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Report Highlights:

The Russian tobacco industry operates in an environment of insignificant domestic tobacco leaf production and high (and expanding) utilization of raw material imports. These imports have allowed the domestic cigarette industry to grow, while negatively affecting cigarette imports over the last five years. Consumption itself has been relatively stable. For 2002, cigarette production, consumption and trade are expected to show little change from 2001.

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

In 2001, domestic tobacco leaf production comprised less than one percent of total consumption. During that same year, unmanufactured tobacco imports increased by eight percent to 307,500 metric tons (mt) over 2000. Continued growth in cigarette and papirosa production, which according to State Statistical Committee data reached 374 billion pieces in 2001, led to intense market competition, accumulation of unsold cigarette stocks, and an increase in unregistered cigarette exports. Cigarette consumption, after reaching a maximum in 2000, remains stable, and demand is stronger for filter cigarettes in spite of their higher prices.

The Russian government recently removed licencing requirements for imports of unmanufactured tobacco (GOR Resolution #129 of February 26, 2002), which will further decrease state control over trade. In 2001, Russia adopted the Federal Law "On Limiting Tobacco Smoking", which includes some limitations on tobacco advertizing and tightens requirements for tar and nicotine content. However, cigarette taxes remain one of the most significant sources of revenue for the state budget.

Cigarette imports are decreasing. In 2001, Russia imported only 7.1 billion pieces versus 19.5 billion in 2000 and almost nine times less than the record set in 1997. At the same time cigarette exports are increasing. Official exports in 2001 were 3.2 billion pieces, or more than three times higher than in 2000, while unofficial exports are estimated to be still greater.

Production

Unmanufactured Tobacco

Domestic production of unmanufactured tobacco represents less than one percent of consumption, making the Russian tobacco industry dependent on imported raw materials. Tobacco production is concentrated in the Northern Caucasus region (especially in Krasnodar Kray) and planted area typically does not exceed 2,000 hectares. Production of tobacco in 2001 increased slightly to 1,800 metric tons (mt) due to an increase in sown area year-to-year. All domestic production is Oriental-type tobacco, the same type that is usually imported, as this is traditionally preferred by Russian smokers.

Table 1. Tobacco Area and Production, by Type

Production Table						
	Area Planted			Production		
	(Hectares)			Metric Tons		
	2000	2001	2002	2000	2001	2002
Burley	0	0	0	0	0	0
Dark Air Sun	0	0	0	0	0	0
Dark Air Cured	0	0	0	0	0	0
Dark Fire Cured	0	0	0	0	0	0
Flue Cured	0	0	0	0	0	0
Light Air Cured	0	0	0	0	0	0
Oriental	1950	2000	2100	1600	1800	1900
	1950	2000	2100	1600	1800	1900

Cigarettes

The State Statistical Committee of the Russian Federation (Goscomstat) reported cigarette and papirosas production of 374 billion pieces in 2001, or ten percent more than in 2000. However, estimates by the Russian Federation Ministry of Taxes show that enterprises produced 398 billion pieces of cigarettes and papirosas in CY 2001, some 24 billion pieces greater than indicated by Goscomstat. On the other hand, official import data on unmanufactured tobacco do not correlate with cigarettes and papirosas production data, and is least ten percent lower than the necessary volume for known production of cigarettes and papirosas. This difference is not compensated by a decrease in average weight of cigarette with filter from 1.05 grams to 0.94 grams.

Post estimates Russian production of cigarettes in 2001 at 374 billion pieces and adjusts the 2000 production number to 341 billion pieces in accordance with the final official statistical data.

Production of filter cigarettes is increasing more quickly than for non-filter cigarettes. This is a reflection of concentration of filter cigarette production at a few modern enterprises with foreign capital and developed marketing and distribution practices. Conversely, the production of cheap cigarettes without filters is dispersed among small local manufacturers. The latter's market share is diminishing.

According to experts, ("Business Analytic" data published in Izvestiya on November 29, 2001), the share of big international companies in production of tobacco products in 2001 was about 84 percent of the total. The leaders include Philip Morris, which produced 20.6 percent of manufactured tobacco products, JTI made 15.5 percent and 13.4 percent by B.A.T. The share of Liggett-Ducat was also 13.4 percent. Reemstma and Bulgar Tabak produced 2.8 and 1.3 percent of manufactured tobacco products, respectively. Other foreign companies produced 0.2 percent. Russian-owned firms include "Don Tabak" which produced 9.6 percent, Balkanskaya Zvezda - 7.4 percent, and other local firms made 15.7 percent of tobacco products.

