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Report Highlights:

Philippines tobacco is expected to decline by 9 percent in 2001 to 68,300 MT, primarily due to rains impacted the virginia crop. However, the decline is expected to be distributed among all of the tobacco types. Production in 2000 was reported at 75,189 MT, the highest in several years. Philipp Morris International in the Philippines is expected to increase its output in its newly retooled plant to 10,000 MT of leaf tobacco.

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

After a decline in 1999, Philippine tobacco production in 2000 increased substantially to 75,189 MT. However, for 2001, early season rains are expected to negatively impact the resulting harvest. Consequently, imports are expected to increase to meet requirements.

NTA continues to be fearful that farmers will shift to other crops in the long run and not plant tobacco at all in the short run. Other competing prospects in 2000/01 are vegetables, leading to further erosion of tobacco's producing area. Meanwhile, prospects for increased consumption come from the newly retooled plant by Philip Morris International coming on line with expectations to increase consumption by an additional 10,000 MT.

Production

For 2001, the tobacco crop was impacted by rains in the northern provinces, which is forecast at 68,300 MT as compared to 75,189 MT in for the 2000 crop. Prospects are compounded by many agencies including the National Tobacco Administration (NTA) operating without budgets to implement any proposed programs. Since the end of Congress's last session in 2000, no decisions have been made on budgets given the ongoing transitional adjustments with the new presidential administration. With elections being completed in May, decisions on budgets will not take place until the end of July or early August.

Prices should be rewarding this year for good quality crop given the inventories for Virginia tobacco are low. Consequently, it is expected that farmers will try to increase area planted next year. The declines in production are situated primarily with the areas producing virginia tobacco and are expected to register an 8 percent decline in 2001 after a high of 36,648 MT in 2000. While burley tobacco is expected to slightly exceed or remain at current levels, there will be a slight decline in the local native cigar filler tobacco. During this time of the year, a little more than one-half of the 2001 crop has been brought in for sale, primarily consisting of virginia and burley variety.

Average buying prices for all types in 2000 were up nearly 10 percent over those for 1999 at 36.68 pesos per kilo. The largest increases were for the virginia and burley varieties at 45.85 and 32.99 peso per kilo. So far for 2001, prices for virginia tobacco average 43.43 pesos per kilo while that for burley has averaged 32.32. Price levels should pick up if better qualities are brought in through the rest of the buying season, especially for replenishing virginia tobacco inventories. Offsetting this prospect is the overall weakening of the economy as a result preoccupations with the removal of President Estrada in 2000. The economy still has not fully recovered and the peso exchange rate continues to near or slightly above 50 pesos/\$ since the last quarter of 2000. Consequently, there may be inventories building for cigarettes destined for local consumption.

It is not uncommon for tobacco farmers in the growing regions to plant nothing else if they decide not to plant

tobacco. Farmers have been slow to adopt practices to diversify production, however there is a fear that some farmers may switch to vegetable crops over the long run. NTA has a vehicle from which funds can be made available from excise taxes to support tobacco farmers. However, a key issue during the impeachment trial of former President Estrada centered on the redirection of these funds to the former President and other political cronies. Without the release of excise tax funds for use by the NTA will prevent it from offering technical and credit assistance through its - Tobacco Contract Growing Program (TCGP).

Tobacco is planted during October thru December. The bulk of the tobacco crop is grown in the northern island provinces of the Ilocos region and the Cagayan Valley. Virginia flue-cured tobacco is produced primarily in the provinces of Ilocos Sur and La Union and also including Abra and Ilocos Norte. Although rain damage was evident for burley and native dark air-cured cigar tobacco, increases were still recorded. Burley is grown in the provinces of Pangasinan, Tarlac, Nueva Ecija and Occidental Mindoro. Dark air-cued cigar tobacco is grown in the provinces of Cagayan, Isabela, Nueva Vizcaya, Quirino, Ifugao, Iloilo, Cebu, Leyte, Negros Oriental, Misamis Oriental, Zamboanga del Sur and North and South Cotabato.

