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Thailand

Tobacco and Products

Annual

2000

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Report Highlights:

The report depicts the outlook for unmanufactured tobacco and manufactured cigarettes in Thailand in MY 2000.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Bangkok [TH1], TH

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Executive Summary

Thailand's total tobacco production for MY 2000 is estimated to decline sharply, due to a continued reduction in tobacco quota allocated by Thailand Tobacco Monopoly (TTM), a gloomy outlook for export, and unfavorable climatic conditions. Thai tobacco industry is likely to struggle for its survival in years to come, given a declining domestic demand from TTM and its prevailing high production cost (especially flue cured tobacco). Several large flue cured producers have replaced their traditional curing barns with the more effective bulk curing system. In addition, exporters began to promote the production of semi-flavored type flue cured and export it to ASEAN countries, in which Thailand will enjoy reduced import duties under the AFTA pact.

Total domestic consumption for all types of tobacco is estimated to drop in 2000 in line with an anticipation of continued decline in TTM's cigarette production. Meanwhile, exports of tobacco should also decrease due to an anticipated sluggish export demand. After a sharp reduction in TTM's tobacco imports in 1999, TTM may increase its purchase of foreign tobacco slightly in 2000. Although most imported tobacco comes from the U.S. tobacco, TTM continued to make efforts to source its tobacco imports from other suppliers, especially China.

TTM's cigarettes sales have been jeopardized by foreign brand cigarettes and an emergence of contraband cigarette sales against its popular brands in recent years. TTM's cigarette production is estimated to drop further in 2000, accordingly. By contrast, imports of cigarette should be on the rise.

As a result of TTM's move, the Customs Department raised price uplifts on most imported cigarettes. This practice is considered as a discriminatory action which effectively and unfairly blocks trade in cigarettes in favor of TTM's cigarettes.

PSD Table						
Country	Thailand					
Commodity	Tobacco, Unmfg., Total		(HA)(MT)			
	Revised1998		Preliminary1999		Forecast2000	
	Old	New	Old	New	Old	New
Market Year Begin	01/1998		01/1999		01/2000	
Area Planted	51000	0	51800	51300	0	43300
Beginning Stocks	23864	23864	34652	34652	40777	45232
Farm Sales Weight Prod	67600	67600	61000	62100	0	46100
Dry Weight Production	59428	59428	53610	54587	0	40531
U.S. Leaf Imports	7661	7661	5083	3265	0	3300
Other Foreign Imports	1000	1000	177	177	0	430
TOTAL Imports	8661	8661	5260	3442	0	3730
TOTAL SUPPLY	91953	91953	93522	92681	40777	89493
Exports	28516	28516	27400	21559	0	16800
Dom. Leaf Consumption	22982	22982	20235	20503	0	19400
U.S. Leaf Dom. Consum.	5803	5803	4950	5227	0	4760
Other Foreign Consump.	0	0	160	160	0	340
TOTAL Dom. Consumption	28785	28785	25345	25890	0	24500
TOTAL Disappearance	57301	57301	52745	47449	0	41300
Ending Stocks	34652	34652	40777	45232	0	48193
TOTAL DISTRIBUTION	91953	91953	93522	92681	0	89493

PSD Table						
Country	Thailand					
Commodity	Tobacco,Unmfg.,Flue Cured		(HA)(MT)			
	Revised1998		Preliminary1999		Forecast2000	
	Old	New	Old	New	Old	New
Market Year Begin	01/1998		01/1999		01/2000	
Area Planted	20800	20800	21500	21500	0	19500
Beginning Stocks	8712	8712	11112	11319	13872	15121
Farm Sales Weight Prod	25000	25000	23000	23000	0	20000
Dry Weight Production	22000	22000	20240	20240	0	17600
U.S. Leaf Imports	3500	3725	2500	2022	0	1800
Other Foreign Imports	1200	1000	160	177	0	300
TOTAL Imports	4700	4725	2660	2199	0	2100
TOTAL SUPPLY	35412	35437	34012	33758	13872	34821
Exports	8000	10424	8000	6402	0	5000
Dom. Leaf Consumption	12900	10801	9580	9504	0	8950
U.S. Leaf Dom. Consum.	3400	2893	2400	2571	0	2360
Other Foreign Consump.	0	0	160	160	0	240
TOTAL Dom. Consumption	16300	13694	12140	12235	0	11550
TOTAL Disappearance	24300	24118	20140	18637	0	16550
Ending Stocks	11112	11319	13872	15121	0	18271
TOTAL DISTRIBUTION	35412	35437	34012	33758	0	34821

