



Foreign Agricultural Service

**GAIN Report**

Global Agriculture Information Network

Required Report - public distribution

Date: 4/30/2003

GAIN Report #PK3008

## **Pakistan**

### **Tobacco and Products**

#### **Annual**

#### **2003**

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#### **Report Highlights:**

**Pakistan's CY 2003 tobacco production is projected to expand to 94,700 metric tons. An escalating domestic support price program coupled with fewer competitive alternatives in recent years appears to be the motivating force behind production as official demand by cigarette manufacturers is waning. Cigarette production and disappearance continue to rise but recent government discussions to prohibit smoking in public places, if adopted, may dampen this trend. High quality U.S. leaf tobacco should come into higher demand as Pakistan companies seek to service the rising popularity of premium brand cigarettes.**

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

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## TOBACCO

**Table 1. Total Unmanufactured Tobacco PS & D**

PSD Table						
Country	Pakistan					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		01/2001		01/2002		01/2003
Area Planted	43319	43319	49150	46897	0	48150
Beginning Stocks	59594	59594	51160	51160	0	55250
Farm Sales Weight Prod	82854	82854	93400	92880	0	94700
Dry Weight Production	75766	75766	85298	84721	0	86389
U.S. Leaf Imports	365	365	400	125	0	200
Other Foreign Imports	200	200	200	37	0	50
TOTAL Imports	565	565	600	162	0	250
TOTAL SUPPLY	135925	135925	137058	136043	0	141889
Exports	5200	5200	6000	3632	0	3500
Dom. Leaf Consumption	79000	79000	80500	77000	0	78500
U.S. Leaf Dom. Consum.	365	365	400	124	0	200
Other Foreign Consump.	200	200	200	37	0	50
TOTAL Dom. Consumption	79565	79565	81100	77161	0	78750
TOTAL Disappearance	84765	84765	87100	80793	0	82250
Ending Stocks	51160	51160	49958	55250	0	59639
TOTAL DISTRIBUTION	135925	135925	137058	136043	0	141889

## Production

MY 2003 tobacco production is forecast to rise marginally, to 94,700 metric tons (MT), on the strength of more area planted to tobacco in lieu of sugar cane, its primary competitor cash crop. Market expectations are for expansion in cultivation of flue-cured and burley varieties to service stronger demand from cigarette manufacturers. MY 2002 tobacco production rose 12 percent, to 92,880 MT, in reaction to the elevated support price offered by the Pakistan Tobacco Board (PTB).

Tobacco, an important cash crop, is grown mainly in the North West Frontier Province (NWFP) and Punjab. 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 in chew tobacco. Dark air-cured varieties are used mainly as filler, while light air-cured varieties are used primarily in traditional Pakistani tobacco products. Yields in Pakistan are about twice those for neighboring countries due largely to the industry supported extension service. Quality, however, is improving only slowly due to problems related to climate and soil. To enhance their economic earnings, farmers have started inter-cropping tobacco with vegetables and sugarcane.

**Table 2. Tobacco Area and Production (Farm Weight)**

Tobacco Type	AREA (Hectares)			PRODUCTION (Metric Tons)		
	CY 2001	CY 2002	CY 2003	CY 2001	CY 2002	CY 2003
Flue-cured	21,301	24,570	25,000	50,956	59,615	60,000
Dark Air-Cured	571	751	850	1,170	1,940	1,900
Oriental	4,990	4,749	5,000	9,650	9,380	9,500
Light Air-cured	16,200	16,395	16,500	20,500	21,000	21,500
Burley	257	432	800	578	945	1,800
Total	43,319	46,897	48,150	82,854	92,880	94,700

Source: Years 2001 and 2002 - Pakistan Tobacco Board,  
Year 2003 (F) - FAS/Islamabad.

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, effectively setting a floor or minimum guaranteed price. As a result, the government generally does not procure tobacco and the support program does not require government expenditure. For the MY 2003 crops, the committee suggested increase in the support price by 5 percent for all tobacco varieties. This comes after the price support increases in previous years which was also driven by effort to estimate the actual demand of the cigarette industry and, in part, to improve the socioeconomic position of farmers in the two principal tobacco growing regions.

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

Tobacco Type	CY 2001	CY 2002	CY 2003
Flue-cured	20.89 to 46.48	20.90 to 47.02	21.95 to 49.37
Dark Air-cured	13.46 to 14.35	13.83 to 14.78	14.52 to 15.52
Oriental	9.80 to 22.67	10.10 to 38.60	10.60 to 24.52

Burley	23.42 to 37.47	24.13 to 38.60	25.34 to 40.53
Ex Rate, (\$1 = Pak. Rupee)	60.00	58.00	58.00

Source: Pakistan Tobacco Board

The PTB, in effort to regulate tobacco supplies, attempts to coordinate production based on the expected demand by tobacco companies using a price support mechanism. Traditionally, tobacco companies contract directly with growers prior to planting but this practice is not adhered to as much now. The PTB price support program is generating over production, conversely, greater price competition among suppliers as it offers support based on faulty projections of supply requirements of the industry. At best only 80-85 percent of industry requirements are reported to the PTB (see Cigarette production below for more details).