Consumption

Total tobacco consumption for 2001 is set at 86,420 MT, virtually unchanged from the previous year at 86,250 MT. Adjustments have been made to consumption numbers based on a newly provided data series from the National Tobacco Administration. The economic problems stemming from both the peso adjustment and financial market failure in Asia that started in 1997 and continued in 1998 resulted in a shift to the cheaper domestic brands of cigarettes which use a higher percentage of domestic leaf. This led to an increase in demand for domestic leaf.

Although the economy began to turn around in CY 1999, led by a marked increase in agriculture productivity, the latter part of 2000 began to become impacted by increased political turmoil at the national level. The economy virtually came to a halt during the last two months of 2000 and into January 2001 as exemplified by the steep decline in the peso from 38.78 peso/\$ in January 2000 to 50.19 peso/\$ in April 2001. These conditions created tremendous uncertainty among Filipinos which began prepare for the worst. In fact, with more than 60 percent of consumption coming from single stick sales, there may be a prevalence toward consumption of cheaper fake and/or smuggled cigarettes. The shortfalls of locally produced tobacco will fuel opportunities for smuggled cigarettes. Estimates still range at around 20 percent of all cigarettes sold. Meanwhile, foreign leaf will continue to be used in blending with the bland local tobacco leaf.

However, with last year's entry into the market of Philip Morris International (PMI). PMI have invested \$300 million dollars to build a larger plant with its long-time Philippine partner La Suerte Cigar & Cigarette Manufacturing which has been carrying the PMI brands in the Philippines. The new plant will increase output by another 10 billion cigarettes per year from the current plant capacity of 20 billion, calling for increased total tobacco consumption of approximately 10,000 MT. From this total, approximately 6,000 MT virginia type tobacco will be required. PMI has committed to source a substantial percentage of its requirements from local production and has been working with farmers to improve production practices to improve leaf quality. However, it is expected that there will be an increased need for imports to meet production requirements. PMI is hoping to use this new expansion as a base for Southeast Asia. PMI selected the Philippines due to good working relationship with La Suerte, location and the English-speaking workforce.

Trade

Imports are expected to rise slightly in 2001 to 26,200 MT from 25,817 MT in 2001. Although Post predicts an

trend for increased imports, there will continue to be a pattern of periodic decline, particularly when local production increases beyond 70,000 MT. However, as the economy shows signs of confidence after the local national elections, increased expenditures from disposable income should lead to increased demand for foreign tobacco and branded cigarettes imports. Future plans in the industry for exports of cigarettes will also drive the need to import, especially virginia type tobacco and including burley.

Import requirements in 2000 are led by burley at 16,164 MT and virginia tobacco at 9,653 MT. Of those amounts, U.S. tobacco accounted for 2,176 MT and 2,291 MT respectively. Burley imports in 2001 are expected to remain nearly unchanged while that for virginia-type tobacco is expected to increase to 12,000 MT. While import requirements for burley may fluctuate with local availabilities, the need for virginia type tobacco is projected to increase in the future with imports of U.S. virginia leaf also projected to increase. The Posts projection for continued increase in demand for virginia tobacco imports are also based on increased virginia tobacco requirements by PMI as it begins to raise production levels to its capacity of 30 billion cigarettes per year. Along with that it is expected that its chief competitor Fortune Tobacco will also launch similar expansion plans to keep pace with PMI's marketing plans in Southeast Asia, consequently exerting more pressure on virginia tobacco requirements for this market. Post does not perceive local production to be able to readily maintain the increased levels of production to support the increased future requirements, particularly since most farms are small five hectare plots and operating under rainfed conditions.

Exports for all tobacco types fell in 2000 by 45 percent with all categories nearly equally contributing to the decline. It is presumed that the decline in the peso exchange rate and the shortfall on requirements contributed to this decline. Nevertheless, exports to the United States increased slightly from 1,911 MT to 2,187 MT, primarily due to increased demand in the States for cigar filler tobacco. Export prospects are generally limited since the Virginia-type domestic leaf from the Philippines is primarily a low-quality product used for filler.