PSD Table						
Country	Thailand					
Commodity	Tobacco, Unmfg., Burley		(HA)(MT)			
	Revised1998		Preliminary1999		Forecast2000	
	Old	New	Old	New	Old	New
Market Year Begin	01/1998		01/1999		01/2000	
Area Planted	14400	14400	14700	14700	0	14000
Beginning Stocks	7453	7453	10893	15138	13533	20504
Farm Sales Weight Prod	33000	33000	28000	30000	0	20000
Dry Weight Production	29040	29040	24640	26400	0	17600
U.S. Leaf Imports	3500	3936	2600	1243	0	1500
Other Foreign Imports	0	0	0	0	0	130
TOTAL Imports	3500	3936	2600	1243	0	1630
TOTAL SUPPLY	39993	40429	38133	42781	13533	39734
Exports	16000	14314	15000	12343	0	8000
Dom. Leaf Consumption	9600	8067	7050	7278	0	6910
U.S. Leaf Dom. Consum.	3500	2910	2550	2656	0	2400
Other Foreign Consump.	0	0	0	0	0	100
TOTAL Dom. Consumption	13100	10977	9600	9934	0	9410
TOTAL Disappearance	29100	25291	24600	22277	0	17410
Ending Stocks	10893	15138	13533	20504	0	22324
TOTAL DISTRIBUTION	39993	40429	38133	42781	0	39734

PSD Table						
Country	Thailand					
Commodity	Tobacco, Unmfg., Oriental			(HA)(MT)		
	Revised1998		Preliminary1999		Forecast2000	
	Old	New	Old	New	Old	New
Market Year Begin	01/1998		01/1999		01/2000	
Area Planted	15000	14500	14500	14000	0	8800
Beginning Stocks	7676	7676	7676	8174	8401	9586
Farm Sales Weight Prod	10000	9000	9500	8600	0	5700
Dry Weight Production	8700	7830	8265	7482	0	4959
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	16376	15506	15941	15656	8401	14545
Exports	3800	3278	4000	2414	0	3500
Dom. Leaf Consumption	4900	4054	3540	3656	0	3470
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	0	0	0	0	0	0
TOTAL Dom. Consumption	4900	4054	3540	3656	0	3470
TOTAL Disappearance	8700	7332	7540	6070	0	6970
Ending Stocks	7676	8174	8401	9586	0	7575
TOTAL DISTRIBUTION	16376	15506	15941	15656	0	14545

PSD Table						
Country	Thailand					
Commodity	Unmfg.,Dark Air Cured,Cigar		(HA)(MT)			
	Revised1998		Preliminary1999		Forecast2000	
	Old	New	Old	New	Old	New
Market Year Begin	01/1998		01/1999		01/2000	
Area Planted	1300	1300	1100	1100	0	1000
Beginning Stocks	23	23	21	21	21	21
Farm Sales Weight Prod	600	600	500	500	0	400
Dry Weight Production	558	558	465	465	0	372
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	581	581	486	486	21	393
Exports	500	500	400	400	0	300
Dom. Leaf Consumption	60	60	65	65	0	70
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	0	0	0	0	0	0
TOTAL Dom. Consumption	60	60	65	65	0	70
TOTAL Disappearance	560	560	465	465	0	370
Ending Stocks	21	21	21	21	0	23
TOTAL DISTRIBUTION	581	581	486	486	0	393

Unmanufactured Tobacco

Production

Thailand's total tobacco production for 2000 (1999/2000, harvested) is estimated to decline again, the third consecutive year, due to a continued reduction in tobacco quota allocated by Thailand Tobacco Monopoly (TTM), a gloomy outlook for export, and unfavorable climatic conditions. Farmers responded to TTM's decreased quota and exporters' advise by subtracting their growing areas. Meanwhile, excessive rainfalls badly affected tobacco production by delaying planting and subsequent crop destruction. As a result, overall productivity in MY 2000 decreased, leading to an increase in production cost for the whole tobacco industry.

Thai tobacco industry is likely to struggle for its survival in years to come. Given a likelihood of declining domestic demand from TTM, the industry may need to increase its exposure to free-trade export market. Thus far, tobacco producers have enjoyed lucrative prices from TTM through its subsidized quota allocation, and in turn received lower prices for tobacco leaves being sold to exporters. Post believes that, as the size of tobacco quota is reduced, tobacco prices paid by exporter must be in line with international market. Likewise, tobacco growers/producers need to keep their production cost competitive with those in other supplying countries.

