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Romania

Tobacco

Tobacco Products Annual Report

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Report Highlights:

1997 and 1998 tobacco production and trade data has been revised upwards as well as cigarette production. At the same time, over the next several years, we forecast that cigarette imports will gradually decrease due to alleged increased border control and GOR policy which favors domestic tobacco and cigarette production. Romania's 1999 total tobacco production (dry weight) is estimated at around 16,000 MT (about 50% of consumption) while imports should total about 20,000 MT.

All varieties of tobacco leaf are imported. In 1998, the distribution was as follows: Burley, 6,000 MT; Flue-Cured, 5,200 MT; Oriental, 5,000 MT; Dark Air and Sun-Cured, 4,800 MT; and Other types, tobacco scrap, 4,000 MT.

1999 cigarette imports are expected to total 5.5 billion pieces while production should reach about 34.5 billion pieces.

Romania has traditionally been a customer of U.S. cigarettes. According to official data, Romania imported 1.2 billion cigarettes in 1998 from the United States. We expect that Romanian cigarette imports from the U.S. will decrease in 1999 to 1 billion.

Executive Summary	2
Production	3
General	3
Policy	4
Consumption	4
Trade	4
Stocks	5
Marketing	5
Flue Cured PSD	7
Burley PSD	8
Dark Air & Sun Cured PSD	9
Tobacco, Unmfg. PSD	10
Tobacco Unmanufactured Import Trade Matrix	11
Tobacco Production Table	12
Tobacco, Mfg., Cigarettes	13
Cigarettes Import Trade Matrix	14

Executive Summary

Projections made by AgOffice, indicate a four percent increase of the 1999 Romanian tobacco production (farm sales) due to a similar increase of the planted area. Based on official information, 1998 tobacco output was preliminary estimated at 17,500 MT.

Because of insufficient domestic production, Romania historically is a significant importer of both tobacco and cigarettes. In 1998, Romania imported 25,000 MT of unmanufactured tobacco and about 6 billion cigarettes. For the current year, information from industry and trade sources indicate that imports of both tobacco and cigarettes will be lower compared to 1998, primarily due to a reduction of the purchasing power of the population, which reduced the demand for cigarettes. We forecast that tobacco imports will be down 20 percent to 20,000 MT while cigarette imports are projected at 5.5 billion pieces (1998 - 6 billion). Major suppliers of tobacco to Romania are Italy, Moldova, Greece, Turkey and Bulgaria. For cigarettes, major suppliers to Romania are Germany, United States, Switzerland, Greece, Cyprus.

Industry sources indicated that opportunities for U.S. tobacco on Romanian market are reduced because of price, transportation cost and higher duties compared to EU and CEFTA countries who have tariff-rate quotas.

Foreign cigarette companies operating in Romania indicated that they expect that complete privatization of the industry will take place by the end of the year 2000. This will bring the much needed capital necessary to upgrade equipment and technology and will allow local industry to better compete with imported cigarettes. At the same time, complete privatization of the industry will abolish monopolistic government structures which favored state-owned cigarette operations in terms of tobacco supplies and tax reductions.

Production

General

1997 and 1998 production and trade data in the attached PS&D tables have been revised following the release of official statistics or are based on information from industry and trade sources.

Based on official data, the 1998 Romanian tobacco production (farm sales) is preliminary estimated by AgOffice Bucharest at 17,500 MT, down one percent from the revised 1997 crop, primarily due to a four percent reduction of the planted area. Crop prospects in 1998 were negatively affected by unfavorable weather during the growing season (excessive rains in June, followed by severe drought in July-August). Tobacco average yields continue to remain low (1.25-1.3 MT per hectare), primarily because of low input utilization. Because tobacco farms are small (less than half a hectare on average), producers are not able to spend money on mechanization; therefore, almost all crop practices are performed by hand.

Current information indicate that tobacco producers will plant this year about 14,000 hectares or four percent more than in 1998. The increased acreage is the result of higher producer prices anticipated for 1999 crop. Assuming normal climatic conditions, AgOffice Bucharest estimates this year's tobacco crop at 18,200 MT.

We do not expect significant changes during the 1999 crop year. The Romanian Tobacco National Company (RTNC) which is a state-owned organization announced recently that it will offer tobacco producers an average price of \$0.77 per kilogram of tobacco (green leaf) for any quantity. This price level is up \$0.03 compared to 1998. Although the returns of tobacco crop are higher compared to other crops, producers are unable to significantly expand the planted area because they do not have enough manpower to perform all agricultural practices.