Imports are regularly required to blend with the locally produced leaf. U.S. flue-cured leaf is known to be used in local cigarettes but it is transhipped through other trading centers and does not always appear in Philippine statistics. Meanwhile, Philippine exports of Virginia-type cigarettes appears to moving back near the level of 1996 which was 2,279 MT. In reaction to the financial crisis and the peso devaluation, in 1997 exports fell to 975 MT. However, in 1999 exports amount to 2,500 MT and increased to 3,105 MT for 2000. Expectations for exports in 2001 are set at 2,500 MT based on unfavorable projected exchange rate fluctuations.

Stocks

Despite the increase in production for 1998, stocks declined slightly. Of course there is no way to definitely estimate the impact of smuggled cigarettes on inventories. Stocks fell in 2000 and 1999. For each of the last several years, the NTA has been able to offer small increases in floor prices to farmers for the second season in a row. If this continues, farmers may be encouraged to plant more tobacco for 2000. Cigarette manufacturers cannot allow stocks of the low-grade domestic leaf to fall too far since the bulk of the Philippine consumers demand the cheap domestic brands. Consequently, NTA and the two major manufacturers will probably seek to provide incentives for farmers to plant tobacco for next season's crop.

Policy

The tripartite system for negotiating floor prices has been able to encourage farmers to increase planting in the last 3 years with across the board increases of 2 to 3 pesos/kg. However, going into 1999, floor prices were

increased by only 1.5 pesos/kg. It is planned that floor prices will be increased by 1 peso for 2000. Farmgate prices offered by manufacturers and traders were increasing through 1998 but declined in 1999 for Virginia tobacco. The tripartite system involves active participation from tobacco farmers, industry buyers, primarily Fortune Tobacco and the NTA. A continuation of this policy along with a strong TCGP's technical assistance program will be necessary to prevent farmers from shifting to competing crops.

On the other hand, one of the NTA's programs is designed to raise tobacco farmer incomes by providing assistance to diversify their farm operations with rice, corn, vegetable and fruit-bearing trees. Possibilities for technical assistance also include poultry, fish culture and livestock. The average farm size is one-half hectare.

Farmer incentives to produce are also supported by efforts to attract foreign investment in Ilocos Sur Province where 50 percent of the country's acreage of Virginia-type tobacco is located. Plans started last year to set up computerized flue-curing barns and engage in a joint venture with Swiss investors for re-drying facilities in Ilocos Sur. The local government in Ilocos Sur is able to acquire funds to attract these projects using its share of the proceeds from the excise tax collected on cigarettes by the Bureau of Internal Revenue. This 'bulk curing project' will allow the tobacco producing regions to move away from flue-curing and preserve forests. The NTA also sees a substantial cost reduction to the tobacco farmer.

The Bureau of Internal Revenue's 'specific' product excise tax program places the same levy on the same specific product, whether domestic or imported. Consequently, imported cigarettes are burdened with this excise tax on top of the 10 percent VAT and the import duty of 15 percent. The import duty will drop to 10 percent on January 1, 2000. A recent increase in the excise taxes have led local cigarette manufacturers to pass on the cost to consumers due to tight margins. As a result, prices may increase by 1 to 2 pesos per pack.

Under the Department of Agriculture's Agrikulturang MakaMASA program (an action plan for agricultural modernization), a new credit facility being initiated should offer tobacco farmers and traders easier access to credit. Under the program, while NTA screens potential borrowers, QUEDANCOR (Quedan and Rural Credit Guarantee Corporation), the GOP's credit guarantor, will choose participating banks. This is an attempt to address past problems with these arrangements, primarily the reluctance of local banks to lend to farmers because of perceived high credit risk.