There has been little improvement in tobacco productivity and quality on a country-wide basis. Only large producers have made an effort for flue cured tobacco. It will continue to be difficult for small flue cured farmers to make any improvement due to a lack of money. This is also the case for burley and oriental tobacco, as all of production is derived from small farms. However, trade sources believe that the future of burley tobacco in Thailand may be relatively brighter than flue cured and oriental as production costs and quality remain competitive in the global market.

Following are the Area and Farm Sale Weight Production tables for all types of tobacco in Thailand in MY 2000:

	AREA (Hectares)			FSW PRODUCTION (Tons)		
	1998	1999	2000	1998	1999	2000
Flue cured	20800	21500	19500	25000	23000	20000
Burley	14400	14700	14000	33000	30000	20000
Oriental	14500	14000	8800	9000	8600	5700
Dark Air Cured	1300	1100	1000	600	500	400
TOTAL	51000	51300	43300	67600	62100	46100
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Flue cured production in 2000 is estimated to decline by 13 percent, reflecting both reduced planted area and yields. A decrease in TTM's quota and relatively sluggish export prospect in the beginning of the crop year discouraged the planting intention by large and small curers. In addition, heavy rains from September to November, 1999 prevented farmers from transplanting the early-crop and middle-crop tobacco, pushing back a growing period by 4-6 weeks and leaving a portion of growing area idled. Middle-crop tobacco production was also badly affected by extremely cold weather in December, 1999. As a result, the average yields for MY 2000 are estimated to drop slightly from the MY 1999's level. The crop quality for MY 2000 has been reportedly worse than the previous year, following relatively colder weather which generated a high portion of defected leaves and unfavorable leave structure. Fewer expenses on fertilizer and pesticides were offset by decreased yields in processing dry leaves from green leaves. As a result, the average production cost of flue cured tobacco under the traditional curing facilities in 1999/2000 were close to the 1998/99 level, i.e., 57-59 baht/kg (69-71 cents/pound). By contrast, the production cost of flue cured derived from the bulk curing facilities were only 50-54 baht/kg (60-65 cents/pound).

As mentioned earlier in FAS/Bangkok's annual reports, the flue cured industry has some development in its struggle for the future survival. Firstly, at least 10 large flue curers have thus far replaced their traditional curing barns with the bulk curing system. Although the new system requires much more investments (about USD 110,000-130,000 per unit) than the traditional system, it effectively reduces the costs of fuel and labor, and increases the yields of cured tobacco. Total numbers of the new curing facilities have reached 50 units. Production of dry flue cured leaves from these new facilities are 3.5-4.0 million kilograms, accounting for about 20 percent of total production. Secondly, both TTM and some large curers have also made the effort to improve tobacco farming. Beginning in CY 1998/99, TTM has promoted a new flue cured variety and growing technique to their contracted farmers (mostly small curers) in CY 1999/2000. The project is aimed at improving Thai flue cured tobacco from the current filler type to semi-flavored type. They believe that, if they succeed, this improved tobacco will be good enough to substitute for imported tobacco leaves and to be exported as a semi-flavor type. However, past history casts some doubt on TTM's effort. By contrast, existing exporters began to promote production of semi-flavored types of tobacco through large curers in CY 1999/2000. According to the large curers, this project may be a new bridge for Thai tobacco (especially flue cured) to survive in terms of adding higher value to tobacco leaves. As Thailand is able to enjoy reduced import duties in other ASEAN countries under the provisions of the AFTA pact, it may begin to supply semi-flavored type tobacco to Malaysia, Philippines, and Indonesia, which are now the production bases for international-brand cigarettes. It is estimated that these curers produced about 100-150,000 kilograms of semi-flavored tobacco in CY 1999/2000 and sold to exporters at 60 baht/kg, as opposed to 45-50 baht/kg for traditional types of tobacco.

All flue cured production is centered in the High Northern provinces and is divided into early, middle, and late season crops. The early crop, planted on hilly or inclined lands in August-September, is preferred by both the sole domestic user and exporters due to its thin body and aroma. However, a portion of early crop production has been limited by its higher production cost and high risk in production. The middle and late crops are seeded in October-November and December-January, respectively, following the rice harvest. TTM remains the major buyer of all Thai tobacco, acquiring flue cured leaf through allocating production quotas to small contract

farmers and large curers. Most large curers also contract production with local growers, buy green leaf and cure it. They then sell the dried leaf to TTM and exporters.

