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Thailand

Tobacco

Tobacco Annual Report 1999

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Report Highlights:

Thailand's total tobacco production continues to have declined in 1999. Consumption of tobacco has also been on a downward trend in line with sluggish sales of TTM's cigarettes, which will lead imports of tobacco leaves to decrease in 1999. By contrast, sales of imported cigarettes are growing favorably.

Includes PSD changes: Yes
Includes Trade Matrix: No
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Executive Summary

Just as in 1998, overall unfavorable weather conditions have again reduced Thailand's total tobacco production for 1999. A relative good return from tobacco which induced an expansion in growing area was not enough to offset the weather problems. Meanwhile, total consumption of tobacco leaves, both domestic and foreign, is forecast to drop further in line with continued slump in TTM's cigarette production. As a result, imports of tobacco leaves are estimated to drop in 1999. While the U.S. would remain the sole suppliers for burley leaf imports, TTM began to replace a portion of U.S. flue cured leaf with Chinese leaf in 1999. Thailand's tobacco leaf exports in 1999 are unlikely to be as strong as in 1998, as a result of high level of global stocks and a recent sharp devaluation in Brazilian currency.

TTM's cigarette production in 1999 is forecast to decrease again in parallel to gloomy sales of its cigarettes. Contrarily, sales of imported cigarettes, which has been successful in capturing market share from TTM's sales, may witness another 10-15 percent increase in 1999. U.S. brand cigarettes continue to have a dominant share of the market for imported cigarettes.

PSD Table						
Country:	Thailand					
Commodity:	Tobacco, Unmfg.					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Area Planted	47000	47000	51500	51000	0	51800
Beginning Stocks	19779	19779	23864	23864	0	34652
Farm Sales Weight Prod	69250	69250	68600	67600	0	61000
Dry Weight Production	60823	60823	60298	59428	0	53610
U.S. Leaf Imports	8382	8382	7000	7661	0	5083
Other Foreign Imports	1594	1594	1200	1000	0	177
TOTAL Imports	9976	9976	8200	8661	0	5260
TOTAL SUPPLY	90578	90578	92362	91953	0	93522
Exports	26215	26215	28300	28516	0	27400
Dom. Leaf Consumption	32245	32245	27460	22982	0	20235
U.S. Leaf Dom. Consum.	8254	8254	6900	5803	0	4950
Other Foreign Consump.	0	0	0	0	0	160
TOTAL Dom. Consumption	40499	40499	34360	28785	0	25345
TOTAL Disappearance	66714	66714	62660	57301	0	52745
Ending Stocks	23864	23864	29702	34652	0	40777
TOTAL DISTRIBUTION	90578	90578	92362	91953	0	93522

Production Table						
Country:						
Commodity:	Flue Cured					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin						
Area Planted	18000	18000	20800	20800	0	21500
Beginning Stocks	8841	8841	8712	8712	11112	11319
Farm Sales Weight Prod	23000	23000	25000	25000	0	23000
Dry Weight Production	20240	20240	22000	22000	0	20240
U.S. Leaf Imports	3952	3952	3500	3725	0	2483
Other Foreign Imports	1594	1594	1200	1000	0	177
TOTAL Imports	5546	5546	4700	4725	0	2660
TOTAL SUPPLY	34627	34627	35412	35437	11112	34219
Exports	6662	6662	8000	10424	0	8000
Dom. Leaf Consumption	15098	15098	12900	10801	0	9580
U.S. Leaf Dom. Consum.	4155	4155	3400	2893	0	2400
Other Foreign Consump.	0	0	0	0	0	160
TOTAL Dom. Consumption	19253	19253	16300	13694	0	12140
TOTAL Disappearance	25915	25915	24300	24118	0	20140
Ending Stocks	8712	8712	11112	11319	11112	14079
TOTAL DISTRIBUTION	34627	34627	35412	35437	11112	34219

