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## Taiwan

## Tobacco and Products

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### Report Highlights:

**On January 1, 2002 Taiwan entered the WTO and dismantled its long-standing tobacco monopoly to comply with WTO rules. The disappearance of the tobacco monopoly will provide opportunities and challenges for U.S. tobacco and tobacco product exports. In 2001, the U.S. share of the tobacco leaf import market was 55 percent, and the share of the imported cigarette market was 10 percent. Taiwan's cigarette consumption level is approximately 45 billion pieces. Market share of local brands was 50 percent, down 6 percent from 1999.**

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## Executive Summary

As a result of WTO entry, Taiwan dismantled its tobacco monopoly which will soon be privatized. The old monopoly tax on cigarette imports (NT\$830 per 1000 pieces) was replaced with an import tariff (27 percent ad valorem) and an excise tax (NT\$ 590 per 1,000 pieces). In addition, a new health tax surcharge of NT\$250 per 1,000 pieces is now assessed on cigarettes along with a 5 percent value-added tax. These new taxes will add about NT\$ 6 (approximately \$ 0.17) to the cost of a pack of cigarettes. To survive the former tobacco monopoly is cutting back on tobacco production contracts incrementally in an attempt to phase out domestic production. Domestic tobacco leaf production is expected to fall and be replaced by low quality tobacco imported from non-U.S. sources.

Total consumption of tobacco leaf in 2002 is forecast to remain unchanged from 2001. Total tobacco consumption in 2001 equaled 17,368 mt, a 12 percent decrease as compared with the previous year because of a 7 percent cut in cigarette production. Taiwan's cigarette consumption level is approximately 45 billion pieces. Market share of local brands was 50 percent, down 6 percent from 1999. This trend is expected to continue because of the growing popularity of Japanese and German cigarettes.

## End of the Tobacco Monopoly

Taiwan entered the WTO on January 1, 2002. At the same time, the Taiwan Tobacco and Wine Board's (TTWB), tobacco monopoly was dismantled and replaced by a normal tax and duty system with the TTWB set for privatization later. On April 25, 2002, Taiwan's Legislative Yuan (LY) passed the "Taiwan Tobacco and Wine Limited Corporation Rules" that established the legal foundation for TTWB's conversion to a limited share company. TTWB Director General Chu announced that TTWB will be corporatized on July 1, 2002, and privatized by July 2005. As a private company, the TTWB will need to be competitive to remain in business and will no longer subsidize domestic production. TTWB will cut back on tobacco production contracts incrementally each year in an attempt to phase out domestic production.

## Situation and Outlook, Tobacco Unmanufactured (Flue-cured)

### Production

Taiwan only produces *flue-cured* tobacco. Tobacco production in 2000/01 totaled 11,702 mt, (farm weight basis) from 4,230 hectares. Dry weight production totaled 11,304 mt, of which 70 percent was stemmed/stripped tobacco and the rest 30 percent tobacco stems. Planted area in 2001/02 and 2002/03 will decrease about 33 percent and 50 percent from the 2000/01, respectively. Forecast production is estimated at 2.5 mt/ha. TTWB tobacco purchase prices remained unchanged, on average NT\$192/kg or \$5.63 (\$1=NT\$34.1, as of 05/30/02).

### Consumption

Total tobacco consumption in 2001 totaled 17,368 mt, a 12 percent decrease as compared with the previous year because of a 7 percent cut in cigarette production. In general, Taiwan produces English type cigarettes and only small quantities of American blend cigarettes. *Flue-cured* tobacco consumption accounts for 97 percent of the total while *burley* (31 mt) and *oriental* (455 mt) tobacco combined represent 3 percent. Total tobacco consumption in 2002 is expected to increase by 6 percent in line with cigarette production increases. Early 2002 consumption was depressed slightly because some consumers stock piled cigarettes before Taiwan's WTO accession which increased prices.

