



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 4/24/2000

GAIN Report #UZ0005

Uzbekistan, Republic of

Tobacco and Products

Annual

2000

Approved by: **Jim Dever, Ag Attache**

U.S. Embassy Islamabad, Pakistan

Prepared by: **Nizam Yuldashbayev, Ag Specialist**

U.S. Embassy Tashkent, Uzbekistan

Report Highlights:

Uzbekistan's MY 2000 tobacco production is forecast to decline to 22,000 metric tons (farm sales weight production) due to weather related problems as well as continuing problems with inputs and incentives. In spite of decrease in tobacco production CY 2000 cigarette production is forecast to increase to 10 billion pieces in response to stricter efforts to prevent smuggling. Tobacco imports are forecast to increase as British American Tobacco Uzbekistan plans production of some of its international brand filter cigarettes.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Islamabad [PK1], UZ

Table of Contents

TOBACCO	1
PRODUCTION	1
Table 1. Izmir Production (MT)	1
Table 2. Unmanufactured Tobacco PS&D	2
CONSUMPTION	2
Table 3. BATU's Procurement Prices for Green Tobacco (Som/kg)	3
TRADE	3
Table 4. 1998-1999 Tobacco Imports	3
Table 5. 1998-1999 Tobacco Exports	4
POLICY	4
STOCKS	4
CIGARETTES	5
PRODUCTION	5
Table 6. Cigarette PS&D	5
CONSUMPTION	6
Table 7. Retail Prices for BATU Brands (Soms per pack)	6
Table 8. Current Retail Prices for Leading Imports (Soms per pack)	6
TRADE	7

TOBACCO

PRODUCTION

Tobacco is an important cash crop in Uzbekistan. Urgut, located in the Samarkand region at the foothills of the Pamir mountains, is the main tobacco-growing area. Oriental is the only type of tobacco produced. "Dubek," a semi-oriental tobacco, characteristically higher in tar, is the main variety. Beginning in 1996, a new Turkish variety 'Izmir' was introduced and has been very successful.

Table 1. Izmir Production (MT)

	1996	1997	1998	1999	2000
IZMIR	8	187	597	1200	1800

MY 2000 tobacco production is forecast to decline slightly to about 22,000 MT (farm sales weight) due to dry weather as well as to continuing problems with input supply and inadequate incentives. Crop quality, however, is forecast to gradually improve in response to the extension services provided by the main cigarette manufacturer, British American Tobacco Uzbekistan (BATU).

Table 2. Unmanufactured Tobacco PS&D

PSD Table						
Country:	Uzbekistan, Republic of					
Commodity:	Tobacco, Unmfg.					
		1998		1999		2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Planted	9000	9000	6700	6700	0	6700
Beginning Stocks	5416	5416	8816	8816	0	6616
Farm Sales Weight Prod	28000	28000	23000	23000	0	22000
Dry Weight Production	23000	23000	19300	19300	0	19000
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	3600	3600	4000	4000	0	4500
TOTAL Imports	3600	3600	4000	4000	0	4500
TOTAL SUPPLY	32016	32016	32116	32116	0	30116
Exports	14400	14400	16500	16500	0	16500
Dom. Leaf Consumption	5200	5200	5000	5000	0	5300
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	3600	3600	4000	4000	0	4500
TOTAL Dom. Consumption	8800	8800	9000	9000	0	9800
TOTAL Disappearance	23200	23200	25500	25500	0	26300
Ending Stocks	8816	8816	6616	6616	0	3816
TOTAL DISTRIBUTION	32016	32016	32116	32116	0	30116

CONSUMPTION

Uzbekistan's MY 2000 total tobacco consumption is forecast to increase to 9,800 MT mainly due to an expected increase in BATU's consumption as part of a strategy to regain a larger share of the domestic market. Sources estimate that in the past about 5,000-5,500 MT of tobacco was used to produce cigarettes and the remainder was exported. Cigarette consumption is estimated to be increasing at 2-3 percent annually, which is slightly below the estimated population growth rate. All tobacco procured by BATU is air dried and then sent to its Urgut Tobacco Fermentation plant. In addition, there are small fermentation facilities which are used by other local companies.

In MY 1999 the price paid for 1st grade tobacco leaf (1998 crop) was Soms 230 per kilogram. The MY 2000 procurement price for the 1st grade tobacco leaf is expected to be about 20 percent higher due to expected lower production.

Table 3. BATU's Procurement Prices for Green Tobacco (Som/kg)

GRADE		1997	1998	1999
1		120	140	230
2		100	110	200
3		88	88	135
4		66	60	90
Official Exchange Rate = Soms	\$1	100	115	149

TRADE

Official tobacco leaf trade data is not available. Industry sources indicate that CY 1999 imports of raw tobacco increased to 4,000 MT, compared to 3,600 in CY 1998. CY 2000 imports are forecast at 4,500 MT. The increase in imports is due largely to the expected increase in the production of international brand cigarettes. Burley, Virginia and oriental tobaccos are imported, mainly from India, Greece, Spain, Moldova and Turkey, to produce these international brands.

CY 1999 tobacco leaf exports are now estimated at 16,500 MT and are expected to remain at almost the same level in CY 2000. The primary destinations are reported to be Russia and Ukraine. Exports are generally becoming less profitable because of high processing costs and the application of the Central Bank's (lower) exchange rate.