In 1998, Romania produced an estimated 36 billion pieces of cigarettes, up 18 percent compared to 1997, as a result of larger tobacco leaf imports. Domestic 1999 cigarette production is projected by AgOffice at 34.5 billion pieces, down 1.5 billion pieces compared to 1998, as a result of smaller imports of tobacco projected for 1999. However, compared to 1996, when Romania produced 20.5 billion cigarettes, the 1999 anticipated production will be about 68 percent higher and is the effect of GOR's taxation policy which favors domestic production versus imported cigarettes and also due to the growing demand for cheaper cigarettes.

Privatization of the Romanian cigarette industry is in the final stage. The GOR currently retains ownership of six cigarette plants and eight curing plants. Current plans indicate that these facilities will be largely privatized by the end of the year 2000. Most of these operations, will be likely sold to foreign investors.

Due to lack of funds, state-owned cigarette plants' efforts to remodel equipment and technology has been relatively slow. Although the local industry has access to such inputs as filter tow, cigarette paper and packaging material, the quality of locally-produced cigarettes is much below imported brands. The percentage of filter-tipped cigarettes of the total domestic production is estimated by industry sources at about 86 percent.

Foreign investors, including American companies, have invested in Romania, building modern cigarette plants, which currently employ thousands of people. The product portfolio includes international brands such as Marlboro, Camel and L&M..

Policy

The GOR is constantly increasing excise and other taxes for cigarettes, in an attempt to raise more revenues for the budget. In October 1998, the GOR enacted a regulation which offered a 35 percent reduction of the excise tax to those manufacturers who use at least 50 percent domestic tobacco in their cigarette plants. Foreign companies who have manufacturing facilities in Romania protested this decision of the GOR which was considered discriminatory. They claimed that the state-owned Romanian Tobacco National Company, through its monopolistic infrastructure purchases about 90 percent of domestic tobacco production and, therefore, it has a preferential position by paying lower taxes. Foreign companies stated that the legislation is a clear discrimination against foreign investors and violates international agreements. The GOR replied that its decision is not unfair and is aimed at encouraging domestic tobacco production. As of this date, the GOR has not amended the text of this regulation. Recent discussions with foreign cigarette companies operating in Romania indicated that they stopped to appeal this decision of the GOR hoping that the privatization of the industry will eliminate this discrimination.

Consumption

Current retail prices of leading cigarette brands sold locally are as following (in US Dollars per pack):

- local brands: \$0.25-0.45;
- BT: \$0.60-0.70;
- Monte Carlo: \$0.65-0.75;
- Pall Mall: \$0.65-0.75;
- Winston: \$0.65-0.75;
- L&M: \$0.65-0.75;
- Kent: \$1.05-1.20;
- Marlboro: \$1.05-1.20;
- Dunhill: \$1.50-1.65;
- Rothmans: \$1.50-1.65.

According to official fiscal sources, cigarette sales generated to the state in 1998 about \$335 million through taxes.

Trade

According to trade data, Romania imported about 25,000 MT of unmanufactured tobacco in 1998. The main suppliers of tobacco to Romania were EU, CEFTA, Moldova and Turkey who have tariff-rate quotas or no duties. Major suppliers of cigarettes to Romania are Germany, United States, Greece, Cyprus, Belgium, Bulgaria and Moldova.

1998 cigarette imports were estimated by the trade at 6 billion pieces, unchanged from 1997. Cigarette traders forecasted that because of continued reduction of standard of living, Romania will probably import in 1999 about 5.5 billion pieces. The GOR efforts to curb cigarette fraud and smuggling will also have a negative impact on the level of 1999 cigarette imports.

1999 Romanian import duties for unmanufactured tobacco and cigarettes are unchanged from 1998 and are as following:

HTS Code	Item	Regular Duty (Pct.)	GSP Duty (Pct.)	P 16 Duty (Pct.)
24.01	Tobacco, unmgf.	30	24	21
2402.20.10	Cigarettes	98	98	98

Romania has negotiated tariff-rate quotas for imports of unmanufactured tobacco. These quotas/duties are as following:

- EU: 18.8 percent for 2,500 MT;
- Turkey: 18.8 percent for 500 MT;
- Bulgaria: 25 percent for 250 MT;
- Hungary: 20 percent for 300 MT;
- Moldova: zero duty (no quota).