Production Table						
Country:						
Commodity:	Burley					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin						
Area Planted	12000	12000	14400	14400	0	14700
Beginning Stocks	5494	5494	7453	7453	10893	15138
Farm Sales Weight Prod	30000	30000	33000	33000	0	28000
Dry Weight Production	26400	26400	29040	29040	0	24640
U.S. Leaf Imports	4430	4430	3500	3936	0	2600
Other Foreign Imports	0	0	0	0	0	0
TOTAL Imports	4430	4430	3500	3936	0	2600
TOTAL SUPPLY	36324	36324	39993	40429	10893	42378
Exports	13412	13412	16000	14314	0	15000
Dom. Leaf Consumption	11360	11360	9600	8067	0	7050
U.S. Leaf Dom. Consum.	4099	4099	3500	2910	0	2550
Other Foreign Consump.	0	0	0	0	0	0
TOTAL Dom. Consumption	15459	15459	13100	10977	0	9600
TOTAL Disappearance	28871	28871	29100	25291	0	24600
Ending Stocks	7453	7453	10893	15138	10893	17778
TOTAL DISTRIBUTION	36324	36324	39993	40429	10893	42378

Production Table						
Country:						
Commodity:	Oriental					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin						
Area Planted	15500	15500	15000	14500	0	14500
Beginning Stocks	5399	5399	7676	7676	7676	8174
Farm Sales Weight Prod	15500	15500	10000	9000	0	9500
Dry Weight Production	13485	13485	8700	7830	0	8265
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	18884	18884	16376	15506	7676	16439
Exports	5491	5491	3800	3278	0	4000
Dom. Leaf Consumption	5717	5717	4900	4054	0	3540
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	0	0	0	0	0	0
TOTAL Dom. Consumption	5717	5717	4900	4054	0	3540
TOTAL Disappearance	11208	11208	8700	7332	0	7540
Ending Stocks	7676	7676	7676	8174	7676	8899
TOTAL DISTRIBUTION	18884	18884	16376	15506	7676	16439

Production Table						
Country:						
Commodity:	Dark Air Cured					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin						
Area Planted	1500	1500	1300	1500	0	1100
Beginning Stocks	45	45	23	23	21	21
Farm Sales Weight Prod	750	750	600	600	0	500
Dry Weight Production	698	698	558	558	0	465
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	743	743	581	581	21	486
Exports	650	650	500	500	0	400
Dom. Leaf Consumption	70	70	60	60	0	65
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	0	0	0	0	0	0
TOTAL Dom. Consumption	70	70	60	60	0	65
TOTAL Disappearance	720	720	560	560	0	465
Ending Stocks	23	23	21	21	21	21
TOTAL DISTRIBUTION	743	743	581	581	21	486

Unmanufactured Tobacco

Production

Thailand's total tobacco production for 1999 (1998/99, harvested) is estimated to further decrease from the 1998 levels following a decline in production of most tobacco crops (flue cured, burley, and dark-air cured).

Although a relatively higher return from tobacco has encouraged farmers to switch from some competing crops to tobacco in MY 1998/99, dry conditions and extremely high temperatures have reduced average yields in most of tobacco crops. In addition, unfavorable weather conditions have apparently deteriorated the crop quality of flue cured and burley tobacco which were planted in late season. Given relatively stable expenses, production costs are still estimated to edge up further due to overall lower productivity.

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

	AREA (Hectare)			FSW PRODUCTION (Tons)		
	1997	1998	1999	1997	1998	1999
Flue cured	18000	20800	21500	23000	25000	23000
Burley	12000	14400	14700	30000	33000	28000
Oriental	15500	14500	14500	15500	9000	9500
Dark Air Cured	1500	1300	1100	750	600	500
TOTAL	47000	51000	51800	69250	67600	61000

Flue cured production in 1999 is estimated to drop by 8 percent as the effect of unfavorable climatic conditions on yields has outstripped that of increased growing area. Despite a reduction in TTM's quota, a favorable increase in guaranteed prices by TTM and depressed prices for vegetable crops (i.e., cabbage and ginger) have led both small and large curers to increase their growing/contracted areas. However, insufficient rain and hot weather seriously affected the growth stage of middle and late season crops, which accounted for about 70 percent of total production. By contrast, yields and quality of the early crop (about 30 percent of total production) were good due to favorable climatic conditions.