Burley production for MY 2000 is estimated to decline by 33 percent to 20,000 tons (FSW basis), due mainly to decreased growing area and disastrous weather conditions. A sharp reduction in TTM's quota (by about 10,000 tons) forced several farmers to replace a portion of tobacco area with other crops. Flooding in February, 2000 wiped out half of planted area in Sukhothai province. Burley tobacco in these affected areas was primarily the late season crop which was almost fully grown. However, growing conditions in Phetchabun province, which is also a major burley growing area, was reportedly favorable. All in all, average yields per planted area dropped markedly. The production cost of burley in MY 2000, accordingly, is estimated to increase from 34-37 baht/kg (41- 45 cents/pound) in 1999 to 38-40 baht/kg (46- 48 cents/pound). Crop quality for burley was generally worse in MY 2000 than the previous year due to weather problems in Sukhothai. The quality of burley leaf grown in Sukhothai is usually better than that of burley grown in Phetchabun. In addition, both exporters and TTM are making an effort to control the level of chemical residues in tobacco leaf after the residue, called Cypermethrin, was found in unacceptable levels on a shipment of burley exported to the U.S. In addition to educating farmers on their pesticide application, exporters are conducting a laboratory test on forbidden chemical residues for all shipments of tobacco (including flue cured and burley). The chemical residues being tested include Cypermethrin, Permethrin, Decamethrin, Ethylene Bisdithicarbonates, Profenofos, DDT, and Methamidophos.

Nearly all burley is grown in Phetchabun and Sukhothai Provinces, and consists of two main crops; early and late crops. The early crop is seeded in July-September and harvested in October-December while the late crop is planted in November-January and harvested in February-April. Although the early crop is of higher quality and farmers receive a premium for this crop, the higher risks involved (such as flooding and plant disease) limit the early crop production to about 10-15 percent of total burley production. Unlike flue cured tobacco, all burley production derives from small farmers. These growers usually produce dry burley leaves to fulfill their quota with TTM, and sell the rest of their production to exporters through local traders.

Consumption

Total domestic consumption for all types of tobacco is estimated to drop further in 2000 in line with an anticipation of continued decline in TTM's cigarette production. The table below details TTM's actual tobacco utilization by type of tobacco in 1998 and 1999. TTM's tobacco utilization for its cigarette manufacturing in 1999 continued to decrease from the 1998's level, but in a lesser extent. However, the rate of decline in tobacco leaf utilization in 1999 (10 percent) exceeds that of cigarette production (7 percent). This reflects TTM's effort to increase cigarette production per unit of tobacco leaf. In addition, the content of imported leaf in TTM's cigarette production increased from 20.19 percent of total tobacco use in 1998 to 20.85 percent. This higher content of foreign tobacco depicts an introduction of a new brand of cigarette production in order to compete with imported cigarettes.

	1998			1999		
	Local	Foreign	Total	Local	Foreign	Total
Flue Cured	10,801	2,893	13,694	9,504	2,731	12,235
%Change	(-28.5)	(-30.4)	(-28.9)	(-12.0)	(-5.6)	(-10.7)
Burley	8,067	2,910	10,977	7,278	2,656	9,934
%Change	(-29.0)	(-29.0)	(-29.0)	(-9.8)	(-8.7)	(-9.5)
Oriental	4,054	0	4,054	3,656	0	3,656
%Change	(-29.1)	(0)	(29.1)	(-9.8)	(0)	(-9.8)
Dark Air Cured	12	0	12	6	0	6
%Change	(-33.3)	(0)	(-33.3)	(-50.0)	(0)	(-50.0)
Total Tobacco	22,934	5,803	28,737	20,444	5,387	25,831
%Change	(-28.8)	(29.7)	(-29.0)	(-10.9)	(-7.2)	(-10.1)
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As indicated in the table below, the proportion of each type of tobacco used for TTM's cigarette production in 1999 slightly changed after it was stable from 1996-1998. In 1999, the percentage of burley use increased from 38 percent in 1998 to 39 percent, at the expense of the flue cured use. This fact is in line with increased market share of American blend cigarette sales (which favor the use of burley tobacco) from 95.7 percent in 1998 to 96.3 percent in 1999.