Following are the current taxes paid by domestic cigarette manufacturers compared to imported cigarettes:

- for 1,000 domestic cigarettes: a fixed excise tax of Rlei 119,200 (or about \$7.50 at the current exchange rate) plus a variable excise tax of 20 percent of the ex-work price. A 35 percent discount is offered for those brands who use at least 50 percent domestic tobacco in their recipes.
- for 1,000 imported cigarettes: Rlei 119,200 (about \$7.50) plus 98 percent import duty plus four percent import surcharge (for all imports) plus a variable excise tax of 20 percent of the import price.

The import duty, the four percent import surcharge and the 20 percent variable tax are calculated

using the following custom reference prices:

- for superior cigarettes: \$15/1,000 cigarettes;
- for medium quality \$10/1,000 cigarettes;
- for lower quality \$5-7/1,000 cigarettes.

The Rlei 119,200 tax is reviewed periodically by the MinFinance based on the inflation rate and local currency devaluation.

Both domestic and imported cigarettes are also subject to a 22% VAT.

Following is a comparison of total taxes paid for 1,000 domestic versus imported cigarettes, using an average ex-work price of \$5.00/1,000 cigarettes and the the above custom reference prices:

- domestic cigarettes: \$7.50 (fixed excise tax) plus \$1.00 (20% variable excise tax) equals \$8.50 times 22% VAT totals \$10.37;
- imported cigarettes (medium quality): \$7.50 (fixed excise tax) plus \$2.00 (20% variable excise tax) plus \$10.20 (the 98% import duty plus the 4% import surcharge) equals \$19.70 times 22% VAT totals \$24.03;
- imported cigarettes (superior quality) \$7.50 (fixed excise tax) plus \$3.00 (20% variable excise tax) plus \$15.30 (the 98% import duty plus 4% import surcharge) equals \$25.80 times 22% VAT totals \$31.48.

Stocks

The data on stocks in the attached PSD tables are AgOffice estimates, based on information from industry and trade sources. Stocks of unmanufactured tobacco are held mostly by leaf processors while cigarette stocks are mainly held by importers and distributors.

Marketing

Marketing opportunities will continue to exist for U.S. cigarettes because of the much higher quality compared to local production. According to industry and trade sources, prospects to export U.S. tobacco to Romania are almost non-existent, reportedly because EU and CEFTA countries have tariff-rate quotas which gives them a competitive advantage. At the same time, the high price of U.S. tobacco and higher transportation cost are also considered as constraints.

In addition to measures aimed at curbing cigarette fraud and smuggling, the GOR has also restricted cigarette advertising and smoking in some public places. However, enforcement of these measures has been lax and it has not yielded the expected results. Therefore, we anticipate that cigarette marketing will continue to be a very profitable venture in Romania.

Production Table						
Country:	Romania					
Commodity:	Flue Cured					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin						
Area Planted	3800	4500	3900	4400	0	4500
Beginning Stocks	1800	1800	1850	2500	1800	3000
Farm Sales Weight Prod	4800	5500	5100	5400	0	5600
Dry Weight Production	4320	4950	4590	4860	0	5040
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	2700	3800	3000	5200	0	4000
TOTAL Imports	2700	3800	3000	5200	0	4000
TOTAL SUPPLY	8820	10550	9440	12560	1800	12040
Exports	0	0	0	0	0	0
Dom. Leaf Consumption	4270	4250	4640	4360	0	4840
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	2700	3800	3000	5200	0	4000
TOTAL Dom. Consumption	6970	8050	7640	9560	0	8840
TOTAL Disappearance	6970	8050	7640	9560	0	8840
Ending Stocks	1850	2500	1800	3000	0	3200
TOTAL DISTRIBUTION	8820	10550	9440	12560	0	12040

Production Table						
Country:	Romania					
Commodity:	Burley					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin						
Area Planted	3200	3800	3250	3500	0	3800
Beginning Stocks	2100	2100	2200	2600	2300	4000
Farm Sales Weight Prod	3700	4700	3800	4800	0	5000
Dry Weight Production	3330	4230	3420	4320	0	4500
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	1900	3500	2500	6000	0	4500
TOTAL Imports	1900	3500	2500	6000	0	4500
TOTAL SUPPLY	7330	9830	8120	12920	2300	13000
Exports	0	0	0	0	0	0
Dom. Leaf Consumption	3230	3730	3230	2920	0	4100
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	1900	3500	2500	6000	0	4500
TOTAL Dom. Consumption	5130	7230	5730	8920	0	8600
TOTAL Disappearance	5130	7230	5730	8920	0	8600
Ending Stocks	2200	2600	2300	4000	0	4400
TOTAL DISTRIBUTION	7330	9830	8030	12920	0	13000