The consumption of expanded tobacco and tobacco stems has been growing because they are lower in tar and nicotine. In 2001 they accounted for about 35 percent of the total. Consumption of both Taiwan and imported tobacco stems is included in the domestic *flue-cured* consumption figure because TTWB does not separate consumption by source. Expanded tobacco is manufactured solely from Taiwan tobacco. The remaining 65 percent of total tobacco consumption is stemmed/stripped tobacco, of which about 35 percent is domestic, 30 percent is from the U.S., and the rest 35 percent is from other seven foreign sources. U.S. tobacco is an essential ingredient of the TTWB cigarette formulations due to its unique quality characteristics. Tobacco imported from other countries than the U.S. are categorized into the same low quality category as Taiwan grown products.

### Trade

#### Imports

Tobacco leaf imports are primarily *flue-cured* with small amounts of *oriental* imports from Balkan and Mediterranean countries. Taiwan does not regularly import *burley* tobacco, but when it does, it typically imports from the U.S. In 2001, *flue-cured* tobacco imports accounted for 97 percent of total imports, *oriental* tobacco 3 percent, with only 37 mt of *burley* imported. According to TTWB, *oriental* consumption has increased relative to other tobaccos because its stronger flavor is used to compensate for lost flavor resulting from rising use of milder, low tar, low nicotine tobaccos in contemporary cigarette formulations. Increasing *oriental* imports also result from new cigarettes types, including Japanese style cigarettes. The relative consumption shares of *burley*, *oriental* and *flue-cured* tobaccos are not expected to change significantly in the near future.

Total tobacco imports in 2001 dropped 14 percent as compared with a year earlier. U.S. *flue-cured* tobacco imports, in terms of quantity, had a 55 percent share of total imports. The drop of Taiwan tobacco imports was the result of high stocks, an anticipated decrease in cigarette production, and more trade in high value stemmed/stripped tobacco. U.S. tobacco in redried stemmed/stripped form, accounted for 71 percent of 2001 total imports of \$35 million. In 2001, stemmed/stripped tobacco imports accounted for 61 percent of total imports, of which 55 percent of stemmed/stripped tobacco was supplied by the U.S.

The total *flue-cured* import projection for 2002 is 8,000 mt, a substantial increase from the previous year. This jump came from declining domestic production and the unanticipated increase in 2001 tobacco consumption. U.S. *flue-cured* is forecast to have a 50 percent import share. Because U.S. tobacco is considered an essential ingredient of TTWB cigarette formulations, U.S. tobacco is competitive with tobacco imported from other countries.

### Exports

Taiwan is not expected to export tobacco any time soon. Until 2002, TTWB used the best quality domestic *flue-cured* tobacco to manufacture cigarettes and attempted to export the rest. Since the quality was low, TTWB was unable to locate export markets for surplus domestic tobacco. Since WTO accession, Taiwan will not be able to continue exporting because tobacco production is subsidized. There were no tobacco exports in 2001.

TTWB has an annual contract for the production of expanded tobacco cutfiller with Philip Morris in Australia. TTWB ships domestic tobacco cutfiller to Philip Morris for processing and re-imports it as expanded tobacco cutfiller. (These shipments to Australia are not included in this report's trade matrix.) This re-imported tobacco is levied a 20 percent tariff. TTWB is planning to build a tobacco expansion processing plant in Taiwan within the next couple years.

### Tariff Changes

The current preferential tariffs on tobacco leaf, stems, and refuse are all at 17 percent. The tariff rate for manufactured tobacco products or manufactured tobacco substitutes, such as homogenized tobacco sheets, expanded tobacco leaves, tobacco extract and essences, is 20 percent.

### **Stocks**

Tobacco stocks are very high due to TTWB's guaranteed purchase contracts with farmers and because Taiwan's surplus is hard to export. Stocks are expected to decline in 2002 because of falling Taiwan plantings.

## Marketing

Currently about one-half of Taiwan's tobacco leaf imports are stemmed/stripped tobacco. TTWB has closed two of its four tobacco processing plants. Since the two plants that remain in operation use mostly for stemmed tobacco, imports of un-stemmed tobacco will fall. The two factories closed by TTWB to cut costs were more labor intensive and used older technology.

