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Tobacco and Products

Annual

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Report Highlights:

Pakistan's CY 2004 tobacco production is forecast to increase to 95,600 metric tons. Cigarette companies have started programs introducing sunflower and hybrid maize as alternative crops for tobacco. Most of tobacco trade is unrecorded. Cigarette production and consumption continue to rise despite government efforts to dissuade people from smoking. Imports of U.S. leaf tobacco expected to remain strong due to a demand of better quality cigarettes among Pakistan consumers.

Includes PSD Changes: Yes
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TOBACCO

Production

MY 2004 tobacco production is forecast at 95,600 metric tons (MT), on the strength of a 9 percent increase in area planted to tobacco in lieu of sugar cane, its primary competitor cash crop. Market expectations are for expansion in cultivation of Oriental varieties to service stronger demand from manufacturers of cigarettes and chewing tobacco. To preserve market returns, the Pakistan Tobacco Company (PTC) and Lakson Tobacco, in collaboration with multinational seed companies, have launched a campaign to introduce Hybrid Maize and Sunflower as alternative cash crops. MY 2003 tobacco production declined to 86,411 MT due to weak demand from cigarette companies.

Tobacco, an important cash crop, is grown mainly in the North West Frontier Province (NWFP) and Punjab. Flue-cured and burley tobaccos are used primarily in higher-quality cigarettes. Oriental varieties (known locally as White Patta) are used in low-quality cigarettes and in chew tobacco. Dark air-cured varieties are used mainly as filler, while light air-cured varieties are used primarily in traditional Pakistani tobacco products. Yields in Pakistan are about twice those for neighboring countries due largely to the industry supported extension service. Quality, however, is improving very slowly due to constraints posed by climate and soil fertility.

Table 1. Tobacco Area and Production (Farm Weight)

Tobacco Type	AREA (Hectares)			PRODUCTION (Metric Tons)		
	2002	2003	2004	2002	2003	2004
Flue-cured	24,570	20,748	21,000	59,615	51,311	51,800
Dark Air-Cured	751	489	425	1,940	1,420	1,200
Oriental	4,749	5,469	9,250	9,380	10,830	18,400
Light Air-cured	16,916	19,800	20,000	21,000	20,700	22,000
Burley	432	933	925	945	2,150	2,200
Total	47,418	47,439	51,600	92,880	86,411	95,600

Source: 2002 and 2003 - Pakistan Tobacco Board, 2004 (F) - FAS/Islamabad.

Table 2. Total Unmanufactured Tobacco PS&D

Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	2002 USDA[Old]	Revised Estimate 01/2002	2003 USDA[Old]	Revised Estimate 01/2003	2004 USDA[Old]	Forecast [New] 01/2004
Market Year Begin						
Area Planted	46897	46897	48150	47439	0	51600
Beginning Stocks	51160	51160	55250	55250	59639	50936
Farm Sales Weight Prod	92880	92880	94700	86411	0	95600
Dry Weight Production	84721	84721	86389	78971	0	87420
U.S. Leaf Imports	125	125	200	50	0	100
Other Foreign Imports	37	37	50	47	0	100
TOTAL Imports	162	162	250	97	0	200
TOTAL SUPPLY	136043	136043	141889	134318	59639	138556
Exports	3632	3632	3500	7385	0	6000
Dom. Leaf Consumption	77000	77000	78500	75900	0	79000
U.S. Leaf Dom. Consum.	124	124	200	50	0	100
Other Foreign Consump.	37	37	50	47	0	100
TOTAL Dom. Consumption	77161	77161	78750	75997	0	79200
TOTAL Disappearance	80793	80793	82250	83382	0	85200
Ending Stocks	55250	55250	59639	50936	0	53356
TOTAL DISTRIBUTION	136043	136043	141889	134318	0	138556

Production Policy

To safeguard farmer interests, the Government of Pakistan (GOP) supports tobacco production via a support price mechanism. Generally, the Price and Grade Revision Committee of the Pakistan Tobacco Board (PTB) set the support price well below market-clearing levels, effectively setting a floor or minimum guaranteed price. As a result, the government generally does not procure tobacco and the support program does not require government expenditure. For the MY 2004 crop, the support price for all tobacco varieties will likely be increased by 5 percent to help offset rising producer input costs.

Table 3. Tobacco Support Prices for Major Varieties (Rupees/Kilogram)

Tobacco Type	2002	2003	2004
Flue-cured	20.90 to 47.02	21.95 to 49.37	23.04 to 51.83
Dark Air-cured	13.83 to 14.78	14.52 to 15.52	15.24 to 16.29
Oriental	10.10 to 38.60	10.60 to 24.52	11.13 to 25.74
Burley	24.13 to 38.60	25.34 to 40.53	26.60 to 42.55
Avg Exchange Rate (\$1 = Pak. Rupee)	59.60	57.75	57.80

Source: Pakistan Tobacco Board

The PTB, in effort to regulate tobacco supplies, attempts to coordinate production based on the expected demand by tobacco companies using a price support mechanism. Traditionally, tobacco companies contract directly with growers prior to planting. The PTB price support program is generating over production, conversely, greater price competition among suppliers as it offers support based on faulty projections of supply requirements of the industry. At best only 80-85 percent of industry requirements are believed reported to the PTB because of duty considerations. MY 2004 contract intentions of major cigarette companies shows a continuation of the trend to lock in prices as buyers realize they can reap better returns from a market constrained by poor market information.

