



Foreign Agricultural Service

**GAIN Report**

Global Agriculture Information Network

Required Report - public distribution

Date: 4/24/2002

GAIN Report #PK2008

## **Pakistan**

### **Tobacco and Products**

#### **Annual**

#### **2002**

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

**U.S. Embassy Islamabad, Pakistan**

Prepared by: **Ikram Chaudhary Ag Specialist**

**U.S. Embassy Islamabad, Pakistan**

---

#### **Report Highlights:**

**MY 2002 tobacco production is forecast to increase to 93,400 metric tons (MT) as a result of increasing demand from the cigarettes manufacturers. Smoking remains popular and is expected to increase during CY 2002 due to a reduction in prices. U.S. tobacco exports are forecast to increase gradually due to increasing demand for quality cigarettes.**

---

Includes PSD changes: Yes  
Includes Trade Matrix: No  
Annual Report  
Islamabad [PK1], PK

## TABLE of CONTENTS

TOBACCO	. . . . . 1
PRODUCTION	. . . . . 1
Table 1. Tobacco Area and Production (Farm Weight)	. . . . . 2
Table 2. Total Unmanufactured Tobacco PS&D	. . . . . 2
Table 3. Tobacco Support Prices for Major Varieties (Rupees/Kilogram)	. . . . . 3
Table 4. Tobacco Requirements of Major Cigarette Companies (MT)	. . . . . 3
Table 5. Average Farm Gate Prices (Rupees/kilogram)	. . . . . 3
CONSUMPTION	. . . . . 4
TRADE	. . . . . 4
STOCKS	. . . . . 4
CIGARETTES	. . . . . 4
PRODUCTION	. . . . . 4
CONSUMPTION	. . . . . 4
TRADE	. . . . . 5
Table 6. Cigarette PS&D	. . . . . 5

## TOBACCO

### PRODUCTION

MY 2002 total tobacco production is forecast to increase 13 percent to 93,400 metric tons (MT) due mainly to an increase in area as a result of increased returns from the MY 2001 crop. Market observers expect farmers will increase flue-cured, oriental and Dark Air Cured (DAC) because of increased demand from the cigarette companies. Total MY 2001 tobacco production has been revised down to 82,854 MT, based on corresponding decrease in area due to a campaign by the cigarette companies to discourage excessive production.

Tobacco is grown mainly in the North West Frontier Province (NWFP) and Punjab and is an important cash crop. 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 for chewing tobacco. Dark air-cured varieties are used mainly for filler, while light air-cured varieties are used primarily for traditional Pakistani tobacco products. Yields in Pakistan are about twice those for neighboring countries largely due to the extension services provided by the industry. Quality, however, is improving only slowly due to problems related to climate and soil. Farmers have started inter-cropping tobacco with vegetables and sugarcane to increase returns.

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) sets the support price well below market-clearing levels so that it acts as a floor or minimum guaranteed price. As a result, the government generally does not procure tobacco and the support program does not require government expenditures. The committee has decided to

increase the support price of tobacco for MY 2002 by 5 percent for all varieties.

**Table 1. Tobacco Area and Production (Farm Weight)**

Tobacco Type	AREA (Hectares)			PRODUCTION (Metric Tons)		
	2000	2001	2002	2000	2001	2002
Flue-cured	27,376	21,301	23,000	65,000	50,956	55,000
Dark Air-Cured	902	571	850	2,440	1,170	1,800
Oriental	8,069	4,990	8,000	15,104	9,650	15,000
Light Air-cured	17,198	16,200	17,000	21,260	20,500	21,000
Burley	237	257	300	292	578	600
Total	53,782	43,319	49,150	104,096	82,854	93,400

Source: 2000 and 2001 - Pakistan Tobacco Board, 2002 - FAS/Islamabad.

**Table 2. Total Unmanufactured Tobacco PS&D**

PSD Table						
Country:	Pakistan					
Commodity:	Total Tobacco, Unmfg					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Area Planted	53782	53782	53650	43319	0	49150
Beginning Stocks	52756	52756	52756	59593	0	51159
Farm Sales Weight Prod	104096	104096	101600	82854	0	93400
Dry Weight Production	94837	94837	92592	75766	0	85298
U.S. Leaf Imports	182	182	450	365	0	400
Other Foreign Imports	300	300	400	200	0	200
TOTAL Imports	482	482	850	565	0	600
TOTAL SUPPLY	148075	148075	146198	135924	0	137057
Exports	6500	6500	6000	5200	0	6000
Dom. Leaf Consumption	81500	81500	82500	79000	0	80500
U.S. Leaf Dom. Consum.	182	182	400	365	0	400
Other Foreign Consump.	300	300	300	200	0	200
TOTAL Dom. Consumption	81982	81982	83200	79565	0	81100
TOTAL Disappearance	88482	88482	89200	84765	0	87100
Ending Stocks	59593	59593	56998	51159	0	49957

TOTAL DISTRIBUTION	148075	148075	146198	135924	0	137057
--------------------	--------	--------	--------	--------	---	--------

Tobacco companies generally contract with growers prior to planting. To help regulate production, the Pakistan Tobacco Board coordinates production, based on the expected demand from the tobacco companies. As a result of decline in harvest during MY 2001 and decreasing stocks, cigarette companies increased contracts by 30 percent to 49,860 MT for the MY 2002 crop. Farm gate prices for the MY 2002 crop are expected to increase about 10 percent over last year's levels due to the higher costs of production and the higher support price. MY 2001 farm gate prices averaged about 30 percent above the procurement price.