	Percentage of Each Type of Leaf to							
	All Tobacco Used for Cigarette Production							
	1993	1994	1995	1996	1997	1998	1999	2000
								(fore.)
Flue Cured	53	51	49	48	48	48	48	47
Burley	34	35	37	38	38	38	38	39
Oriental	13	14	14	14	14	14	14	14
TOTAL	100	100	100	100	100	100	100	100
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Reflecting its high stock level and an anticipated decline in tobacco use, TTM reduced its quota allocation for all kinds of tobacco. The table below showed that TTM's quota for 1999/2000 dropped by 16 % for flue cured, 52% for burley, and 36% for oriental tobacco, respectively.

	1998/99			1999/2000
	TTM's Quota (M.T.)	Actual Purchase (M.T.)	Average Prices (Baht/Kg)	TTM's Quota (M.T.)
Flue Cured	14,642	14,333	65.37	12,256
Burley	19,700	18,869	41.61	9,403
Oriental	4,600	3,757	38.93	2,927
TOTAL	38,942	36,959	50.51	24,586
Source: Thailand Tobacco Monopoly (TTM)				
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Due to its unfavorable cigarette sales, TTM withheld its prices list for all types of tobacco in MY 2000 (harvested, 1999/2000). Based on the present TTM's requirement that fixes a proportion of tobacco leaf by different grade, average prices for all tobacco in MY 2000 paid by TTM should be close to the MY 1999's level.

Despite a pressure from their high stocks and sluggish export prospects, exporters may not change buying prices for tobacco leaf which they are buying in MY 2000. However, trade sources report that exporters have thus far been inactive in buying and very restrictive in leaf grading. According to the Excise Department, average prices for flue cured paid by exporters dropped from 51.23 baht/kg (56 cents/pound) in 1998 to 42.38 baht/kg (51 cents/pound) in 1999. However, prices for burley paid by exporters in 1999 increased from 34.11 baht/kg (37 cents/pound) to 37.04 baht/kg (45 cents/pound).

Trade

In anticipation of sluggish export demand, Thailand's total tobacco exports (excluding dark air cured) are estimated to decline further in 2000 to 16,500 tons (22 percent). Exporters reported that demand for all types of tobacco in 2000 dropped sharply because of a worldwide supply surplus of tobacco, continued fierce competition from Brazilian and Chinese leaves, and the uncertainty in U.S. market derived from pending legislation on a local content requirement for manufacturing cigarettes in the U.S.

While Thailand has thus far exported filler-type tobacco to overseas market, TTM imports flavored-type tobacco (only flue cured and burley) for its cigarette blending. Despite a declining cigarette production, imports of flue cured and burley are forecast to increase in 2000 to 3,730 tons, as opposed to 3,442 tons in 1999. This is mainly because TTM may need to build up their stocks of imported burley this year after it reduced burley imports in 1999 (from 3,936 tons in 1998 to 1,243 tons). The U.S. should remain a major supplier of TTM's imports in 2000, accounting for about 90 percent of total imports. It should be noted that TTM continues its attempt to diversify sources of imported leaf from the U.S. only in the past to other sources, especially China. In 1999, TTM bought 177 tons of Chinese flue cured for its cigarette blending. It reportedly decided to purchase about 300 tons of Chinese flue cured for MY 2000. In addition, TTM began to import Chinese burley in MY 2000 (possibly about 130 tons). FAS/Bangkok believes that TTM cannot continue to import Chinese tobacco if TTM wants to improve the quality of its cigarettes to be competent with foreign cigarettes.

Following are the tables of export volume and value of tobacco by type in 1998 and 1999:

