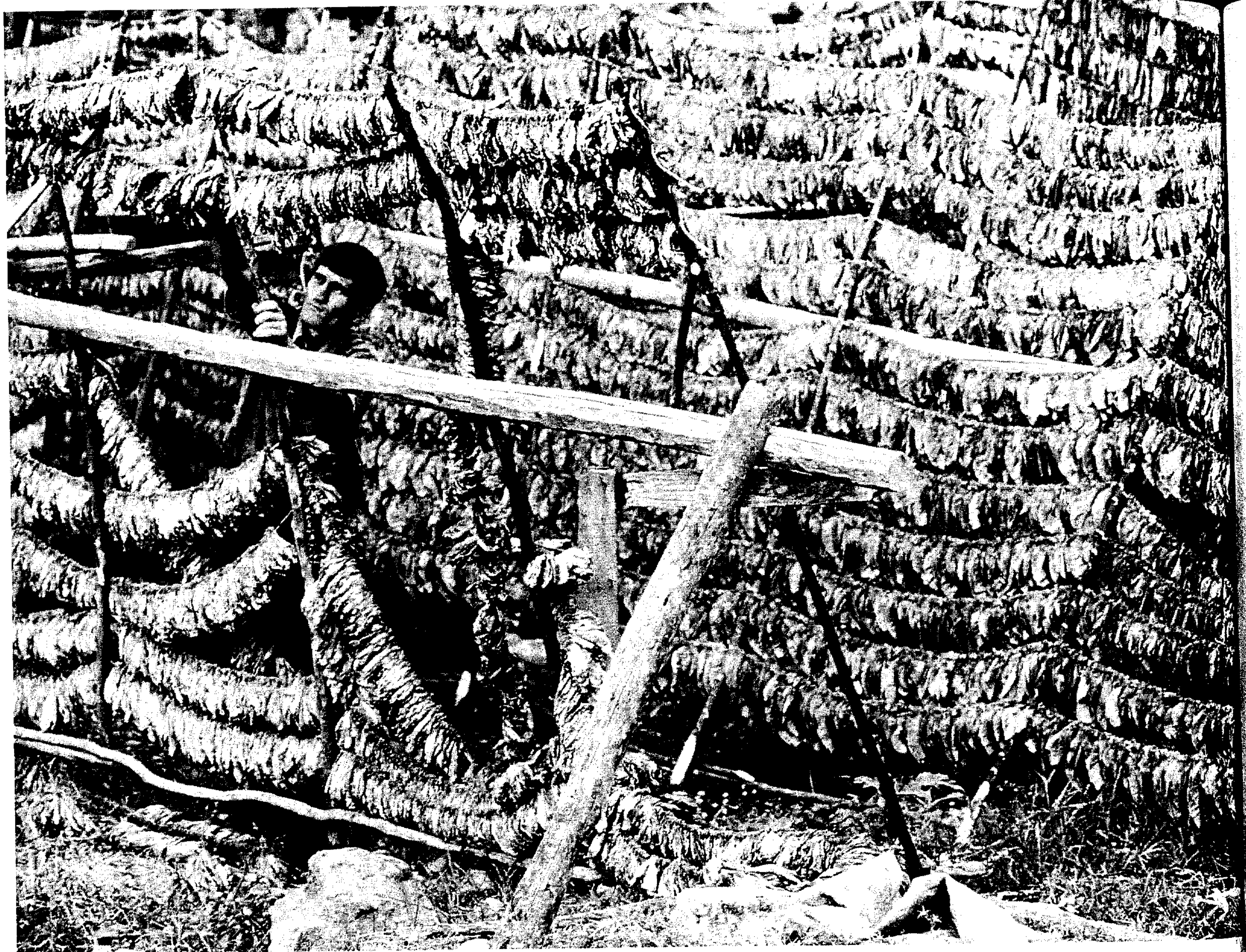

Drying tobacco leaves in Bafra, Turkey.