Production Table						
Country:	Romania					
Commodity:	Dark Air & Sun Cured					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin						
Area Planted	2420	2980	2550	3100	0	2800
Beginning Stocks	2550	2550	2800	3100	2800	4300
Farm Sales Weight Prod	2650	3600	2850	3700	0	3600
Dry Weight Production	2385	3240	2565	3330	0	3240
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	2500	4300	2500	4800	0	4500
TOTAL Imports	2500	4300	2500	4800	0	4500
TOTAL SUPPLY	7435	10090	7865	11230	2800	12040
Exports	0	0	0	0	0	0
Dom. Leaf Consumption	2135	2690	2565	2130	0	2840
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	2500	4300	2500	4800	0	4500
TOTAL Dom. Consumption	4635	6990	5065	6930	0	7340
TOTAL Disappearance	4635	6990	5065	6930	0	7340
Ending Stocks	2800	3100	2800	4300	0	4700
TOTAL DISTRIBUTION	7435	10090	7865	11230	0	12040

PSD Table						
Country:	Romania					
Commodity:	Tobacco, Unmfg.					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Area Planted	11560	13980	12000	13450	0	14000
Beginning Stocks	7500	7500	8250	10000	0	14000
Farm Sales Weight Prod	13980	17700	14750	17500	0	18200
Dry Weight Production	12585	15930	13275	15750	0	16380
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	11800	18000	13000	25000	0	20000
TOTAL Imports	11800	18000	13000	25000	0	20000
TOTAL SUPPLY	31885	41430	34525	50750	0	50380
Exports	0	0	0	0	0	0
Dom. Leaf Consumption	11835	13430	13125	11750	0	15380
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	11800	18000	13000	25000	0	20000
TOTAL Dom. Consumption	23635	31430	26125	36750	0	35380
TOTAL Disappearance	23635	31430	26125	36750	0	35380
Ending Stocks	8250	10000	8400	14000	0	15000
TOTAL DISTRIBUTION	31885	41430	34525	50750	0	50380

Import Trade Matrix			
Country:	Romania	Units:	Metric Tons
Commodity:	Tobacco Unmanufactured		
Time period:			
Imports for	1997		1998
U.S.	0	U.S.	0
Others		Others	
Italy	6,500		8,000
Moldova	2,800		6,000
Greece	3,800		4,500
Turkey	850		2,000
Bulgaria	500		900
Hungary	500		900
China	700		600
Albania	600		500
Total for Others	16250		23400
Others not listed	1,750		1,600
Grand Total	18000		25000

Tobacco Production Table						
		Area Planted			Production	
		Hectares			Metric Tons	
	1997	1998	1999	1997	1998	1999
Burley	3800	3500	3800	4700	4800	5000
Dark Air/Sun-Cured	2980	3100	2800	3600	3700	3600
Light Air-Cured	0	0	0	0	0	0
Dark Air-Cured, Cigar	0	0	0	0	0	0
Flue-Cured	4500	4400	4500	5500	5400	5600
Dark Fire-Cured	0	0	0	0	0	0
Oriental	2700	2450	2900	3900	3600	4000
Total	13980	13450	14000	17700	17500	18200

PSD Table						
Country:	Romania					
Commodity:	Tobacco, Mfg., Cigarettes					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Filter Production	16500	25000	18000	31000	0	30000
Non-Filter Production	7000	5500	8000	5000	0	4500
TOTAL Production	23500	30500	26000	36000	0	34500
Imports	8000	6000	7000	6000	0	5500
TOTAL SUPPLY	31500	36500	33000	42000	0	40000
Exports	0	0	0	0	0	0
Domestic Consumption	31500	36500	33000	42000	0	40000
TOTAL DISTRIBUTION	31500	36500	33000	42000	0	40000

Import Trade Matrix			
Country:	Romania	Units:	Metric Tons
Commodity:	Cigarettes		
Time period:			
Imports for	1997		1998
U.S.	1,200	U.S.	1,000
Others		Others	
Germany	1,100		1,150
Switzerland	950		900
Greece	600		600
Cyprus	600		600
Belgium	500		500
Bulgaria	500		500
Moldova	250		300
Bahamas	100		200
Total for Others	4600		4750
Others not listed	200		250
Grand Total	6000		6000