THAILAND: Export Volumes and Values of Total Tobacco (excl. dark air cured)				
	1998 (Jan-Dec)		1999 (Jan-Dec)	
	M.T.	US\$ 1,000	M.T.	US\$ 1,000
1. U.S.A.	7,456	18,006.44	5,345	10,731.15
2. Belgium	1,153	2,832.34	1,096	2,869.43
3. Canada	766	2,372.52	792	1,654.19
4. Egypt	608	1,028.16	1,433	2,280.71
5. Germany	1,575	4,141.53	1,784	3,696.74
6. France	2,135	4,803.76	1,207	2,647.95
7. U.K.	4,352	11,222.01	1,906	3,921.99
8. Japan	989	3,246.50	813	2,686.58
9. Malaysia	553	1,513.09	972	2,590.15
10. Russian Fed.	186	348.35	887	672.05
11. Taiwan	2,779	8,429.83	455	1,538.69
12. Others	5,464	13,153.96	4,469	10,941.86
TOTAL	28,016	71,098.49	21,159	46,231.49
1/ US\$ 1.0 = 41.30 Baht				
2/ US\$ 1.0 = 37.79 Baht				
Source: The Department of Customs				
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THAILAND: Export Volumes and Values of Flue Cured in 1998 and 1999				
	1998 (Jan-Dec)		1999 (Jan-Dec)	
	M.T.	US\$ 1,000	M.T.	US\$ 1,000
		1/		2/
1. U.S.A.	458	922.49	356	546.39
2. Australia	356	1,008.83	339	795.26
3. Belgium	819	1,919.23	866	2365.78
4. Germany	1,031	2,633.80	721	1559.22
5. Algeria	0	0.00	278	494.20
6. U.K.	2,024	5,650.27	973	2134.19
7. Japan	686	2,580.27	510	2060.70
8. Malaysia	121	276.10	253	632.57
9. Russian Fed.	186	348.35	289	361.52
10. Taiwan	2,779	8,429.83	455	1538.69
11. Others	1,964	4,419.90	1,362	2895.84
TOTAL	10,424	28189.07	6,402	15384.36
1/ US\$ 1.0 = 41.30 Baht				
2/ US\$ 1.0 = 37.79 Baht				
Source: The Department of Customs				
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THAILAND: Export Volumes and Values of Burley Tobacco				
	1998 (Jan-Dec)		1999 (Jan-Dec)	
	M.T.	US\$ 1,000	M.T.	US\$ 1,000
1. U.S.A.	5,551	12,623.13	4,763	10,043.74
2. Belgium	259	598.75	230	503.65
3. Canada	495	1,608.14	792	1,654.19
4. Germany	379	884.95	1,063	2,137.52
5. France	1,809	4,607.59	1,013	2,206.83
6. U.K.	2,328	5,571.74	933	1,787.80
7. Italy	1,053	2,388.19	388	813.92
8. Japan	303	666.23	303	625.88
9. Russian Fed	0	0.00	598	310.53
10. Turkey	99	302.76	665	1,619.61
11. Others	2,038	5,399.56	1,595	4,105.99
TOTAL	14,314	34,651.04	12,343	25,809.66
1/ US\$ 1.0 = 41.30 Baht				
2/ US\$ 1.0 = 37.79 Baht				
Source: The Department of Customs				
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Policy

There has been no change in import tariff, non-tariff barriers, and price support program since the last Annual Report. The quota for unmanufactured tobacco, under WTO agreements, remains unchanged at 9,000 tons in 2000. The current in-quota tariff rate for unmanufactured tobacco is 30 percent, against 75.2 percent for the above-quota tariff rate. However, the import tariff under the general tariff schedule has been reduced to the same rate as the in-quota tariff rate (30 percent) since December, 1998. This provision enables TTM to enjoy the lower tariff rate of 30 percent on imports of tobacco leaf from non-WTO countries like China.

Marketing

There has been no significant change in marketing development opportunities for U.S. tobacco leaf, marketing channels, or competitor activities since the last Annual Report.

PSD Table						
Country	Thailand					
Commodity	Tobacco, Mfg., Cigarettes				(MIL PCS)	
	Revised1998		Preliminary1999		Forecast2000	
	Old	New	Old	New	Old	New
Market Year Begin	01/1998		01/1999		01/2000	
Filter Production	39100	35525	29880	33390	0	32300
Non-Filter Production	1000	736	610	525	0	500
TOTAL Production	40100	36261	30490	33915	0	32800
Imports	2000	4100	4000	7000	0	8000
TOTAL SUPPLY	42100	40361	34490	40915	0	40800
Exports	400	606	200	804	0	600
Domestic Consumption	41700	39755	34290	40111	0	40200
TOTAL DISTRIBUTION	42100	40361	34490	40915	0	40800

NOTE: FAS/Bangkok has made some changes in tabulating PS&D Table for Manufactured Tobacco, Cigarettes, beginning in the year of 1998. As production of contraband cigarettes against TTM's brand cigarettes emerged in recent years and become more significant, the estimated total production from 1998-2000 includes both TTM production and contraband cigarette production. In addition, the estimate of smuggled cigarette imports is taken into account in this new tabulation for import numbers.