CHRIS HELLIER/CORBIS

# Livelihoods Up in Smoke

## Tobacco Farming in Turkey

### Ebru Kayaalp

On the streets of Turkish cities, the cigarette packs being traded and tucked into shirt pockets are adorned with the familiar brand names of Philip Morris and British American Tobacco. The ubiquity of foreign brands is remarkable, for Turkey is the world's leading producer of Oriental tobacco—the sun-cured, small-leaf variety that once filled nearly every cigarette on the planet.

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Tobacco is key to the country's economic and social life. In 2004, 8 percent of tax monies came from cigarette manufacturing, and exports of tobacco and tobacco products amounted to about $495 million. And the old saw about "smoking like a Turk" holds true. Global cigarette consumption declined by 4 percent between 1990 and 1999, but in the same period it rose by 52 percent in Turkey, the second highest growth rate in the world, according to World Bank figures, behind only Pakistan. The increase in rates of smoking correlates with the growing preference for American-blend cigarettes, whose basic component is Virginia tobacco, which is grown in negligible amounts in Turkey. Oriental tobacco long ago yielded dominance of the global market to Virginia tobacco, the type produced by multinational companies like Philip Morris, British American and Japan Tobacco International. But in recent years the tobacco grown in Turkey has been losing even more market share. Tobacco production has declined drastically, with the number of cultivators dropping by 49 percent from 1999 to 2004. What accelerated the downward trend was the introduction of contract farming under a new tobacco law in 2002.

The new law was forged amid economic difficulties decades in the making. Like most developing countries, Turkey followed a path of planned development that could be described as "protectionist" during the 1960s and 1970s. In the 1990s, these inward-looking policies fell under heavy criticism from the World Bank and the International Monetary Fund for their contributions to recurrent panics in the 1980s, as well as the swollen public sector, high inflation rates and burgeoning government debt. Under pressure from the international financial institutions, a succession of Turkish governments of differing ideological persuasions have introduced major programs to liberalize the economy and cut down budget deficits. These efforts came to a head with the February 2001 financial crisis—the most severe in Turkish history—when the gross domestic product shrank by 40 percent. Though already saddled with $120 billion in foreign debt, Ankara went back to the Bank and the IMF for a bailout, and in order to qualify for still more loans, the government drafted a series of free-market measures known as "15 laws in 15 days." One was the tobacco law.

## A Gift to the IMF

After the February crisis, Prime Minister Bülent Ecevit of the Democratic Left Party, who led the coalition government, invited Kemal Derviş, who had been a senior employee of the World Bank for 22 years, to take charge of the Turkish economy. Unattached to a party, and thus unelected, Derviş went about his job as a technocrat would. He firmly enforced instantaneous enactment of the "15 laws" so that Turkey could receive the promised financial aid from the IMF. The parties in opposition, including the Islamist precursor to the Justice and Development Party (in Turkish, Adalet ve Kalkınma Partisi, or AKP) that has governed since November 2002, reacted immediately against the proposal regarding tobacco. Up to that point, in keeping with the "protectionist" stance of earlier decades, the government had supported tobacco growers by buying their entire crop every year. Now the new law aimed to open up the market to competition. The opposition deputies denounced the idea as "blood money" and "a gift" to the IMF and multinational (mostly American) corporations.

Speaking before Parliament, Mahmut Göksu, now of the AKP, brandished tobacco leaves grown by farmers in eastern Turkey. "Give these to the prime minister, who is going to the US," Göksu claimed the farmers said. "Tell him to put the leaves in his gift basket. Tell him to give one leaf to the chief of the World Bank and another to the chief of the IMF." Another Islamist, Alaattin Sever Aydın, added: "Look, what do the newspapers say? 'What will the prime minister give to Bush as a gift when he goes to the US?' What else can the prime minister give? He is handing the Turkish economy over to the US and putting the Turkish nation under US control. What could be a better gift for Bush than this?" Behind the nationalist rhetoric were fears about the socio-economic consequences of IMF shock therapy. As İlhan Aytekin of the secular conservative True Path Party scolded the government: "Let's ignore the prescription and treatment offered by your doctor, Mr. IMF. The same diagnosis, prescription and treatment have put Señor Argentina into a coma. You seem bedazzled, and there is no sign when you will come to."

