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Tobacco and Products

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Report Highlights:

Post estimates 2003 tobacco production to be marginally higher at 660,000 tons, due to higher export demand and increasing domestic consumption. Boosted mainly by increasing exports and rising incomes, cigarette production is estimated to increase by 3 percent to 93 billion pieces in 2003.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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SECTION I - SITUATION AND OUTLOOK

Production

India's 2003 unmanufactured tobacco production is estimated to increase marginally by 2 percent to 660,000 tons (farm sales weight basis), due to increasing export demand and increasing domestic consumption. Cigarette tobaccos (including FCV and Burley) constitute about 25 percent of the total production. Increasing production of better grades, and higher world demand for tobacco, are expected to boost exports during 2003 to 125,000 tons, of which cigarette tobaccos constitute about 85 percent. India's 2003 FCV crop is expected to be only marginally higher by 1 percent, and is estimated at 179,500 tons, despite a 10 percent higher planted area. This is due to the drought that prevailed in the major growing tracts of Andhra Pradesh (AP). Better profit margins for the tobacco crop during 2002, the poor performance of alternate crops, and higher tobacco prices during the previous season have led to increased 2003 planting in AP. Due to the fixed investments in infrastructure such as curing barns, and the consistently better margins from tobacco compared with alternatives resulted in the AP FCV tobacco crop limping back to its normal planting level. FCV farmers of AP, who had earlier taken up cultivation of alternate crops (mainly pulses and other vegetable crops), have slowly started shifting back to tobacco cultivation.

Favorable weather conditions in Karnataka led to higher productivity and better quality leaves, as indicated by a higher percentage of exportable grades at the Karnataka auctions fetching better prices (Rs. 43.60/kg) during 2002. However, the drought-affected AP tobacco witnessed a quality deterioration, and received lower average prices (Rs. 35.6/kg) than its Karnataka counterpart. Production of all cigarette tobaccos, except for burley from AP, decreased marginally due to drought during 2003. 2003 burley production is estimated to have increased to 13,500 tons due mainly to increased export demand.

The Tobacco Board, a quasi-governmental agency, regulates the production and marketing of FCV tobacco. During the current season, the agency declared a production ceiling of 102,000 ton production ceiling for the AP FCV crop and 49,000 tons for the Karnataka FCV crop, responding to demands from the trade and farmers citing lower carry-over stocks, and increased domestic demand. The FCV production is expected to exceed the targets of the Board by 14,000 tons each in Karnataka and AP. Production of other tobacco types, mainly burley and other cigarette tobaccos, are governed by contracts for export and with local industry for domestic consumption. There are no direct subsidies in tobacco production, apart from a federal transport subsidy for coal used for curing in Karnataka. However, the federal government regularly supports tobacco research and extension programs through various other channels.

Consumption

India's consumption of tobacco in cigarette manufacturing is estimated to have marginally increased to 95,000 tons during 2002, compared with about 94,000 tons during the previous year. FCV tobacco accounts for 78 percent of the total, as the Indian market is largely dominated by English blends. Consumption of burley tobacco accounts for 7 percent of total tobacco consumption, due to its use as a filler in cigarette manufacturing. The other tobaccos used in the

cigarette industry include HDBRG and sun-cured natu, which have a higher tar and nicotine content used to improve the smoke value in the lower-end cigarettes. Oriental and other imported tobaccos are used in the manufacture of international brands by the multi national corporations (MNCs), which are destined for domestic markets, and to some extent for export. 2003 Oriental tobacco production is estimated at 370 tons, providing the growers with an attractive price of Rs. 60/kg. Premium brands manufactured in India use a blend of domestic and imported FCV and oriental tobacco.

Prices

Declining carryover stocks (reportedly around 38,240 tons during 2002) and an increased export demand led to higher prices for cigarette tobaccos during the 2002 marketing year. The prices are expected to remain firm during 2003, due to an expected increase in export demand and continuously declining stocks.

Trade

Due to a sustained increase in excise tariffs and higher tobacco prices, 2002 imports of tobacco are estimated to be lower at 1,100 metric tons. They are forecast to increase in 2003 to 1,200 tons, due to a rebound in demand for premium quality cigarettes in the Indian market, and increased export demand for international cigarette brands.

Indian exports of unmanufactured tobacco during 2002 increased by 40 percent to 120,000 tons, due to increased demand in the Middle East, European Union, and African countries, better quality leaves, and competitive prices. With the increase in production of the low-nicotine FCV-Mysore variety of tobaccos during 2002, FCV-Mysore continues to dominate exports, constituting about 40 percent of the total unmanufactured tobacco exports. Prices continue to guide the exports of Indian tobacco to lower-end markets, as they are considered to be inferior in quality to Zimbabwean and Brazilian tobaccos. Following renewed demand from importing countries and continuous poor supplies from Zimbabwe, exports during 2003 are expected to be higher at 125,000 tons. China, one of the largest exporters of unmanufactured tobacco, may impact India's exports, however, depending on its volumes. The bulk of sun-cured natu tobacco is exported to countries like Russia, Egypt, Germany, Bangladesh, and the Netherlands.