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

Tobacco Type	2000	2001	2002
Flue-cured	19.52 to 43.44	20.89 to 46.48	21.93 to 48.80
Dark Air-cured	12.58 to 13.41	13.46 to 14.35	14.13 to 15.06
Oriental	9.16 to 21.19	9.80 to 22.67	10.29 to 23.80
Burley	21.89 to 35.02	23.42 to 37.47	24.59 to 39.34
Avg Exchange Rate (\$1 = Pak. Rupee)	54.20	60.00	60.00

Source: Pakistan Tobacco Board

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

Tobacco Type	2000	2001	2002
Flue-cured	46,820	34,360	45,095
Dark Air-cured	2,820	1,400	1,550
Oriental	4,895	2,350	2,100
Burley	585	535	1,115
TOTAL	55,120	38,645	49,860

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

Tobacco Type	1999	2000	2001
Flue-cured	43.53	44.20	45.94
Dark Air-cured	17.13	17.96	20.21

Oriental	25.25	25.30	25.40
Burley	33.78	37.48	39.92

Source: Pakistan Tobacco Board

## CONSUMPTION

MY 2002 tobacco consumption is forecast to increase to 81,000 MT as a result of increased demand for tobacco products. An estimated two-thirds of the tobacco produced in Pakistan is utilized for cigarettes and the remainder for other tobacco products.

## TRADE

MY 2002 tobacco imports are forecast to increase to 600 MT. The bulk of imports consists of flue-cured tobacco from the United States, which is used to produce higher-quality cigarettes. The U.S. share of the import market is increasing gradually in response to increased demand for high-quality cigarettes. MY 2002 tobacco exports are forecast at 6,000 MT, mainly to Indonesia (via Multinational cigarette manufacturers) Dubai, Bangladesh and Germany.

There are no restrictions on tobacco exports; however, most is unrecorded. As a part of its commitment with the World Trade Organization (WTO) and the International Monetary Fund to reduce tariffs, the GOP is expected to reduced the duty on unmanufactured tobacco from 30 percent to 25 percent from July 2002. Imports also are assessed a 15-percent sales tax.

## STOCKS

No official data is available. Observers estimate that cigarette manufacturers maintain stocks of 8 to 10 months.

## CIGARETTES

## PRODUCTION

Official data on cigarette production from the Pakistan Tobacco Board is not very reliable. Cigarette manufacturers generally do not provide accurate data to the Board because they have to pay taxes on their declared production. The Government has begun to strictly enforce tax collection from manufacturers. As a result, some manufacturers reportedly have gone out of business. Currently, about 24 manufacturers operate in Pakistan. Two of the largest--Lakson Tobacco Company and Pakistan Tobacco Company--account for 50 and 40 percent of total cigarette production respectively.

## CONSUMPTION

No official data on cigarette consumption is available. However, by using sales as a proxy, MY 2002 consumption is forecast to remain at last years level of 60 billion pieces. The GOP prohibits smoking in offices and airplanes and has launched a radio and television campaign to discourage smoking. Even so, smoking continues to increase. In an effort to increase sales during MY 2002, the major cigarette companies have continued a 50-percent reduction in the prices of their medium-priced brands. Indications are this campaign will result in increased cigarette sales in 2002.

## TRADE

Because a large portion of cigarette trade is unrecorded (i.e., smuggled through Afghanistan), there is a large discrepancy between official and unofficial trade data. The trade data in the PS&D is based on unofficial estimates. Smuggled cigarettes include most of the popular international brands. As with tobacco, the duty on imported cigarettes will be reduced to 25 percent (plus a 15 percent sales tax) from July 2002.

**Table 6. Cigarette PS&D**

PSD Table						
Country:	Pakistan					
Commodity:	Tobacco, Mfg., Cigarettes					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Filter Production	48413	48413	49000	58000	0	58000
Non-Filter Production	76	76	75	75	0	70
TOTAL Production	48489	48489	49075	58075	0	58070
Imports	4000	4000	4000	2500	0	2000
TOTAL SUPPLY	52489	52489	53075	60575	0	60070
Exports	300	300	350	350	0	400
Domestic Consumption	52189	52189	52725	60225	0	59670
TOTAL DISTRIBUTION	52489	52489	53075	60575	0	60070