In May 2001, the minister in charge of privatization, Yüksel Yalova, was forced to resign after making a statement hinting that the government's collaboration with the IMF was, in fact, quite extensive. To the questions of journalists, Yalova responded: "We can't prepare a hasty scribble of a law on an issue that concerns 600,000 people by just sitting down and saying, "We promised it in May." Whoever made the pledge [to the IMF] is responsible for the delay. I have not made such a pledge." The Istanbul stock market dropped by 5 percent, as traders fretted over the apparent discord within the coalition government about the economic recovery program. Some argued that Turkey teetered on the brink of a fresh economic downturn.

This crisis and the sharp criticisms of the opposition notwithstanding, the law passed in June. The next month, however, President Ahmet Necdet Sezer vetoed it, on the grounds that it would seriously harm tobacco farmers. Like the opposition deputies, Sezer worried that an unprotected tobacco sector would be too weak to compete with international companies. As the IMF had made its loans conditional on the tobacco law's ratification, Ecevit blasted the president and vowed that the bill would pass Parliament sooner or later. As promised, the coalition government brought their bill to a vote again in five months' time and eventually, on January 3, 2002, Law 4733 regulating tobacco production and exchange entered the books without a single change of phrasing. The opposition parties protested that the government had ignored the will of the nation.

In the summer of 2009, Turkey enacted a ban on smoking in restaurants and cafés, sparking a public outcry that is understandable considering that 22 million of the country's 72 million people are smokers. But why did a law about growing and selling tobacco—which contained not a word about consumption—stir up such a fuss?

In brief, the tobacco law became the debating ground about the role of international financial institutions, such as the IMF and the World Bank, in the country. There were distant echoes of Ottoman times. In 1881, the sultan decreed the formation of the Public Debt Administration, an institution of European bondholders with the right to collect taxes on leading revenue sources of the Empire and direct them toward debt repayment. The government and three bank groups then established a foreign-controlled tobacco monopoly, the Regie, as a debt reduction mechanism. Though deputies spoke in nationalist abstractions that evoked the decline of the Ottomans vis-à-vis the West, the controversy was not about tobacco *per se* but about the strategic direction of Turkey's political economy. As Ali Uzunırmak from the Nationalist Movement Party put it, the choice was between the "proponents of the free-market economy and the state-controlled economy." Ekrem Pakdemirli, the minister in charge of privatization, bluntly stated: "It is true that the IMF asked us to enact this law. But if you are sincere about the free-market economy, you need to do this. In other words, if you have both a free-market economy and monopolies, you are not playing the game by the rules."[1]

## The Tobacco Law

At 12 articles, Law 4733 is one tenth as long as its predecessor, Law 1117.[2] The law brings about four major changes: elimination of bulk purchases by the state; privatization of the state tobacco monopoly, TEKEL; establishment of a tobacco regulatory board, TAPDK; and substitution of contract farming.

Under the old system, which guaranteed a buyer for every leaf of tobacco, growers were encouraged to cultivate their crop even in unsuitable fields. Over the years, the state stockpiled huge amounts of tobacco, creating an enormous oversupply. In some years, the stocks were almost 15 times as large as what TEKEL could use in its factories. The surplus in the depots of the state-run monopoly would be left to rot or be burned up. In the 1970s and 1980s, in particular, TEKEL regularly destroyed overstock tobacco, reaching the zenith of destruction—some 76,000 tons—in 1994. Even after the new law was passed the old stores of sun-cured leaf continued literally to go up in smoke. The ultimate goal has been to rid Turkey entirely of the overstock, so as to set a balance between supply and demand in a competitive free market.