## Situation and Outlook, Tobacco Manufactured (Cigarettes)

### Production

Since Taiwan opened its cigarette market to Japanese brands in 1993, the market share held by local brands has declined continuously. To date, foreign brands have about 50 percent of the Taiwan cigarette market. TTWB has reduced its number of cigarette manufacturers to three from the previous four, with total annual cigarette production capability down to 27 billion pieces. In 2001, domestic cigarette production unexpectedly increased by 1.2 billion pieces, or 6 percent, from a year earlier. The increase was primarily due to an average per pack NT\$5 to NT\$10 retail price increase after monopoly reform. Cigarette production for 2002 is anticipated at about the 2001 level of 20.6 billion pieces.

To counter declining market share for its products, the TTWB is removing old brands that are not doing well and developing new cigarette types (e.g., menthol, light, mild brands, etc.). It also has introduced new packaging (e.g., hard pack boxes), and new presentations (e.g., 100 mm cigarettes) to compete with popular foreign brands and to target young smokers who prefer imports. Currently, the most popular domestic brands are *Long Life* and *New Paradise* which are mostly English style cigarettes, and make up 93 percent of total domestic sales. All TTWB attempts to launch American style cigarettes have failed. Japanese mixed-style brands, such as *Mild Seven*, are becoming increasingly popular. TTWB targeted *Mild Seven* by creating its own mixed style cigarette but did not advertise it sufficiently to make it successful.

TTWB will also gradually reduce the tar and nicotine content of existing brands. This is not only because foreign brands are generally lighter than domestic brands, but also because cigarettes must meet the tar and nicotine requirements of the Tobacco Hazards Prevention Act (THPA) which became law in September 1997. By July 2001, tar levels must be below 15 mg and nicotine levels below 1.5 mg. By July 2007, tar and nicotine levels must be below 12 mg and 1.2 mg respectively. Currently, the tar/nicotine content of most domestic brands clusters around 14 mg/1.4 mg and 11 mg/1.1 mg, compared to the best selling foreign brands at 12 mg or 13 mg/0.9 mg for regular cigarettes and 7 mg or 8 mg/0.6 mg for light cigarettes.

Since 1995, the Taiwan Department of Health (DOH) has conducted inspections monitoring cigarette tar and nicotine. According to DOH, all cigarettes on the market have met the July 2001 level requirement.

## Consumption

Although the THPA took effect in 1997, it is likely to be made more stringent. The THPA sets aside several new types of public areas as smoke-free zones while imposing further limits on cigarette advertising. Despite this, cigarette consumption continues to grow, but in smaller increments. With the exception of 2001, Taiwan's cigarette consumption level is approximately at 41 billion pieces, with foreign brands having about a 50 percent share of the market.

In 1999, DOH conducted its most recent biannual survey of Taiwan's smoking population. According to the survey's results, the male smoking population is 47 percent, declining slightly from 50 percent in 1993. Meanwhile, the female smoking population rose to 5 percent, up from 3 percent in 1993. (The survey used a World Health Organization definition of smoker as an individual who smokes daily or occasionally and are 18 or older). The 1999 survey results also indicate that 2 and 3 percent, respectively, of all girls and boys between the ages of 12 and 14 are smokers; and 3 and 11 percent, respectively, of all girls and boys, between the ages of 14 and 18, are smokers. TTWB will likely develop extra light cigarettes in the coming years for female and young smokers.

Because cigarette consumption continues to rise especially among teenagers, the Department of Health (DOH) proposed to the Executive Yuan (EY) in 2000 that the THPA be strengthened. Although the proposed amendments were approved by the EY on May 11, 2000 and are still currently awaiting Legislative Yuan (LY) approval, action has been slow in coming. DOH-proposed amendments call for more stringent cigarette advertising regulations and new labeling requirements. The current advertising and labeling are likely to be amended, according to recent discussions held in the LY. The local leading cigarette band *Long Life* could also be renamed.

