



Voluntary Report - public distribution

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GAIN Report #AJ1001

Azerbaijan, Republic of

Tobacco and Products

Update

2001

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Report Highlights:

Tobacco production is slowly increasing after bottoming out during the Russian economic crisis. Increased domestic cigarette production and an improved Russian economy are the main reasons for the rebound. The sole remaining cigarette factory in Azerbaijan has received investments of approximately \$50m in the last two years, reviving production.

Includes PSD changes: Yes
Includes Trade Matrix: No
Unscheduled Report
Ankara [TU1], AJ

PSD Table						
Country	Azerbaijan, Republic of					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Area Planted	5000	3800	3500	6000	0	6000
Beginning Stocks	4000	2500	5300	1500	5550	1400
Farm Sales Weight Prod	8200	5500	5740	10000	0	10500
Dry Weight Production	7400	4880	5100	8800	0	9300
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	200	180	200	350	0	600
TOTAL Imports	200	180	200	350	0	600
TOTAL SUPPLY	11600	7560	10600	10650	5550	11300
Exports	5500	4900	4000	8000	0	8300
Dom. Leaf Consumption	600	980	850	900	0	1400
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	200	180	200	350	0	600
TOTAL Dom. Consumption	800	1160	1050	1250	0	2000
TOTAL Disappearance	6300	6060	5050	9250	0	10300
Ending Stocks	5300	1500	5550	1400	0	1000
TOTAL DISTRIBUTION	11600	7560	10600	10650	0	11300

Tobacco and Cigarettes

Tobacco production in Azerbaijan is recovering from the impact of the 1998 Russian economic crisis as Russia recovers, since it is the primary export market for the low quality Azeri oriental leaf tobacco. After not selling much tobacco in 1998, many farmers decided to switch away from tobacco into more profitable cash crops such as vegetables, wheat, and fruits. In 1998, the Azeri manat was very overvalued and this kept Azeri tobacco expensive at the time when the Russians were seeing a cash crunch. Other cheaper CIS tobacco producers replaced the Azeri tobaccos and it has been a slow recovery for the exporters, many of whom now sell to Georgia. The domestic market for tobacco leaf is limited, but is improving with the revitalized operations of the European Tobacco Factory.

French and other investors have put approximately \$50m into refurbishing the old Baku Tobacco Company plant and have turned it into a world-class equipped cigarette factory, now called the European Tobacco Factory. Cigarette production at this factory is increasing monthly, and representatives of the factory are working with growers in seven regions to improve the quality and quantity of the tobacco. The European Tobacco Factory has a license to produce 2 billion cigarette sticks for the domestic market, estimated at between 6.5 and 12 billion sticks. As of October 10, 2000, the European Tobacco

Company reported to the local press production of 1.3 billion sticks since February. They currently produce eight brands and plan to expand to sixteen, composed of sixteen local brands and a few international regional brands under license. The Azeri Customs authority states the market is for 6.5 b sticks, while the private sector sees a much larger market, up to 12 b. The last year has seen three other smaller local cigarette producers leave the market, due to selective tax and customs problems and other coercion, leaving only the European Tobacco Factory as the domestic consumer of tobacco leaf. This company is also responsible for most, if not all, imports of other leaf, mostly from Eastern Europe. The market for cigarettes in Azerbaijan has been very competitive, and is flooded with smuggled cigarettes. This has made it difficult for legal importers to compete, since the customs taxes are high (highest among CIS states) and are assessed on declared value, rather than on a unit basis. Discussions are underway between industry representatives and the tax authorities to restructure the tax to a unit-based one. In the meantime, contraband cigarettes face none of these costs. Trade contacts indicate that many international brand cigarettes pass through Azerbaijan into Iran, boosting the market in Azerbaijan. With Azerbaijan having reportedly one of the most corrupt economies in the world, it is quite difficult for legitimate international companies to make profits legally in this market at the present time.

End of report.