Before the 2002 legislation, TEKEL not only regulated the production of tobacco, and bought most of it, but it was also a major cigarette manufacturer. Soon after the law's enactment, the state began trying to sell off the cigarette section. Japan Tobacco International outbid its rivals with a $1.15 billion offer, but the Privatization Administration canceled the sale, suggesting that the offer was far too low. TEKEL was restructured with the goal of increasing efficiency and, thus, the asking price. Several of its offices were shut down. Oversupply was reduced and TEKEL, which had been running at a loss, began to generate profits. Yet thanks to the increasing popularity of American-blend cigarettes in Turkey, TEKEL revenues dropped radically. With sales of 32 billion cigarettes in 2007, TEKEL held a 29 percent market share, down sharply from its 70 percent portion five years earlier. After a second unsuccessful privatization attempt, the state briefly considered keeping some cigarette brands separate from the entity that was for sale. The third time was the charm for privatization. In June 2008, British American Tobacco won the tender with a $1.72 billion bid and the sale was completed, though the leaf tobacco division of TEKEL continues to run as a separate state-owned company.

The workers, as well as tobacco experts, farmers, chambers of agriculture and civil society organizations, reacted fiercely to the news of the company's sale, but to little avail. Five TEKEL factories were sold and facilities in Istanbul were leased.

The TEKEL monopoly's regulatory functions, such as monitoring of sales and production, have been transferred under the new law to TAPDK. This autonomous body of technocrats does not purchase tobacco and so is regarded as key to the establishment of a competitive market economy. The agency's president and board members are chosen by the Council of Ministers from among candidates proposed by the Ministries of Finance, Health and Agriculture, as well as the treasury, the external trade bureau, chambers of agriculture and TEKEL. On the inaugural board, there were no farmers.

Finally, the new law introduced a contract farming system under which growers sell their tobacco at a predetermined price to buyers, TEKEL or other companies, before the planting season. The contract is an agreement on a crop that is not yet grown—actually, on tobacco whose seeds are not yet sown. Only the cultivators who sign contracts are legally permitted to grow tobacco. The contracts, whose term is one year, delineate the responsibilities of cultivators and companies in transporting and marketing the harvest and lay out procedures of conflict resolution. No mere explanatory text, the contract is a tool for remaking the tobacco market.

## Bound to Buyers

The basic assumption behind contract farming is that, with state interference taken away, farmers and merchants alike will enjoy the benefits of competitive market prices. Instead, the contracts have brought about a more tightly controlled market that prevents many kinds of competition.

The contracts strictly bind sellers to buyers. Farmers do not have any choice but to sell their crop to their contracted buyers. Furthermore, it is not a secret that private tobacco leaf companies (except TEKEL) negotiate with each other about the prices they offer to farmers. Though on paper every transaction is concluded on an equal and competitive basis, the price and the supply are fixed.

Under the old market conditions, at least in western Turkey, tobacco farmers had flexibility in choosing their buyers. TEKEL was the buyer of last resort, but not the sole prospective customer. Farmers had to report the quantity of tobacco they planned to cultivate in a given year. The negotiations with merchants began after tobacco was produced. Tobacco experts from both private companies and TEKEL paid visits to farmers' barns to grade the crops. TEKEL announced the maximum price that could be paid for the finest leaf, but farmers had different grades for their crops from different merchants and so were able to sell to the highest bidder. The international financial institutions, however, could not see past the existence of a state monopoly, an institution that guaranteed the purchase of unsold tobacco, and that they assumed had to inhibit the development of the free market. It is correct that the monopoly's purchase of all grown tobacco gradually raised the supply. But this market, though regulated by the state, was in fact competitive.