Consumption

Unmanufactured Tobacco

Consumption of tobacco increased from 301,480 metric tons in 2000 to 309,200 metric tons in 2001.

Cigarettes

The maximum level of consumption of papirosas and cigarettes is estimated by different sources at 280 billion to 300 billion pieces (more than 2,000 pieces per capita per year). Specialists put the number of smokers in the country at 43 million or roughly one-third of the total population. This number is expected to remain stable.

Trade

Unmanufactured Tobacco

Russian exports of tobacco increased to 670 tons, mostly re-exports of non-Oriental type of tobacco.

According to official data, Russia imported 307,500 metric tons of unmanufactured tobacco in 2001, eight percent more than in 2000. Most imports are Oriental type. Imports from the U.S., according to the State Customs Committee, increased from 17,425 tons in CY 2000 to 23,450 metric tons in CY 2001. Over 50 percent of imports are from six countries, namely China, Brazil, India, Kyrgyzstan, the USA, and Moldova. In the tables below, the price of unmanufactured tobacco is calculated as the average monthly price of imported tobacco and varies significantly depending on the origin and quality of tobacco, rather than season of delivery.

Cigarettes

Cigarette imports are decreasing, and in 2001 Russia imported only 7.1 billion pieces versus 19.5 billion in 2000, and almost nine times less than in the record 1997 year. However, a significant portion of cigarettes imported into Russia go unreported. One example is Kaliningrad oblast, which has special status as a duty-free zone. Two years ago, cigarettes were imported duty free, and according to statistical data, per capita consumption in that oblast was 20 packs of cigarettes a day. Although free trade zone status was removed from cigarettes trade, unofficial trade persists.

At the same time exports of cigarettes are increasing. Official exports in 2001 were 3.2 billion pieces, more than three times higher than in 2000, while un-official exports, according to different estimates, are much higher. According to officials in the Ministry of Taxation of the Russian Federation, delivery of Russian cigarettes and papirosas to Ukraine and Belarus in CY2001 represented most of 100 billion piece difference between the over 400 billion pieces of production and the estimated consumption limit of 300 billion pieces. According to the same sources, stocks of unsold cigarettes are increasing, toughening market competition. Big companies, producing mostly filter cigarettes with new equipment and modern technology, have a competitive advantage over small factories producing cheaper, usually non-filter cigarettes and papirosas.

According to sources, non-registered trade of cigarettes in 2001 was estimated at eight billion pieces, also a significant decrease from 60 million in 1995. Information on the market for tobacco products in Russia prepared by the association "Grandtabak" (published in Izvestiya Financial, November 29, 2001) is given below:

Table 2. Cigarette Supply and Demand, Billion Pieces

Year	Demand (needs)	Production	Official imports	Non-registered imports
1990	250.0	150.5	100.0	0.0
1991	250.0	144.4	110.0	0.0
1992	255.0	148.4	120.0	0.0
1993	260.0	146.9	90.0	25.0
1994	260.0	136.4	70.0	55.0
1995	265.0	141.1	67.5	60.0
1996	265.0	141.9	65.0	58.9
1997	270.0	177.1	51.8	40.0
1998	270.0	210.7	41.0	20.0
1999	275.0	283.1	22.2	15.0
2000	280.0	341.4	14.1	10.0
2001	280.0	260.0	8.0	8.0

Tariffs

Table 3. Present Import Tariffs for Unmanufactured and Manufactured Tobacco Products

HS CODE	COMMODITY	IMPORT TARIFF
2401	Unmanufactured tobacco, tobacco refuse	5 percent
2402	Cigars, cigarillos and cigarettes, of tobacco or of tobacco substitutes	30 percent, but not less than 3 EUR per 1,000 pieces
2403	Other manufactured tobacco and tobacco substitutes; homogenized or reconstituted tobacco; tobacco extracts and essences	20 percent

Some constraints on unofficial trade of manufactured tobacco products were enforced by the State Customs Committee Order #1070 limiting the number of customs points available for alcohol and tobacco imports (for more information see Post Gain Report #RS1013 sent April 23, 2001).

Stocks

Unmanufactured Tobacco

There are no official data on the stocks of unmanufactured tobacco. Post estimates stocks at 15,000 tons.