Marketing

Cigarettes in duty-free stores are free of both tariffs and excise taxes. Consequently, duty-free stores have become the primary legal entry point for cigarette imports. However, the duty-free outlets, which number around 30 stores, were severely impacted by the peso devaluation in 1997. A recent visit to Clark found that these outlets have not yet recovered and several are expected to close.

Production Table						
	Area (ha.)			Production (MT)		
Product	1999	2000	2001	1999	2000	2001
Flue-Cured	24695	23347	21400	35,401	36,648	33,800
Burley	6186	6755	6000	19,302	26,463	23,300
Dark Air-Cured, Cigar	9426	10194	9300	12,342	12,078	11,200
TOTAL	40307	40296	36700	67,045	75,189	68,300

Farmgate Prices Table					
Product	1996	1997	1998	1999	2000
Virginia	34.6	37.07	41.72	37.70	45.85
Burley	24.1	27.59	35.78	35.10	32.99
Dark Air-Cured, Cigar	19.4	21.57	24.81	25.73	31.20
Average	26.03	28.74	34.10	32.84	36.68

Floor Prices by Grade - Virginia								
	AA	A	B	C	D	E	F1	F2
Virginia								
1996	38	37	35.00	33.00	30.50	29.50	26.50	23.50
1997	40	39	37.00	35.00	31.50	30.50	27.50	24.50
1998	43	42	40.00	38.00	34.00	33.00	30.00	27.00
1999	44.5	43.5	41.50	39.50	35.50	34.50	31.50	28.50
2000	44.5	43.5	41.50	39.50	35.50	34.50	31.50	28.50

Floor Prices by Grade - Burley							
	A	B	C	D	E	F	R
Burley							
1996	26.5	24.5	23.00	20.50	19.50	11.00	10.00
1997	28	26	24.00	21.50	20.50	11.50	10.00
1998	30	28	26.00	23.00	22.00	15.00	10.00
1999	31.5	29.5	27.50	24.50	23.50	16.50	11.50
2000	31.5	29.5	27.50	24.50	23.50	16.50	11.50

Floor Prices by Grade - Dark Air-Cured, Cigar					
	HG	M-1	M-2	L-1	L-2
Dark Air-Cured, Cigar					
1996	28	22	18.00	13.50	7.50
1997	30	23.5	19.00	14.50	8.50
1998	33	25.5	21.50	15.00	8.50
1999	34	26.5	22.50	16.00	9.50
2000	34	26.5	22.50	16.00	9.50

PSD Table						
Country	Philippines					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Area Planted	43000	40307	0	40296	0	36700
Beginning Stocks	101677	94425	102164	84289	0	78208
Farm Sales Weight Prod	69400	67045	0	75189	0	68300
Dry Weight Production	58107	63103	0	62550	0	61827
U.S. Leaf Imports	4000	3483	0	4467	0	4200
Other Foreign Imports	27000	23999	0	21350	0	22000
TOTAL Imports	31000	27482	0	25817	0	26200
TOTAL SUPPLY	190784	185010	102164	172656	0	166235
Exports	12500	14881	0	8198	0	7700
Dom. Leaf Consumption	62500	73560	0	73900	0	74100
U.S. Leaf Dom. Consum.	2400	2900	0	3000	0	2800
Other Foreign Consump.	11220	9380	0	9350	0	9520
TOTAL Dom. Consumption	76120	85840	0	86250	0	86420
TOTAL Disappearance	88620	100721	0	94448	0	94120
Ending Stocks	102164	84289	0	78208	0	72115
TOTAL DISTRIBUTION	190784	185010	0	172656	0	166235