As mentioned in the last Annual Report, many large curers acknowledge the inefficiencies in flue cured production. With partial funding from the Office of National Energy Policy (ONEP), about ten large flue curers have operated 35-40 sets of the bulk curing system since 1997. Under the project, the ONEP would pay 44 percent of the approximate 4 million Baht-worth bulk systems to participating curers. The fund is available for three years from 1997 to 1999, and is originally targeted to be used to co-buy 120 sets of the bulk system. This new system reportedly helps to reduce the costs of fuel and labor, and increase the yields of cured tobacco. However, the impact of the change in curing system technology will likely be limited by the cost of investment as well as a tight money policies associated with a crisis in finance industry in recent years. About 10-15 percent of current flue cured production is cured using this system. Due to overall lower yields, production cost of flue cured tobacco under the traditional curing facilities in 1999 is estimated to further increase to 57-59 baht/kg, as compared to 54-57 baht/kg in 1998. By contrast, the production cost of flue cured tobacco produced from these new curing barns is 5-10 baht/kg less than that from traditional curing facilities.

In an effort to improve productivity and quality of flue cured production, both TTM and some large curers have also initiated some new program to improve tobacco farming. TTM sources reported that they began in CY 1998/99 to promote a new flue cured variety and growing technique to their contracted farmers. The project is aimed at improving Thai flue cured tobacco from the current filler type to semi-favored 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 grade. Past history casts some doubt on this project. TTM has tried a similar project, but it proved to be unsuccessful. A few large curers have begun to replace a portion of contracted farm production with their own crops. According to these curers, the benefit of this practice is to improve productivity and quality of flue cured tobacco thru the proper use of machinery (such as planting machines) and farm inputs.

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 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 dominant buyer of all Thai tobacco, acquiring flue cured leaf through allocating production quotas to small contract farmers and large curers. Most of large curers also contract production with local growers, buy green leaf, and cure it. They then sell the dried leaf to TTM and exporters.

Like flue cured tobacco, burley production is estimated to decline by 15 percent in 1999 due mainly to dry conditions and hot weather in growing areas. Planted area for burley grew slightly due to a relatively good return from burley compared to other competing crops and increased farming by laid-off workers who returned to their home towns. However, average yields for the late-crop, a major crop accounting for about 90 percent of total burley production, decreased sharply as a result of hot temperatures in early 1999 and less water supply in irrigated area. The overall quality of the late-crop production also slightly deteriorated from the last season's. Nevertheless, productivity and quality of the early-crop production (seeded in Aug/Sep and accounting for about 10 percent of total burley production) is reported to have improved from the previous season due to favorable weather conditions.

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. 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. The production cost of burley (FSW basis) in 1999 is estimated to have increased by 10 percent to 34-37 baht/kg due mainly to decreased yields. Farm expenses (such as labor, fertilizer and chemicals, etc.) were reported to be close to the 1998 levels.

After a sharp reduction in 1998, oriental tobacco production in 1999 is estimated to recover by 5 percent from the 1998 level, in line with higher average yields. Despite attractive prices in recent years, growing area for oriental tobacco in 1999 is close to the previous year due mainly to reduced TTM's quota. Trade sources reported that the average yields improved as a result of fewer incidences of extremely dry conditions than the previous season.

Consumption

Following a forecast continued slump in TTM's cigarette sales, total domestic consumption for all types of tobacco is estimated to decrease further in 1999 by 12 percent to 25,345 tons. Out of total domestic consumption, TTM would utilize about 25,290 tons in 1999, as compared to 28,737 tons in 1998. As a result, consumption of domestic leaf by TTM is forecast to decrease by the same degree from 22,934 tons in 1998 to 20,175 tons. Meanwhile, the use of foreign leaf (flue cured and burley) is likely to drop to 5,115 tons. This is based on the assumption that the proportion of both domestic leaf and imported leaf in Thai cigarettes would remain unchanged in 1999.