## Policy

### Current Advertising Regulations

The Tobacco Hazards Prevention Act (Articles 9 and 10) stipulates that (1) each manufacturer can take out only 120 magazine advertisements per year; (2) cigarette manufacturers can display their corporate name when they sponsor activities but they cannot use these events to directly promote tobacco products or brands; and (3) point-of-sale promotions are permitted, but are subject to restrictions (e.g., the value of give-away gifts can not exceed 25 percent of the retail value of the cigarette product, and the gift can not bear the cigarette's brand name). All other advertising is prohibited. Marketing channels are also limited by this law. The DOH, the agency with responsibility for enforcing the THPA, would like to close some loopholes in the law that currently make it possible for cigarette companies to run TV advertisements of spin-off products that bear the same brand name as their cigarettes.

## Current Labeling Requirements

Currently, tobacco product labels must contain tar and nicotine levels and health warnings. There are six officially approved health warnings which cigarette manufacturers must display on labels in rotation in accordance with the provisions of the THPA. According to the Tobacco and Alcohol Administration Law, information about the importer, the manufacturer, the ingredients, the manufacture/expiry date, the brand name, and the quantity of cigarettes must also appear on the label.

## **Trade**

### Imports

In 2001 total cigarette imports reached 23.5 billion pieces, up 19 percent or about 4 billion pieces over the previous year. Imports took 50 percent of the total cigarette market. The large increase in cigarette imports was attributed to monopoly reform. The top four exporting countries combined account for 90 percent of imports and include Japan (a 44% import share), Germany (25%), the United Kingdom (11%), and the United States (10%). As compared with a year earlier, the U.S. share of the cigarette import market remained unchanged, Japan increased 7 percent, Germany up 2 percent; however, the U.K. dropped 10 percent. U.S. imports in 2002 are forecast at 2 billion pieces, 10 percent of the total import projection for 2002. The best selling foreign brands are Japanese *Mild Seven* and German *Davidoff*, accounted for 42 percent and 25 percent of the 2001 imports, respectively. US brands *Marlboro* and *Parliament* remain popular and account for 4 percent and 3 percent of the 2001 imports, respectively, followed by *Virginia Slims*, the leading menthol brand, 1 percent of the 2001 imports. British 555 had a 4 percent share of the 2001 imports. On February 2002, Taiwan lifted the import ban on PRC cigarettes. Reportedly, the leading PRC brand cigarette will be launched on the Taiwan market in the near future.

### Exports

Taiwan's cigarette exports are insignificant and account for less than 1 percent of production. Its major export markets are in Hong Kong, Macau and Philippines. However, TTWB is eager to increase exports to compensate for the loss of local market share to imported brands. TTWB has targeted China and overseas Chinese markets for increasingly aggressive marketing programs. As a result, cigarette exports are forecast to slowly increase. Domestic brand *Long Life* still prevails in the Taiwan market. Reportedly, there were contraband imports of Long Life cigarettes illegally manufactured in Southeast Asia.

### Tariff Changes

When monopoly control ended with WTO accession on January 1, 2002, the monopoly tax on cigarette imports was replaced with an import tariff (27 percent ad valorem) and an excise tax (NT\$590 per 1,000 pieces). A new health tax surcharge of NT\$250 per 1,000 pieces has been assessed on cigarettes. Cigarettes are also assessed a 5 percent value-added tax. These new taxes add approximately NT\$ 6 (approximately \$ 0.17) to the cost of a pack of

cigarettes.

## Prices

After the monopoly was abolished, the mainstream retail prices for foreign brands increased NT\$10 to NT\$35-50 per pack. Luxury cigarettes that were priced two to three times higher than mainstream brands saw smaller or no price increases. The retail price of *Mi-Ne Prestige* remained at NT\$80 per pack and *Davidoff Magnum* was steady at NT\$150 per pack.

The price gap between imported and locally produced cigarettes still is significant. While imports of Japanese cigarettes are likely to increase further, there will also likely be a change from lower priced/quality local brands to higher quality local brands. The higher quality local brands use more imported tobacco which should benefit U.S. exports.