The new tobacco law has phased out the support purchases of the government. TEKEL has subsequently purchased tobacco according to its needs, leading to the serious decline in tobacco production as well as in the number of producers. After calculating the actual required amount of tobacco, TEKEL decided to sign contracts with cultivators around the country to supply up to 440 pounds apiece. This policy had different effects in different regions. In western Turkey, growers could sell their crop to TEKEL, or a private leaf merchant or both. But after the enactment of the new law, the farmers in western Turkey started to sell their tobacco exclusively to other leaf companies or to plant other crops. The reason is obvious: 440 pounds of tobacco is not enough to earn a living. In 2003, a cultivator who decided to sell to TEKEL could expect to earn a mere $660 for the year, far below the minimum for the survival of a family. In subsequent years, TEKEL increased its quota for this region to 2,200 pounds, but the number of cultivators working for TEKEL had already plummeted.

## Who Is a Farmer?

Eastern Turkey has been a different story. The tobacco grown there, large-leaf and strong-flavored, has a low market value and is exported only in very small amounts. Unlike in western Turkey, private leaf merchants have shown no interest in buying this kind of tobacco due to lack of international demand. There has been no tobacco buyer besides TEKEL in this region for decades. A tobacco grower who once produced one ton of tobacco by the terms of one contract now needed four or more TEKEL contracts to grow the same amount. Therefore, cultivating the same amount of tobacco simply increased the cost of production. The only solution for farmers was to conclude more contracts—often outside the law. Several legally recognized tobacco cultivators who had quit the business themselves years before began to rent their right to sign contracts. The price of contract rental varies from 50 to 350 million Turkish lira, according to the tobacco price in a given year. Such exchange of contracts is illegal, but it occurs in the open: Everyone, including TEKEL officials, is aware of it. The legal farmers who continue to grow tobacco are furious, as the "free market" has created not fair competition but a class of contract entrepreneurs. The farmers have found a way to create their own unregulated market in which the contract is a commodity. The contract has changed from a legal document into a means of exchange.

This new system has immense impact on the structure of agricultural production in the east, where there is extensive sharecropping. According to a 2006 survey, 59 percent of farmers in southeast Turkey, the majority-Kurdish region of the country, do not own the lands they till.[3] In many villages, land is concentrated in the hands of a few. Vast tracts belong to one or two families, which have employed sharecroppers for decades. The profit has long been shared on an equal basis between landlords and sharecroppers. After the introduction of contract farming, however, landless sharecroppers have been compelled to split the cost of rental contracts with landlords. Their already meager earnings have decreased, and many have stopped cultivating tobacco.

In order to survive, many sharecroppers have become seasonal laborers. But the conditions of migrant labor have toughened. Landless cultivators must travel continuously to find adequate work, rather than only one season per year. Their constant travel makes them into something more like wage laborers. An unintended consequence of the so-called free market in tobacco, therefore, is a throng of dispossessed citizens, belonging nowhere, and forced by economic exigency to leave the lands they cultivated for years.

In the 1980s, a farmer could grow tobacco if he liked—and as much of it as he could sell. Today, he is only a tobacco farmer if he can find someone to buy the crop. It is holding the right to sign a contract, rather than experience growing the crop, that makes the cultivator a farmer.

The situation of tobacco cultivators, especially in the eastern regions, will worsen if TEKEL completely stops buying tobacco from farmers in the logical extension of the present privatization policies. More and more tobacco cultivators will become wage laborers or migrate to other regions. The march of economic liberalization in Turkey, as embodied in the tobacco law, will continue to replace old rural hierarchies with new ones. ■

### Endnotes

1 The quotes above are taken from Grand National Assembly of Turkey, *Parliamentary Minutes*, Term 21, Legislative Year 4, Session 46 (2001).

2 For a detailed comparison, see Ahmet Hamdi Gümüş, "Geçmisten Geleceğe Tütün Mevzuatında Değişimler ve Uygulamalar," *Tütün Sektörünün Dünü, Bugünü, Yarını ve Beklentileri Sempozyumu* (Izmir: TAPDK, 2004), pp. 28–29.

3 *Radikal*, August 8, 2006.