Cigarettes

Post includes cigarettes stocks (unsold cigarettes by the end of the year) in consumption data, inflating the consumption estimate. The Russian Federation's Ministry of Taxes estimated unsold stocks of cigarettes at the end of CY2001 at minimum of 16 billion pieces. Another portion of the difference between Post's domestic consumption estimate of 378.9 billion pieces and actual consumption of cigarettes and papirosas in Russia (maximum 300 billion pieces) is assumed to be unreported movements to Ukraine and to Belarus.

Policy

To advance their policy of liberalizing foreign trade, the Government of the Russian Federation removed import licencing on unmanufactured tobacco by the Government Resolution #129 dated February 26, 2002. But, this Resolution will have minimal impact on tobacco imports, because most tobacco is shipped by the same companies which produce cigarettes and papirosas in Russia or by traders which have close working contacts with these companies.

In accordance with the new Federal Law "On licencing of Certain Types of Businesses", trade in tobacco products is no longer licenced. In 2001 licences on tobacco product trade were issued to 2,000 traders, but after the removal of licencing, this number, according to experts, has increased, while returns from official trade in cigarettes decreased drastically.

Excise Taxes

Collection of excises duties on tobacco products in Russia climbed 76 percent to nine billion rubles in 2001 (\$350 million), and is a vital source of income to the state budget. That is why current discussions over changes in excise taxes for 2002 and 2003 are important. Since January 2001, the level of excises is determined by the Second Part of the Tax Code (for more details see Report #RS1013). In 2002, excise taxes will be increased by 12 percent, in accordance with the rate of inflation, from the level given in the table for 2001. However, the Ministry of Taxes is proposing a rate increase of another 100 percent in 2003. Ministry specialists also suggest a new mechanism for collection of tobacco excises, with 50 percent going to the federal budget and the other half to the corresponding regional budget. Excise taxes currently go only to regional budgets, while tobacco products are made in no more than twenty constituent Russian regions.

Starting 2003 a new GOST (official state standard) will be introduced, which does not envisage division of cigarettes by classes. Specialists propose to set up two differentiations - cigarettes with filters, and cigarettes without filters, and to specify duties for only these two groups. One suggestion is to combine a specific tax and ad-valorem tax. At present the tobacco companies are debating the pros and cons of these proposals.

Table 4. New and Old Excise Taxes for Tobacco Products, 1998-2001

Commodity	HS codes	Excises (1998), rubles	Excises (1999), rubles	Excises (2000), rubles	Excises (2001), rubles	Excises (2002), rubles
Pipe tobacco (Russian GOST standard)		n.a.	16 R per 1 kg	32 R per 1 kg		
Smoking tobacco, except tobacco which is used as raw material for manufactured tobacco products	from 2403 10 100 0	60 R per 1 kg	72.0 R per 1 kg	144 R per 1 kg	166 R per 1 kg	
Pipe tobacco (except pipe tobacco Russian GOST standard)*	from 2403 10 100 0 from 2403 10 900 0	140.0 R per 1 kg	168.0 R per 1 kg	336 R per 1 kg	405 R per 1 kg	
Cigars (except Russian GOST standard cigars)	from 2402 10 000 0	3.0 R per piece	3.60 R per piece	7.2 R per piece	10.0 R per piece	11.2 R per piece
Cigars (Russian GOST standard)		1.0 R per piece	1.20 R per piece	2.4 R per piece		

Cigarillos and filter cigarettes over 85 millimeters long	from 2402 10 000 0 from 2402 20	25.0 R per 1,000 pieces	30.0 R per 1,000 pieces	60.0 R per 1,000 pieces	75.0 R per 1,000 pieces	84.0 R per 1,000 pieces
Filter cigarettes (except cigarettes over 85 mm long and GOST grade 1, 2, 3 and 4 cigarettes)	from 2402 20	17.0 per 1,000 pieces	20.50 R per 1,000 pieces	41.0 R per 1,000 pieces	55.0 R per 1,000 pieces	61.6 R per 1,000 pieces
Filter cigarettes (GOST grades 1, 2, 3)		n.a.	14.50 R per 1,000 pieces	29 R per 1,000 pieces	35.0 R per 1,000 pieces	39.2 R per 1,000 pieces
Filter cigarettes (GOST grade 4)		n.a.	9.50 R per 1,000 pieces	19 R per 1,000 pieces	35.0 R per 1,000 pieces	39.2 R per 1,000 pieces
Cigarettes without filter	from 2402 20	6.0 R per 1,000 pieces	7 R per 1,000 pieces	7 R per 1,000 pieces	10.0 R per 1,000 pieces	11.2 R per 1,000 pieces
Papirosas (grade 1)	from 2402 20	4.0 R per 1,000 pieces	4.80 R per 1,000- pieces	4.8 R per 1,000 pieces	10.0 R per 1,000 pieces	11.2 R per 1,000 pieces

* Although most pipe tobacco is charged 166 R per kg (code 2403 10 900 0), the Russian government makes many distinctions between differing types (Economica I Zhyzn, #4, February 2001)

Source: Economica I Zhyzn, #13, March 1998, Economica I Zhyzn, #2, January, 1999; Economica I Zhyzn, #1, January, 2001, p10.