Cigarettes

Cigarette production in 2002 increased by four percent, and is estimated at 90 billion pieces, despite higher prices and government measures against smoking (prohibition of smoking in public places, and legislation banning advertisements in mass media and sponsoring of sports events). Income growth and increasing health concerns by consumers have led to growth in filter cigarettes as opposed to non-filters. The increase in sales was lower in the mini-cigarette segment, which directly competes with the low-cost alternative of Beedi (hand rolled, leaf wrapped local cigarettes) and imported or smuggled minis from neighboring South Asian countries. Despite the higher prices of cigarettes and the increased availability of low-cost alternative Beedi, cigarette production is expected to increase by 3 billion pieces, due to increasing income levels and health concerns about smoking high nicotine Beedi among the

consumers. Despite the apprehensions expressed by the industry about declining profit margins, the government continues to maintain the excise on cigarettes at last year's level. The tax burden on cigarettes is expected to increase due to the shift to the Central Value Added Tax (CENVAT) scheme in 2003.

Exports of cigarettes increased from 950 million to 1.1 billion pieces in 2002. This is due to the start of production of international brands in India and the increased demand from the Middle East countries such as the UAE, Jordan, Iran, and Singapore. Trade sources estimate that exports could further increase to 1.9 billion pieces during 2003, due to increased demand from the traditional markets for the quality minis, and increased production of international brands for export purposes. Lower tariff rates on cigarette imports to prevent smuggling might increase the imports to 60 million pieces during 2003.

Table 1: Prices of Cigarette Tobaccos

Type	2001	2002	2003
MSP for L2 Grade FCV	22.0	22.5	23.5
MSP for F2 Grade FCV	25.5	25.5	26.0
MGP for various FCV	29.5 - 36.0	30.0 - 39.0	30.0 - 38.0
Karnataka FCV 1/	42.0	43.6	-
Andhra Pradesh FCV 1/	32.2	35.6	36.8
Burley	26.5	27.5	-
HDBRG	18.5	19.0	-
Sun-Cured Natu	21.5	22.0	-

1/ - Average Auction Price

SECTION II - STATISTICAL TABLES

Table 1: Commodity, Tobacco, Unmfg., PSD table

PSD Table							
Country:	India						
Commodity:	Tobacco, Unmfg.						
		2001		2002		2003	UOM
	Old	New	Old	New	Old	New	
Market Year Begin		01/2001		01/2002		01/2003	(MONTH/ YEAR)
Area Planted	395500	395500	425000	435000	0	435000	(HA)
Beginning Stocks	108402	108402	82185	82185	77185	74185	(MT)
Farm Sales Weight Prod	585600	585600	635500	650000	0	660000	(MT)
Dry Weight Production	530000	530000	575000	592000	0	595000	(MT)
U.S. Leaf Imports	30	30	30	30	0	30	(MT)
Other Foreign Imports	1200	1200	1100	1100	0	1170	(MT)
TOTAL Imports	1230	1230	1130	1130	0	1200	(MT)
TOTAL SUPPLY	639632	639632	658315	675315	77185	670385	(MT)
Exports	85500	85500	105000	120000	0	125000	(MT)
Dom. Leaf Consumption	470717	470717	475000	480000	0	487000	(MT)
U.S. Leaf Dom. Consum.	30	30	30	30	0	30	(MT)
Other Foreign Consump.	1200	1200	1100	1100	0	1100	(MT)
TOTAL Dom. Consumption	471947	471947	476130	481130	0	488130	(MT)
TOTAL Disappearance	557447	557447	581130	601130	0	613130	(MT)
Ending Stocks	82185	82185	77185	74185	0	57255	(MT)
TOTAL DISTRIBUTION	639632	639632	658315	675315	0	670385	(MT)

Table 2: Commodity, Flue Cured, PSD table

Production Table							
Country:							
Commodity:	Flue Cured						
		2001		2002		2003	UOM
	Old	New	Old	New	Old	New	
Market Year Begin							(MONTH/ YEAR)
Area Planted	46000	46000	125500	135500	0	149500	(HA)
Beginning Stocks	106219	106219	46219	46219	64219	38239	(MT)
Farm Sales Weight Prod	56000	56000	155000	178000	0	179500	(MT)
Dry Weight Production	52000	52000	140000	161000	0	162500	(MT)
U.S. Leaf Imports	15	15	20	15	0	0	(MT)
Other Foreign Imports	40	40	50	60	0	0	(MT)
TOTAL Imports	55	55	70	75	0	0	(MT)
TOTAL SUPPLY	158274	158274	186289	207294	64219	200739	(MT)
Exports	45000	45000	50000	97000	0	95000	(MT)
Dom. Leaf Consumption	67000	67000	72000	72000	0	74000	(MT)
U.S. Leaf Dom. Consum.	15	15	20	15	0	20	(MT)
Other Foreign Consump.	40	40	50	40	0	50	(MT)
TOTAL Dom. Consumption	67055	67055	72070	72055	0	74070	(MT)
TOTAL Disappearance	112055	112055	122070	169055	0	169070	(MT)
Ending Stocks	46219	46219	64219	38239	0	31669	(MT)
TOTAL DISTRIBUTION	158274	158274	186289	207294	0	200739	(MT)