As indicated in the table below, TTM's total tobacco consumption registered a significant decline in 1998 (29 percent), in line with the sluggish sales of its cigarettes. The content of imported leaf in Thai cigarettes also dropped from 20.41 percent in 1997 to 20.19 percent reflecting TTM's effort to lower their production cost following the sharp depreciation in Thai currency in mid 1997.

	1997			1998		
	Local	Foreign	Total	Local	Foreign	Total
Flue Cured	15,098	4,155	19,253	10,801	2,893	13,694
Burley	11,360	4,099	15,459	8,067	2,910	10,977
Oriental	5,717	0	5,717	4,054	0	4,054
Dark Air Cured	18	0	18	12	0	12
Total Tobacco	32,193	8,254	40,447	22,934	5,803	28,737

As indicated in the table below, the proportion of each type of tobacco used for TTM's cigarette production remained unchanged from 1996-1998; i.e., 48 percent for flue cured, 38 percent for burley, and 14 percent for oriental. This stable percentage indicated the fact that TTM can no longer increase their sales of American blend cigarette (which favor the use of burley tobacco). Total sales of American blend cigarette already reached to 95.6 percent in 1998. The proportion of each type of tobacco used for cigarette production is forecast to remain unchanged in 1999.

	Percentage of Each Type of Leaf to All Tobacco Used for Cigarette Production							
	1992	1993	1994	1995	1996	1997	1998	1999 forecast
Flue Cured	54	53	51	49	48	48	48	48
Burley	33	34	35	37	38	38	38	38
Oriental	13	13	14	14	14	14	14	14
TOTAL	100	100	100	100	100	100	100	100

TTM's leaf procurement in 1999 is also in line with anticipated lower consumption. TTM has reduced its quota allocation for both flue cured and oriental tobacco. However, the quota for burley contrarily increased because TTM has contracted with an exporter to purchase about 4,500 tons on the exporter's behalf. In 1998 (1997/98, harvested), actual tobacco purchased by TTM was 15,459 tons for flue cured, 19,043 tons for burley, and 4,617 tons for oriental tobacco, respectively.

	1997/98			1998/99
	TTM's Quota (MT)	Actual Purchase (MT)	Average Prices (Baht/kg)	TTM's Quota (MT)
Flue Cured	16,554	15,459	63.25	14,642
Burley	19,309	19,043	40.14	19,700
Oriental	7,329	4,617	42.59	4,600
Source: Thailand Tobacco Monopoly (TTM)				

TTM raised its guaranteed prices again in 1999 much to the liking of both curers and farmers. The guaranteed prices in MY 1999 were raised by 2-4 baht/kg.(FSW basis) for flue cured (about 5 percent increase at average), 1-3 baht/kg for burley (5 percent), and 2 baht for oriental tobacco (about 5 percent), respectively. TTM discontinued providing a special price support of 1.0 baht for each kilogram sold to TTM which was practiced in 1998. Prices for flue cured paid by TTM are currently about 65-70 baht/kg, compared to about 55-60 baht/kg paid by exporters. Prices for burley paid by TTM are presently 43-46 baht/kg. Trade sources report that prices paid by exporters have been very low at 20-31 baht/kg thus far because of a joint-buying by two existing exporters and poor crop quality. The two existing exporters began in 1998 to set up buying floors for burley tobacco in different producing areas. All burley tobacco which is purchased by these exporters must be graded and priced on the same standard. Exporters claimed that this system will help farmers to improve their leaf quality and will sustain the exports of Thai burley in the long run. Trade sources believe that this cartel will be beneficial to exporters rather than farmers and local traders.

According to the Excise Department, average prices for all types of tobacco in MY 1998 rose from the 1997 level, due mainly to an increase in TTM's guaranteed prices and strong export demand. Prices paid by TTM soared up to 63.25 baht/kg (from 56.62 baht/kg) for flue cured, 40.14 baht/kg (from 37.77 baht/kg) for burley, and 42.59 baht/kg (from 38.86 baht/kg) for oriental tobacco, respectively. Average prices paid by exporters also firmed to 51.23 baht/kg (from 49.47 baht/kg) for flue cured and 48.93 (from 39.76 baht/kg) for oriental. Average prices for burley paid by exporters dropped from 37.33 baht/kg in 1997 to 34.11 baht/kg.