Manufactured Tobacco, Cigarettes

Production

Despite an anticipation of continued growth in contraband production, a reduction in TTM's cigarette production should lead total cigarette production in 2000 to drop further by 5 percent to 32.8 billion pieces. Filter production is likely to account for 98.5 percent of total cigarette production. In recent years, TTM's cigarette sales have been threatened by contraband cigarette production. Trade sources reported that nearly all of contraband cigarettes are "Krongthip" brands, which are the TTM's most popular filter cigarettes. This contraband cigarette production has increased significantly due to its low prices (about 10 baht/pack cheaper than TTM's brand cigarettes).

According to TTM, its cigarette production in 1999 declined from 34.569 billion pieces in 1998 to 32.023 billion pieces, in line with a continued fall in its cigarette sales. Out of the 1999 total production, TTM produced 31.498 billion pieces for filter cigarettes and 0.525 billion pieces for non-filter cigarettes, respectively.

Consumption

The overall cigarette consumption (including inventories) in 2000 is forecast to remain unchanged from the 1999's level, as increased sales in foreign cigarettes and contraband cigarettes may be offset by decreased TTM's cigarette sales. TTM seems to continue losing its market share in cigarette sales to foreign-brand and contraband sales, due to less competitive prices and a poor distribution system. Although a recent raise in import price uplift by the Customs Department led to higher retail prices for foreign cigarette, a small price gap between TTM's most popular brand cigarettes and those for some brands of foreign cigarettes still lures several smokers to cling with higher-quality foreign cigarettes. Meanwhile, sales of TTM's "Krongthip" brands are seriously threatened by much cheaper contraband cigarettes. In addition, TTM's distribution system is relatively poorer than foreign competing companies like Philip Morris, R.J. Reynolds, and etc. In its effort to compete with foreign cigarettes, TTM has launched another fighting brand, named Tiger Eye, in 1999. Although it claimed that this new brand cigarette is high-quality at competitive price, its sales have not been successful.

As a result, cigarette sales by TTM are forecast to drop further by 4-5 percent in 2000. TTM reported that its cigarette sales in 1999 dropped by 12 percent to 31,492 million pieces. The total sales were broken down into 96.3 percent for American blend brands, 3.2 percent for English blend, and 0.5 percent for Native blend, respectively. Meanwhile, sales of contraband cigarettes was around 1.8-1.9 billion pieces.

By contrast, sales of imported cigarettes are forecast to rise further in 2000 to 6.0-6.5 billion pieces, accounting for 15 percent of total cigarette consumption. Also, sales of smuggled cigarettes are pegged at 1.6 billion pieces in 2000.

Since the last Annual Report, the retail price of both domestic and imported cigarettes increased as a result of introduction of municipal tax collection and a price uplift for imported cigarettes determined by Customs Department. When the Excise Department collected the municipal tax in October 1999, retail prices for all cigarettes were raised by 1.00 baht/pack (2.6 cents/pack). The current retail price for TTM's cigarettes are in a wide range of 18-42 baht/pack (48cents-USD 1.11 per pack). The price for its most popular brand, named Krongthip 90, is 30 baht/pack (79 cents/pack). By contrast, the fighting brands of foreign cigarettes (like RJR's More brand or Philip Morris's L&M brand) against TTM's Krongthip 90 are now sold at 32-33 baht/pack. Retail prices for foreign cigarette vary in a range of 29-72 baht/pack (77 cents-USD 1.90/pack).

Regarding the demographic survey on smoking behavior in Thailand, the National Statistics Office (NSO) recently reported its new survey for 1999 on cigarette smoking habits of Thai nationals. Compared to the 1996 survey, the number of regular smokers in Thailand dropped further by 9 percent from 11.25 million persons in 1996 to 10.23 million persons in 1999, accounting for 20.5 percent of the population more than 10 years of age. However, the number of non-regular smokers adversely increased sharply (over 30 percent) from 1.29 million persons to 1.76 million persons in 1999. Most regular smokers are still male (94 percent). For both the male and female population, regular smokers are aged over 25 years.

Trade

Total cigarette imports (including illegal imports) are forecast to increase further in 2000 in line with an anticipation of rising foreign cigarette sales. As shown in the table below, the Customs Department reported that legal imports more than doubled from 2,586 tons (approx. 2,586 million pieces) in 1998 to 5,543 tons (about 5,543 million pieces) in 1999. About 85 percent of total imported cigarettes in 1999 was shipped from three ASEAN countries; i.e., Singapore, Malaysia, and Philippines, which are currently the production base for international brand manufacturers. However, trade sources estimated that about 85-90 percent of imported cigarettes are American brand, with the balance going to Asian and European brands.