Table 3: Commodity, Burley, PSD table

Production Table							
Country:							
Commodity:	Burley						
		2001		2002		2003	UOM
	Old	New	Old	New	Old	New	
Market Year Begin							(MONTH/ YEAR)
Area Planted	12900	12900	7500	7500	0	13500	(HA)
Beginning Stocks	1745	1745	4745	4745	1945	1945	(MT)
Farm Sales Weight Prod	12100	12100	7100	7100	0	12500	(MT)
Dry Weight Production	10700	10700	6300	6300	0	11100	(MT)
U.S. Leaf Imports	0	0	0	0	0	0	(MT)
Other Foreign Imports	0	0	0	0	0	0	(MT)
TOTAL Imports	0	0	0	0	0	0	(MT)
TOTAL SUPPLY	12445	12445	11045	11045	1945	13045	(MT)
Exports	3500	3500	4000	4000	0	5000	(MT)
Dom. Leaf Consumption	4200	4200	5100	5100	0	6200	(MT)
U.S. Leaf Dom. Consum.	0	0	0	0	0	0	(MT)
Other Foreign Consump.	0	0	0	0	0	0	(MT)
TOTAL Dom. Consumption	4200	4200	5100	5100	0	6200	(MT)
TOTAL Disappearance	7700	7700	9100	9100	0	11200	(MT)
Ending Stocks	4745	4745	1945	1945	0	1845	(MT)
TOTAL DISTRIBUTION	12445	12445	11045	11045	0	13045	(MT)

Table 4: Commodity, Tobacco, Mfg., Cigarettes, PSD table

PSD Table							
Country:	India						
Commodity:	Tobacco, Mfg., Cigarettes						
		2001		2002		2003	UOM
	Old	New	Old	New	Old	New	
Market Year Begin		01/2001		01/2002		01/2003	(MONTH/ YEAR)
Filter Production	36000	36000	39000	38000	0	40000	(MIL PCS)
Non-Filter Production	50300	50300	52500	52000	0	53000	(MIL PCS)
TOTAL Production	86300	86300	91500	90000	0	93000	(MIL PCS)
Imports	40	40	55	55	0	60	(MIL PCS)
TOTAL SUPPLY	86340	86340	91555	90055	0	93060	(MIL PCS)
Exports	950	950	1100	1100	0	1900	(MIL PCS)
Domestic Consumption	85390	85390	90455	88955	0	91160	(MIL PCS)
TOTAL DISTRIBUTION	86340	86340	91555	90055	0	93060	(MIL PCS)

Table 5: Commodity, Tobacco, Unmfg., Export Trade Matrix

Export Trade Matrix			
Country:		Units:	tons
Commodity:			
Time period:	Jan - Dec		
Exports for	2002		2003
U.S.	2150	U.S.	
Others		Others	
Russia	20350		
Belgium	12500		
UK	6450		
Yemen	6350		
Germany	5600		
Egypt	5350		
Netherlands	3900		
France	2850		
Singapore	2800		
South Africa	2500		
Total for Others	68650		0
Others not listed	49200		
Grand Total	120000		0

Table 6: Commodity, Tobacco, Unmfg., Import Trade Matrix

Import Trade Matrix			
Country:		Units:	Tons
Commodity:			
Time period:	Jan - Dec		
Imports for	2001		2002
U.S.	30	U.S.	
Others		Others	
China	475		
UK	250		
Turkey	170		
Greece	105		
Nepal	100		
Lebanon	25		
Total for Others	1125		0
Others not listed	75		
Grand Total	1230		0

Table 7: Commodity, Tobacco, Mfg., Cigarettes, Export Trade Matrix

Export Trade Matrix			
Country:		Units:	Million Pcs.
Commodity:			
Time period:	Jan - Dec		
Exports for	2001		2002
U.S.	301	U.S.	351
Others		Others	
UAE	198		256
Singapore	95		85
Azerbaijan	80		60
Iran	42		55
Jordan	41		50
Niger	40		42
Total for Others	496		548
Others not listed	153		201
Grand Total	950		1100

Table 8: Commodity, Tobacco, Mfg., Cigarettes

Import Trade Matrix			
Country:		Units:	Million Pcs.
Commodity:			
Time period:	Jan - Dec		
Imports for	2001		2002
U.S.	2	U.S.	4
Others		Others	
Singapore	18		25
Hongkong	9		8
UK	5		10
Germany	2		3
Total for Others	34		46
Others not listed	4		5
Grand Total	40		55