PSD Table						
Country	Philippines					
Commodity	Tobacco,Unmfg.,Flue Cured				(HA)(MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Area Planted	26350	24695	0	23347	0	21400
Beginning Stocks	15606	21736	1296	11717	10000	6005
Farm Sales Weight Prod	37000	35401	0	36648	0	33800
Dry Weight Production	32190	33180	0	32190	0	31600
U.S. Leaf Imports	800	661	0	2291	0	2200
Other Foreign Imports	7000	5503	0	7362	0	8000
TOTAL Imports	7800	6164	0	9653	0	12000
TOTAL SUPPLY	55596	61080	1296	53560	10000	49605
Exports	3000	3713	0	1905	0	1700
Dom. Leaf Consumption	45500	39450	0	39450	0	40000
U.S. Leaf Dom. Consum.	600	1200	0	1200	0	1000
Other Foreign Consump.	5000	5000	0	5000	0	5000
TOTAL Dom. Consumption	51100	45650	0	45650	0	46000
TOTAL Disappearance	54100	49363	0	47555	0	47700
Ending Stocks	1296	11717	10000	6005	5000	1905
TOTAL DISTRIBUTION	55396	61080	10000	53560	5000	49605

PSD Table						
Country	Philippines					
Commodity	Tobacco, Unmfg., Burley				(HA)(MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Area Planted	6600	6186	0	6755	0	6000
Beginning Stocks	83077	68500	101977	70064	0	69189
Farm Sales Weight Prod	20000	19302	0	26463	0	23300
Dry Weight Production	19200	18703	0	19200	0	19140
U.S. Leaf Imports	3200	2822	0	2176	0	2000
Other Foreign Imports	20000	18496	0	13988	0	14000
TOTAL Imports	23200	21318	0	16164	0	16000
TOTAL SUPPLY	125477	108521	101977	105428	0	104329
Exports	4500	5257	0	2749	0	2500
Dom. Leaf Consumption	11000	27140	0	27360	0	27000
U.S. Leaf Dom. Consum.	1800	1700	0	1800	0	1800
Other Foreign Consump.	6200	4360	0	4330	0	4500
TOTAL Dom. Consumption	19000	33200	0	33490	0	33300
TOTAL Disappearance	23500	38457	0	36239	0	35800
Ending Stocks	101977	70064	0	69189	0	68529
TOTAL DISTRIBUTION	125477	108521	0	105428	0	104329

PSD Table						
Country	Philippines					
Commodity	Unmfg.,Dark Air Cured,Cigar				(HA)(MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Area Planted	0	9426	0	10194	0	9300
Beginning Stocks	0	4189	0	2508	0	3014
Farm Sales Weight Prod	0	12342	0	12078	0	11200
Dry Weight Production	0	11220	0	11160	0	11087
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	0	15409	0	13668	0	14101
Exports	0	5911	0	3544	0	3500
Dom. Leaf Consumption	0	6970	0	7090	0	7100
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	0	20	0	20	0	20
TOTAL Dom. Consumption	0	6990	0	7110	0	7120
TOTAL Disappearance	0	12901	0	10654	0	10620
Ending Stocks	0	2508	0	3014	0	3481
TOTAL DISTRIBUTION	0	15409	0	13668	0	14101

Export Trade Matrix			
Country	Philippines		
Commodity	Tobacco, Unmfg., Total		
Time period	CY	Units:	MT
Exports for:	1999		2000
U.S.	1911	U.S.	2187
Others		Others	
Germany	4156	Germany	1372
Spain	1588	Spain	780
Egypt	2197	Egypt	0
Japan	592	Japan	446
Malaysia	669	Malaysia	218
Mayanmar	538	Mayanmar	82
Algeria	898	Algeria	0
Singapore	145	Singapore	571
France	300	France	198
Belgium	551	Belgium	97
Total for Others	11634		3764
Others not Listed	1336		2247
Grand Total	14881		8198

Import Trade Matrix			
Country	Philippines		
Commodity	Tobacco, Unmfg., Total		
Time period	CY	Units:	MT
Imports for:	1999		2000
U.S.	3483	U.S.	4467
Others		Others	
China	10310	China	6078
Brazil	3485	Brazil	9023
South Africa	2936	South Africa	553
Zimbabwe	4215	Zimbabwe	2080
Malaysia	529	Malaysia	467
Indonesia	875	Indonesia	380
Thailand	371	Thailand	175
Japan	497	Japan	0
Nicaragua	0	Nicaragua	475
Turkey	20	Malawi	1584
Total for Others	23238		20815
Others not Listed	761		535
Grand Total	27482		25817