During MY 2003 cigarette companies decreased contracts by 16 percent to 41,922 MT.

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

Tobacco Type	CY 2001	CY 2002	CY 2003
Flue-cured	34,360	45,095	37,182
Dark Air-cured	1,400	1,550	1,030
Oriental	2,350	2,100	1,655
Burley	535	1,115	2,055
<b>TOTAL</b>	<b>38,645</b>	<b>49,860</b>	<b>41,922</b>

MY 2003 farm gate prices are expected to increase about 10 percent over last year's levels due to higher production costs and higher support price. MY 2002 farm gate prices averaged about 35 percent above the PTB published price support level.

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

Tobacco Type	CY 2000	CY 2001	CY 2002
Flue-cured	44.20	45.94	46.19
Dark Air-cured	17.96	20.21	21.08
Oriental	25.30	25.40	25.48
Burley	37.48	39.92	41.85

Source: Pakistan Tobacco Board

## Consumption

MY 2003 tobacco consumption is forecast to increase marginally on higher demand for tobacco-based products. Two-thirds of the production is utilized for cigarettes with the remainder used in other tobacco products.

## Trade

MY 2003 tobacco imports are expected to increase. The bulk of imports should remain flue-cured leaf tobacco from the U.S. which is used to finish higher-quality cigarettes. The U.S. share of the import market is increasing gradually in response to growing consumer demand for higher-quality cigarettes. MY 2002 tobacco exports are forecast at 3,500 MT, mainly to Belgium, Bangladesh, and Germany.

Export of tobacco and products are not restricted; however, most such trade is unrecorded. As a part of the World Trade Organization (WTO) and the International Monetary Fund (IMF) commitments, the GOP is to reduce the import duty on raw tobacco, from 25 to 20 percent, starting from July 2003. Also, imported raw tobacco when sold is assessed a 20-percent sales tax.

## Stocks

No official data is available. Estimates are that cigarette manufacturers maintain stocks supplies for 8-10 months' production.

## CIGARETTES

**Table 6. Cigarette Production Supply and Demand**

PSD Table						
Country	Pakistan					
Commodity	Tobacco, Mfg., Cigarettes				(MIL PCS)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		01/2001		01/2002		01/2003
Filter Production	58000	58000	58000	60000	0	62000
Non-Filter Production	75	75	70	80	0	90
TOTAL Production	58075	58075	58070	60080	0	62090
Imports	2500	2500	2000	2100	0	2200
TOTAL SUPPLY	60575	60575	60070	62180	0	64290
Exports	350	350	400	400	0	450
Domestic Consumption	60225	60225	59670	61780	0	63840
TOTAL DISTRIBUTION	60575	60575	60070	62180	0	64290

## **Production**

Official data issued by the Pakistan Tobacco Board (PTB) on Pakistan cigarette production is not very reliable. Because cigarette manufacturers are taxed based on declared production, data provided to the PTB remains suspect. Estimates are that Pakistan produces 60 to 65 billion cigarettes annually. Currently, 24 manufacturers are known to operate in Pakistan, 20 of which reportedly do not register production with the Tobacco Board. Lakson Tobacco Company and Pakistan Tobacco Company, two of the largest cigarette manufacturers, account for 40 and 30 percent of total cigarette production respectively.

## **Consumption**

Official data on cigarette consumption is not available. However, by using sales as a proxy, MY 2003 consumption is projected at 64 billion pieces. The GOP prohibits smoking in offices and airplanes and has launched a radio and television campaign to discourage smoking. GOP also has announced its intention to prohibit smoking in all public places. Even so, smoking continues to grow in popularity. In effort to increase sales, major cigarette companies have announced a 50-percent price reduction for their medium-priced brands. Sales in 2003 should display a recordable boost by this action.

## **Trade**

Because a major portion of cigarette trade is unrecorded (i.e., smuggled through Afghanistan), a large discrepancy exists between official and unofficial trade data. Trade data displayed in the PS&D table are unofficial estimates. Cigarette smuggling involves most popular international brands. As with raw tobacco, the import duty on cigarettes will be reduced to 20 percent starting from July 2003 and, as with raw tobacco, a 20-percent sales tax will be assessed on downstream commercial activity.