Quality, Safety and Health

A Federal Law "On Limiting Tobacco Smoking" was accepted by the State Duma on June 21, 2001, approved by the Federation Council on June 29, 2001, and signed by the President of the Russian Federation on July 10, 2001. This new law contains sections on tobacco advertizing and some quality requirements. According to the law, starting January 1, 2003, production and imports of cigarettes are not allowed when filter cigarettes contain over 1.2 mg of nicotine per cigarette and 14 mg of tar per cigarette (measured in the smoke). In cigarettes without a filter, tar is limited to 16 mg per cigarette and nicotine to 1.3 mg per cigarette. Individual cigarette and papirosy sales are prohibited, as are vending machine sales and sales to persons under 18 years of age. The requirement of an additional warning on the cigarette pack will come in force on January 1, 2004. The requirement that the warning shall fill a minimum of four percent of the side of a pack will come in force on January 1, 2003, and the requirement on the inclusion of materials on the adverse effects of smoking into educational programs, and prohibition of demonstration of smoking in the movies and performances (if such is not the integral part of the play or movie) will come in force a year after the Law is published in the official journal.

Marketing

According to industry sources, 2002 will be the third consecutive difficult year for tobacco product manufacturers because of accumulating overproduction of cigarettes and intensifying competition. The largest producers create marketing and distribution chains for their own brands, and although the number of distributors increased after lifting of licencing of tobacco products sales, distribution of major brands on the Russian market was made a focus of the tobacco giants. At the same time some of them discontinued sales of other brands through their distribution systems. The number of dealers of these big companies is decreasing, and in many cases the companies have exclusive contracts with the dealers.

The share of different tobacco manufacturers in the retail market of tobacco products as of February 2002 is the following: Philip Morris - 21.5 percent, JTI - 16.6 percent, B.A.T - 13.3 percent, Liggett-Dukat - 12.8 percent, other local - 11.8 percent, Donskoy Tabak - 8.3 percent, Balkan Star - 8 percent, Reemtsma - 3.3 percent, Nevo Tabak - 3.2 percent, Bulgar Tabak - 1.1 percent, other international - 0.1 percent.

Table 5. Unmanufactured Tobacco Supply and Demand, Hectares and Metric Tons

PSD Table						
Country:	Russian Federation					
Commodity:	Tobacco, Unmfg.					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Area Planted	1950	1950	2000	2000	0	2100
Beginning Stocks	30000	30000	15000	15000	0	15000
Farm Sales Weight Prod	1600	1600	1800	1800	0	1900
Dry Weight Production	1500	1500	1700	1700	0	1800
U.S. Leaf Imports	16950	17425	17000	23450	0	25200
Other Foreign Imports	268050	267575	282800	284050	0	282300
TOTAL Imports	285000	285000	299800	307500	0	307500
TOTAL SUPPLY	316500	316500	316500	324200	0	324300
Exports	20	20	0	690	0	0
Dom. Leaf Consumption	1500	1500	1500	1700	0	1500
U.S. Leaf Dom. Consum.	12000	12000	10000	16510	0	23400
Other Foreign Consump.	287980	287980	290000	290300	0	284400
TOTAL Dom. Consumption	301480	301480	301500	308510	0	309300
TOTAL Disappearance	301500	301500	301500	309200	0	309300
Ending Stocks	15000	15000	15000	15000	0	15000
TOTAL DISTRIBUTION	316500	316500	316500	324200	0	324300

Table 6. Oriental Tobacco Supply and Demand, Hectares and Metric Tons

Production Table						
Country:						
Commodity:	Oriental					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin						
Area Planted	1100	1950	2000	2000	0	2100
Beginning Stocks	20000	20000	10000	10000	10000	10000