Export Trade Matrix			
Country	Philippines		
Commodity	Tobacco, Unmfg., Flue Cured		
Time period	CY	Units:	MT
Exports for:	1999		2000
U.S.	0	U.S.	9
Others		Others	
Germany	2602	Germany	1054
Japan	134	Japan	134
Belgium	132	Belgium	0
Singapore	107	Singapore	397
Malaysia	300	Malaysia	79
Algeria	198	Algeria	0
Total for Others	3473		1664
Others not Listed	240		232
Grand Total	3713		1905

Import Trade Matrix			
Country	Philippines		
Commodity	Tobacco, Unmfg., Flue Cured		
Time period	CY	Units:	MT
Imports for:	1999		2000
U.S.	661	U.S.	2291
Others		Others	
Brazil	416	Brazil	3296
China	2601	China	1551
Zimbabwe	977	Zimbabwe	2080
South Africa	990	South Africa	48
Japan	497	Japan	0
Turkey	20	Turkey	59
		Malaysia	104
Total for Others	5501		7138
Others not Listed	2		224
Grand Total	6164		9653

Export Trade Matrix			
Country	Philippines		
Commodity	Unmfg.,Dark Air Cured,Cigar		
Time period	CY	Units:	MT
Exports for:	1999		2000
U.S.	743	U.S.	1643
Others		Others	
Germany	1007	Germany	249
Egypt	2197	Egypt	0
Japan	458	Japan	312
Belgium	419	Belgium	97
Singapore	38	Singapore	174
Mayanmar	538	Mayanmar	82
Malaysia	369	Malaysia	139
Vietnam	15	Vietnam	110
France	0	France	198
Total for Others	5041		1361
Others not Listed	127		540
Grand Total	5911		3544

Export Trade Matrix			
Country	Philippines		
Commodity	Tobacco, Unmfg., Burley		
Time period	CY	Units:	MT
Exports for:	1999		2000
U.S.	1168	U.S.	535
Others		Others	
Spain	1588	Spain	390
Algeria	700	Algeria	0
France	300	France	0
Morocco	100	Morocco	0
Ireland	55	Ireland	60
Germany	547	Germany	69
Puerto Rico	504	Puerto Rico	414
Spain	0	Spain	390
Tunisia	0	Tunisia	200
Russia	0	Russia	115
Total for Others	3794		1638
Others not Listed	295		576
Grand Total	5257		2749

Import Trade Matrix			
Country	Philippines		
Commodity	Tobacco, Unmfg., Burley		
Time period	CY	Units:	MT
Imports for:	1999		2000
U.S.	2822	U.S.	2176
Others		Others	
Brazil	3069	Brazil	5727
China	7709	China	4527
South Africa	973	Malawi	1584
Zimbabwe	3238	South Africa	505
South Africa	973	Nicaragua	475
Indonesia	875	Indonesia	380
Malaysia	529	Malaysia	363
Thailand	371	Thailand	175
Total for Others	17737		13736
Others not Listed	759		252
Grand Total	21318		16164

PSD Table						
Country			Philippines			
Commodity			Tobacco Mfg., Cigarettes			
(MILLION PIECES)	Preliminary	1999	Forecast	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/99		01/00		01/01
Cigarette Production	68620	68620	69802	73156	0	73000
Imports	4500	4500	4750	2614	0	3000
Total Supply	73120	73120	74552	75770	0	76000
Exports	2500	2500	3000	3105	0	2500
Domestic Consumption	71620	71620	73052	72665	0	73500
Total Distribution	74120	74120	76052	75770	0	76000
	Source: Bureau of Internal Revenue, and Post Estimates					