Table 4. 1998-1999 Tobacco Imports

Import Trade Matrix			
Country:		Units:	Metric Tons
Commodity:			
Time period:	Jan-Dec		
Imports for	1998		1999
U.S.		U.S.	
Others		Others	
Turkey	600	Turkey	1200
Total for Others	600		1200
Others not listed	3000		2800
Grand Total	3600		4000

Table 5. 1998-1999 Tobacco Exports

Export Trade Matrix			
Country:		Units:	Metric Tons
Commodity:			
Time period:	Jan-Dec		
Exports for	1998		1999
U.S.		U.S.	
Others		Others	
Russian Fed	12000	Russian Fed	10000
Total for Others	12000		10000
Others not listed	2400		6500
Grand Total	14400		16500

Sources: Trade and industry related sources

POLICY

As part of the joint venture agreement, BATU is not required to pay import duties on inputs and equipment for five years. The Government recently extended BATU duty-exempt status until November 2004. BATU also maintains the exclusive right to grow, procure, process and export Turkish variety 'Izmir' for 10 years. The current duty (in effect since February 24, 1998) for unmanufactured tobacco (2401) is zero, with a 20 percent VAT. The GOU does not prohibit tobacco exports. The tax on exports of fermented tobacco was reduced to zero in July, 1995.

STOCKS

No official stock data is available. Stocks are calculated as a residual since stock information is considered proprietary.

CIGARETTES**PRODUCTION****Table 6. Cigarette PS&D**

PSD Table						
Country:	Uzbekistan,					
Commodity:	Tobacco, Mfg., Cigarettes					
		1998		1999		2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Filter Production	4235	4235	5115	5700	0	6000
Non-Filter Production	3465	3465	4185	3800	0	4000
TOTAL Production	7700	7700	9300	9500	0	10000
Imports	8300	8300	7700	7500	0	7500
TOTAL SUPPLY	16000	16000	17000	17000	0	17500
Exports	16	16	400	400	0	800
Domestic Consumption	15984	15984	16600	16600	0	16700
TOTAL DISTRIBUTION	16000	16000	17000	17000	0	17500

In an effort to develop the tobacco industry, the Government of Uzbekistan (GOU) established a joint-venture company (BATU) with British American Tobacco (BAT) in 1994. Over the last four years, BATU has invested about \$247 million in Uzbekistan's tobacco industry. Major investments include: renovation of the Tashkent cigarette factory and the Urgut tobacco fermentation plant and construction of the new cigarette factory in Samarkand with the annual production capacity of 12 billion pieces.

BATU's MY 2000 cigarette production is forecast to increase to 10.0 billion pieces, largely as a result of stricter government measures to control illegal imports. In 1999, BATU began to shift production from its Tashkent plant to the new plant in Samarkand and now is converting the Tashkent plant to a marketing and distribution center. BATU currently produces 6 brands: two local filter brands "Xon" (21 percent market share) and "Xon Lights" (9 percent market share), three local non-filter brands "Astra", "Saraton" and "Karvon", and international filter brand "Hollywood." In the near future BATU is planning to launch the production of the new local filter cigarettes "Karvon'." BATU imports its international brand "Kent Super Lights" and is planning to start production of another international brand "Lucky Strike" by the end of 2000. In addition, BATU currently is developing local sources for inputs, including cigarette paper, packaging, labels and other materials with the aim of procuring 50 percent of requirements locally by 2003.

CONSUMPTION

Uzbekistan's CY 1999 total domestic cigarette consumption is estimated at 16.6 billion pieces. CY 2000 total domestic consumption is forecast to increase slightly to 16.7 billion pieces. With over 50 brands available, there is strong competition among brands as well as between imported (included smuggled) and domestically-produced cigarettes.

Table 7. Retail Prices for BATU Brands (Soms per pack)

BRAND	1999 Price	2000 Price
Astra (non-filter)	35.00	90.00
Karvon (non-filter)	-	100.00
Saraton (non-filter)	40.00	110.00
Xon	75.00	200.00
Xon Lights	125.00	250.00
Hollywood	140.00	300.00

Table 8. Current Retail Prices for Leading Imports (Soms per pack)

BRAND	Price
Pall Mall	800.00
Marlboro	870.00
Lucky Strike	600.00
L&M	500.00
Kent	700.00
Camel	750.00

Official exchange rate : \$ 1.00 = Soms 148.82

Black market rate: \$ 1.00 = Soms 700.00

In accordance with international standards, most locally produced cigarettes carry a health warning as well as tar and nicotine content on the package. There are restrictions on advertising cigarettes as well.

TRADE

About half of Uzbekistan's tobacco trade involves cigarettes. Currently about half of the 16.6 billion cigarettes Uzbeks smoke are imported, often bypassing necessary custom formalities. Since many of the imports are smuggled, official (and even unofficial) trade data is not very reliable. Industry experts believe imports will continue their downward trend in response to the government's stricter enforcement of import regulations. Current tariffs and charges for imported cigarettes (2402) are as follows: duty - 30 percent, VAT - 20 percent, Excise Tax - 50 percent. The excise tax for domestically-produced filter cigarettes is 40 percent and 25 percent for non-filtered cigarettes.

Cigarette exports have fallen short of expectations due to the problem of double taxation on trade within the Commonwealth of Independent States (CIS). To remedy this problem, Uzbekistan has signed agreements with Azerbaijan and Kyrgyzstan and, as a result, in 1999 the cigarettes exports increased to 0.4 billion pieces. Cigarette export data also is not available. Neighboring CIS countries, including Turkmenistan, Kyrgyzstan, Kazakhstan, Georgia and Azerbaijan, are reportedly the main destinations.

As with all investment in Uzbekistan, convertibility of the Som is a major problem for BATU. Central Bank regulations allow only companies possessing a special licence to convert only a limited amount of local currency. According to industry officials, the convertibility problem seriously affects the production and sale of cigarettes and hampers imports of raw materials. The lack of convertibility also encourages a black market exchange, where the rate of exchange (\$1 = Soms 700) is nearly more than four times the official rate (\$1 = Soms 148).