Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Voluntary Report - public distribution

Date: 10/5/1998

GAIN Report #CH8045

China, People's Republic of

Tobacco

State Council Announces New Tobacco Procurement and Tax Policy

1998

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Report Highlights:
China's State Council recently announced changes to procurement prices and tax policies for tobacco. The changes will effectively reduce the purchase price for tobacco while lowering agricultural taxes on tobacco leaf. The new tax policy will introduce increased taxes on high-quality domestic cigarettes and imported cigarettes, while lowering them for lower quality cigarettes. Domestic cigars will be taxed at a lower rate than imported cigars.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Beijing [CH1], CH

General Summary

The State Council recently issued an announcement of adjustments to procurement prices on tobacco leaf and taxes on tobacco and tobacco products. The Announcement states that, starting in 1999, the procurement price for tobacco leaf will be raised from RMB4.84/kg (US$0.585/kg, or US$585/mt) to RMB 7/kg (US$0.846/kg or USD846/mt). On the face of it, this implies that tobacco farmers' incomes will benefit from the adjustment. Post has obtained information from government sources however, indicating just the opposite. The current national average procurement price of RMB 4.84/kg does not include government subsidy. With government subsidies included, the procurement price has generally been over RMB8/kg. Prices in Yunnan, the largest tobacco-producing province, have reached as high as RMB10-12 in the past. The newly set procurement price of RMB7/kg. includes the government subsidy; hence, the actual price paid to tobacco farmers will decrease. One government official even asserted that RMB7/kg. will be the maximum price no matter how much the local government may want to subsidize. The same official indicated that the country will be divided into several tobacco procurement pricing districts. Each district will set its own total price, not to exceed RMB7/kg. including subsidy. (Note: the average price refers to an average price of all grades.)

Under the new policy, the government will also lower the agricultural product tax for tobacco leaf from the present 31 percent to 20 percent (the new, lower tobacco prices will be used as the basis to calculate this tax). Post believes the lowering of this tax is intended to compensate farmers for income lost on the lower tobacco prices.

The new policies also include consumer tax adjustments on both domestic and foreign cigarettes. The present consumption tax is applied to all classes of cigarettes at a rate of 45 percent. In the future, the highest quality domestic cigarettes--the most expensive kinds, called Class 1 in the Announcement--will be taxed at 50 percent. Classes 2 and 3 will be taxed at 40 percent. Classes 4 and 5 (the least expensive) will be taxed at 25 percent. The current 40% consumption tax on domestic cigars will be lowered to 25 percent. The consumption tax on imported cigarettes and imported cigars (currently 45 and 40 percent, respectively) will rise to 50 percent.

The announcement stated that this adjustment in procurement price and taxes is aimed not only at enhancing the management of the tobacco industry, but also at improving the relationship among the government, state-owned enterprises, and the tobacco farmers. In addition, the adjustment is intended to balance the supply and demand of tobacco leaf and to stabilize cigarette sales. Post believes the package of measures announced is designed to encourage tobacco farmers to reduce the planted area of tobacco, as the government has been attempting unsuccessfully to do for the past few years. The impact of this policy will be watched closely and, if warranted, changes to production, supply and demand forecasts will be included in the next tobacco report.