TTM's cigarette exports also rose in recent years, but trade sources believe that a portion of the exports was smuggled and sold in provinces along the Thai border. With increased restriction in smuggling control, cigarette exports is forecast to drop in 2000.

Import Trade Matrix			
Country	Thailand		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	Jan-Dec	Units:	Tons
Imports for:	1998		1999
U.S.	227	U.S.	274
Others		Others	
Switzerland	24		20
China	119		29
Germany	25		17
U.K.	285		418
Japan	117		12
Malaysia	1536		2008
Philippines	0		615
Singapore	224		2131
Total for Others	2330		5250
Others not Listed	29		19
Grand Total	2586		5543

Export Trade Matrix			
Country	Thailand		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	Jan-Dec	Units:	Tons
Exports for:	1998		1999
U.S.	41	U.S.	2
Others		Others	
China	0		77
Indonesia	0		9
Ireland	22		14
Kampuchea	0		3
Laos	48		22
Myanmar	270		486
Malaysia	103		151
Singapore	35		4
Taiwan	11		7
Vietnam	0		26
Total for Others	489		799
Others not Listed	76		3
Grand Total	606		804

Policy

Tariff and Other Taxes

Reflecting an attempt to collect revenue to the greatest extent and a strong move by anti-smoking groups, the Thai Government currently applies several taxes to cigarette sold in Thailand. Both local and foreign cigarettes are subject to the same rates of excise tax (71.5%), VAT (7%) and a municipal tax (about 1.0 baht/pack). In addition, importers must pay the import duty of 10-60%, varying for different export origins. For imports which are originated in non-ASEAN countries, the import tariff is 60%. In case that the imports are originated in ASEAN countries and the local content of cigarette manufacturing exceeds 40 percent of total cost, importers are now able to enjoy lower import duties as a result of AFTA pact implementation. However, the applied rates for cigarettes from these ASEAN countries differ. As for cigarettes which are originated in Indonesia and Philippines which are on the inclusive list, the applied import duty is 10%. For those produced in Malaysia and Singapore, the import duty is higher, i.e., 22.50%. Due to this variance, some importers reportedly began to switch sources of their international brand cigarettes, from Malaysia and Singapore to Indonesia and Philippines.

It should also be noted that the complicated method in calculating an amount of excise tax has made total duties applied for imported cigarettes extremely high, against those applied for local cigarettes. It is estimated that all duties for TTM's cigarettes are presently about 40-50 percent of retail prices, while those for imported cigarettes are approximately 65-70 percent of retail prices.

In addition to a possible raise in excise tax rate, legislation may be approved soon to add the new venues for collecting taxes. This includes a new type of municipal tax and a special tax collected for the Fund for Health.

According to Excise Department, its excise revenue for cigarettes in Fiscal Year 1999 dropped further by 7 percent to 26.708 billion baht (approx. USD 707 million) due mainly to decreased sales of local cigarettes. This includes 23.130 billion baht (USD 612 million) for local cigarettes, and 3.578 billion baht (USD 95 million) for foreign cigarettes.

Non-Tariff Barriers

Although imported cigarettes are levied at much higher than local cigarettes, TTM complained to the Government that foreign cigarettes were beating its local cigarettes due to a possible practice of underpricing declaration on CIF value. Accordingly, the Customs Department (of which the Director General is also the Chairman of TTM's Board of Directors) investigated the issue, and then raised price uplifts for import duty valuation on nearly all imported cigarettes. The price uplifts on cigarette brands competing with TTM's cigarettes were raised by 25-54%. Post believes that this practice is a discriminatory action which effectively and unfairly blocks trade in cigarettes in favor of TTM's cigarettes.

Quality, Safety, & Health

The Ministry of Public Health (MOPH) continued to play its important role in smoking control. It is enforcing the regulations on health warnings on cigarette labels, a ban on cigarette advertisement, prohibition on sales to youth people (aged under 18 years), smoking prohibitions in public places, and the disclosure of cigarette ingredients sold in Thailand. In addition, MOPH is actively developing anti-smoking campaigns on mass media and pushing an increase in cigarette taxes. According to MOPH, their past activities are successful as a number of regular smokers (as presented in the survey by National Statistics Office) are reducing.

Marketing

There has been no significant change in marketing development opportunities for U.S. cigarettes, marketing channels, or competitor activities since the previous FAS/Bangkok report.