## Marketing

The total cigarette market in 2001 was 45.7 billion pieces, up 12 percent from a year ago. Foreign brands gained 3 percent of the market share in 2001 and captured 51 percent of the market, a record high. Local brands held a record low 49 percent of the market. Most of the increase in total cigarette supply was attributed to monopoly reform as consumers stocked up on cigarettes in advance of price increases. The cigarette market in 2002 is forecast at 41 billion pieces, a 9 percent decrease from 2001, but a 2 percent increase from 2000. Foreign brands are forecast to capture a 50 percent market share.

## Statistical Tables

**Table 1. Flue-cured Production, Supply and Demand (MT)**

PSD Table						
Country	Taiwan					
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	4394	4230	0	2929	0	2115
Beginning Stocks	31443	31443	34715	33290	34715	28836
Farm Sales Weight Prod	10985	11702	0	7322	0	5287
Dry Weight Production	10284	11304	0	7029	0	5076
U.S. Leaf Imports	3845	2516	0	3739	0	4000
Other Foreign Imports	7643	5438	0	3103	0	4000
TOTAL Imports	11488	7954	0	6842	0	8000
TOTAL SUPPLY	53215	50701	34715	47161	34715	41912
Exports	90	43	0	0	0	0
Dom. Leaf Consumption	10628	10080	0	10644	0	9898
U.S. Leaf Dom. Consum.	3830	3427	0	3608	0	3362
Other Foreign Consump.	3952	3861	0	4073	0	3790
TOTAL Dom. Consumption	18410	17368	0	18325	0	17050
TOTAL Disappearance	18500	17411	0	18325	0	17050
Ending Stocks	34715	33290	34715	28836	0	24862
TOTAL DISTRIBUTION	53215	50701	34715	47161	0	41912

**Table 2. Flue-cured Imports**

Import Trade Matrix			
Country	Taiwan		
Commodity	Tobacco, Unmfg., Total		
Time period	1/2000	Units:	metric ton
Imports for:	2000		2001
U.S.	2516	U.S.	3739
Others		Others	
Zimbabwe	2655	Zimbabwe	885
Thailand	1069	Brazil	793
Brazil	1041	Thailand	643
South Africa	671	Malawi	571
		Greece	201
		Italy	8
Total for Others	5436		3101
Others not Listed	2		2
Grand Total	7954		6842

**Table 3. Flue-cured Exports**

Export Trade Matrix			
Country	Taiwan		
Commodity	Tobacco, Unmfg., Total		
Time period	1/2000	Units:	metric ton
Exports for:	2000		2001
U.S.		U.S.	
Others		Others	
Japan	43		
Total for Others	43		0
Others not Listed			
Grand Total	43		0

**Table 4. Cigarette Production, Supply and Demand (Million Pieces)**

PSD Table						
Country	Taiwan					
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	21064	21064	20528	22226	0	20678
Non-Filter Production	0	0	0	0	0	0
TOTAL Production	21064	21064	20528	22226	0	20678
Imports	19652	19652	20474	23461	0	20878
TOTAL SUPPLY	40716	40716	41002	45687	0	41556
Exports	53	53	55	180	0	200
Domestic Consumption	40663	40663	40947	45507	0	41356
TOTAL DISTRIBUTION	40716	40716	41002	45687	0	41556

**Table 5. Cigarette Imports**

Import Trade Matrix			
Country	Taiwan		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	1/2000	Units:	million piece
Imports for:	2000		2001
U.S.	1949	U.S.	2290
Others		Others	
Japan	7227	Japan	10422
Germany	4441	Germany	5880
U.K.	4111	U.K.	2594
Slovenia	818	Slovenia	1011
Switzerland	601	Switzerland	685
Malaysia	296	Malaysia	441
Singapore	125	Singapore	103
Belgium	36	Belgium	12
Total for Others	17655		21148
Others not Listed	48		23
Grand Total	19652		23461

**Table 6. Cigarette Exports**

Export Trade Matrix			
Country	Taiwan		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	1/2000	Units:	million piece
Exports for:	2000		2001
U.S.		U.S.	
Others		Others	
Hong Kong	21	Hong Kong	173
Macau	7	Macau	3
Philippines	19	Philippines	3
China	3		
Korea	3		
Total for Others	53		179
Others not Listed			1
Grand Total	53		180