Table 7. Exports of Unmanufactured Tobacco

Export Trade Matrix			
Country:		Units:	mt
Commodity:			
Time period:			
Exports for	2000		2001
U.S.	0	U.S.	0
Others		Others	
Ukraine	20	Moldova	545
		Ukraine	125
Total for Others	20		670
Others not listed	0		20
Grand Total	20		690

Table 8. Imports of Unmanufactured Tobacco

Import Trade Matrix			
Country:		Units:	
Commodity:			
Time period:			
Imports for	2000		2001
U.S.	17425	U.S.	23450
Others		Others	
India	34910	China	32095
Kyrgyzstan	22640	Brazil	29700
China	22335	India	27010
Brazil	21405	Kyrgyzstan	25000
Moldova	19500	Moldova	21530
Uzbekistan	13350	Zimbabwe	12545
Greece	13315	Azerbaijan	12310
Turkey	11985	Italy	11930
Indonesia	10085	Greece	11270
Azerbaijan	9660	Indonesia	11065
Total for Others	179185		194455
Others not listed	88390		89585
Grand Total	285000		307490

Table 9. Unmanufactured Tobacco Prices

Prices Table					
Country:					
Commodity:					
Year:	2001				
Prices in (currency)	US dollars	per (uom)	Metric ton		
Year	2000	2001	% Change		
Jan	1580	1869	18.3%		
Feb	1869	1859	-0.5%		
Mar	1719	1967	14.4%		
Apr	1741	1912	9.8%		
May	1638	1673	2.1%		
Jun	1819	1776	-2.4%		
Jul	1868	1765	-5.5%		
Aug	1769	1906	7.7%		
Sep	1968	1716	-12.8%		
Oct	1985	1989	0.2%		
Nov	2214	1981	-10.5%		
Dec	2050	2004	-2.2%		

Table 10. Cigarette Supply and Demand, Million Pieces

PSD Table						
Country:	Russian Federation					
Commodity:	Tobacco, Mfg., Cigarettes					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Filter Production	210000	235000	215000	260000	0	261000
Non-Filter Production	100000	106000	100000	114000	0	114000
TOTAL Production	310000	341000	315000	374000	0	375000
Imports	19500	19500	15000	7100	0	5000
TOTAL SUPPLY	329500	360500	330000	381100	0	380000
Exports	900	900	1000	3200	0	5000
Domestic Consumption	328600	359600	329000	377900	0	375000
TOTAL DISTRIBUTION	329500	360500	330000	381100	0	380000

Table 11. Cigarette Exports

Export Trade Matrix			
Country:		Units:	MLN PCS
Commodity:			
Time period:			
Exports for	2000		2001
U.S.	0	U.S.	0
Others		Others	
Kazakhstan	380	Ukraine	1600
Germany	250	Mongolia	350
Mongolia	100	Kazakhstan	300
Uzbekistan	50	Yugoslavia	60
Kyrgyzstan	25	Kyrgyzstan	50
Turkmenistan	15	Turkmenistan	40
Tajikistan	10	Arab Emirates	35
Armenia	5	Moldova	25
		Israel	20
		Latvia	10
Total for Others	835		2490
Others not listed	65		710

Grand Total	900		3200
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Table 12. Cigarette Imports

Import Trade Matrix			
Country:		Units:	MIL PCS
Commodity:			
Time period:			
Imports for	2000		2001
U.S.	5500	U.S.	2610
Others		Others	
Ukraine	6000	U.K.	2300
U.K.	4300	Germany	1250
Germany	1750	Ukraine	350
Finland	500	Japan	230
Poland	440	Netherlands	200
Belgium	380	Denmark	60
Denmark	150	Greece	40
Armenia	90	Switzerland	30
		Poland	25
Total for Others	13610		4485
Others not listed	390		5
Grand Total	19500		7100

Table 13. Cigarette Prices

Prices Table					
Country:					
Commodity:					
Year:	2001				
Prices in (currency)	US dollars	per (uom)	1,000 pieces		
Year	2000	2001	% Change		
Jan	10.82	11.21	3.6%		
Feb	12.64	17.47	38.2%		
Mar	11.69	13.77	17.8%		
Apr	13.48	14.06	4.3%		
May	13.7	12.98	-5.3%		
Jun	10.26	13.83	34.8%		
Jul	13.6	15.01	10.4%		
Aug	13.66	14.96	9.5%		
Sep	13.13	13.52	3.0%		
Oct	12.48	15.14	21.3%		
Nov	13.26	14.33	8.1%		
Dec	13.19	14.17	7.4%		