Table 4. Tobacco Requirements of Major Cigarette Companies (MT)

Tobacco Type	2002	2003	2004
Flue-cured	45,095	37,182	34,836
Dark Air-cured	1,550	1,030	855
Oriental	2,100	1,655	1,050
Burley	1,115	2,055	2,165
TOTAL	49,860	41,922	38,906

MY 2004 farm gate prices are expected to increase 5-7 percent over last year, driven mostly by higher production costs and higher support price. MY 2003 farm gate prices averaged about 20-25 percent above the PTB published price support level.

Table 5. Average Farm Gate Prices (Rupees/kilogram)

Tobacco Type	2001	2002	2003
Flue-cured	45.94	46.19	47.53
Dark Air-cured	20.21	21.08	21.19
Oriental	25.40	25.48	25.50
Burley	39.92	41.85	44.21

Source: Pakistan Tobacco Board

Consumption

MY 2004 tobacco consumption is forecast to increase 3 percent on higher demand for tobacco-based products. Two-thirds of production is utilized for cigarettes, the remainder is used in other tobacco products.

Trade

MY 2004 tobacco imports are expected to decline. The bulk of imports should remain flue-cured leaf tobacco from the U.S. which is used to finish higher-quality cigarettes. The U.S. share of the import market is increasing gradually in response to growing consumer demand for higher-quality cigarettes. MY 2004 tobacco exports are forecast at 6,000 MT, mainly to Bangladesh, Egypt, Germany and United Kingdom.

Export of tobacco and products are not restricted; however, most such trade is unrecorded. To fulfill World Trade Organization (WTO) and the International Monetary Fund (IMF) commitments, the GOP is scheduled to reduce the import duty on raw tobacco, from 20 to 10 percent, starting in July 2004. Imported raw tobacco, when sold, is assessed a 20-percent sales tax.

Stocks

No official data is available. Estimates are that cigarette manufacturers maintain supplies to cover 8-10 months' production requirements.

CIGARETTES

PRODUCTION

Official data issued by the Pakistan Tobacco Board (PTB) on Pakistan cigarette production is not very reliable. Because cigarette manufacturers are taxed based on declared production, data submitted to the PTB is suspect. Estimates are that Pakistan produces 60 to 65 billion cigarettes annually. Currently, 24 manufacturers are known to operate in Pakistan, 20 of which reportedly do not register production with the Tobacco Board. Lakson Tobacco Company and Pakistan Tobacco Company, two of the largest cigarette manufacturers, are believed to account for 40 and 38 percent of total cigarette production, respectively.

CONSUMPTION

Official data on cigarette consumption is not available. However, by using sales as a proxy, MY 2004 consumption is projected at 65 billion pieces. The GOP prohibits smoking in offices and airplanes and has launched a radio and television campaign to discourage smoking. Recently the GOP announced that it would be prohibiting smoking in all public places. Even so, smoking continues to grow in popularity. In effort to increase sales, major cigarette companies have announced a 50-percent price reduction for their medium-priced brands.

Table 6. Cigarette Production Supply and Demand

Country	Pakistan		(MIL PCS)			
	Tobacco, Mfg., Cigarettes					
Commodity	2002 USDA[Old]	Revised Estimate	2003 USDA[Old]	Estimate Estimate	2004 USDA[Old]	Forecast Estimate
Market Year Begin		01/2002		01/2003		01/2004
Filter Production	60000	60000	62000	62000	0	63000
Non-Filter Production	80	80	90	90	0	90
TOTAL Production	60080	60080	62090	62090	0	63090
Imports	2100	2100	2200	2200	0	1600
TOTAL SUPPLY	62180	62180	64290	64290	0	64690
Exports	400	400	450	450	0	500
Domestic Consumption	61780	61780	63840	63840	0	64190
TOTAL DISTRIBUTION	62180	62180	64290	64290	0	64690

TRADE

Because a major portion of cigarette trade is unrecorded (i.e., smuggled through Afghanistan), a large discrepancy exists between official and unofficial trade data. Trade data displayed in the PS&D table are unofficial estimates. Cigarette smuggling involves most popular international brands. As with raw tobacco, the import duty on cigarettes will be reduced to 10-15 percent starting in July 2004 and, as with raw tobacco, a 20-percent sales tax will be assessed on downstream commercial activity.