Trade

Following an anticipated decline in exports of flue cured tobacco, exports of three major types of tobacco leaf (i.e., flue cured, burley, and oriental) altogether in 1999 are forecast to drop by 4-5 percent to 27,000 tons. Despite increased supply availabilities, demand for Thai tobacco is unlikely to be as strong as in 1998 because of slow sales and increased competition from Brazil. Thailand's tobacco imports are estimated to decrease sharply in 1999 from 8,661 tons in 1998 to about 5,260 tons in line with a significant cut back in TTM's cigarette production, high stocks of imported tobacco held by TTM, and discontinued imports of foreign tobacco for re-export. TTM considered U.S. tobacco too expensive as a result of Thai baht depreciation and purchased about 180 tons of Chinese flue cured tobacco in 1999. This Chinese leaf will be used to replace a portion of U.S. tobacco in their cigarette production. Total imports of U.S. tobacco are forecast to decline by 34 percent, from 7,661 tons in 1998 to about 5,000 tons in 1999.

According to the Customs Department, total exports of tobacco leaf in 1998 (excluding dark air cured tobacco) rose by 10 percent to 28,016 tons. By contrast, imports of U.S. tobacco by TTM dropped by 9 percent from 8,382 tons to 7,661 tons. In addition, Thai exporters reportedly imported flue cured leaf (about 1,000 tons) from China and Laos for re-export.

Exports of flue cured tobacco in 1999 is forecast at 8,000 tons, compared to 10,424 tons in 1998, due to lower overseas demand for Thai flue cured tobacco. An exporter reported that domestic prices for Thai flue cured have increased sharply in recent years while world prices are declining, as a result of a recent sharp reduction in Brazilian currency and a high volume of worldwide stocks. This factor has made Thai flue cured less competitive among their competing suppliers. While Thailand is an exporter of filler-type flue cured tobacco, it is a major importer of full-flavored tobacco leaf. In an effort to reduce their cost, TTM began to replace a portion of U.S. leaf with Chinese flue cured in 1999. The replacement may be temporary or limited to small volume due to TTM's concern about the quality of cigarettes. TTM's flue cured imports in 1998 were 3,725 tons, compared to 3,952 tons in 1997. Imports of flue cured by TTM are forecast at 2,500 tons in 1999.

Exports of burley tobacco in 1999 is forecast to increase to 15,000 tons, compared to 14,314 tons in 1998. A lower cost of procuring burley by exporters and the uniqueness of Thai burley quality has helped overseas demand for Thai burley remain fairly strong in 1999. Likewise, Thailand is exporting filler type burley tobacco while importing full-flavored burley tobacco for its domestic cigarette production. Thus far, the United States has been the sole supplier of burley leaf to TTM, due to its unique quality and aroma, which produces superior cigarettes. However, TTM's burley imports in 1999 should decline to 2,600 tons against 3,936 tons in 1998.

Following are the tables of export volumes and values of each major tobacco in 1997 and 1998:

THAILAND: Export Volumes and Values of Flue Cured in 1997 and 1998				
	1997 (Jan-Dec)		1998 (Jan-Dec)	
	M.T.	US\$ 1,000 1/	M.T.	US\$ 1,000 2/
1. U.S.A.	212	460.61	458	922.49
2. Australia	756	2,602.96	356	1,008.83
3. Belgium	342	1,219.81	819	1,919.23
4. Canada	171	417.29	271	764.38
5. Germany	196	654.21	1,031	2,633.80
6. France	228	514.85	326	196.17
7. U.K.	2,541	8,016.63	2,024	5,650.27
8. Japan	1,242	4,003.53	686	2,580.27
9. Taiwan	0	0.00	2,779	8,429.83
10. Netherlands	337	925.31	228	764.20
11. Others	637	1,731.69	1,395	3,319.30
TOTAL	6,662	20,546.89	10,424	28,189.07
1/ US\$ 1.0 = 35.00 Baht				
2/ US\$ 1.0 = 41.30 Baht				
Source: The Department of Customs				

THAILAND: Export Volumes and Values of Burley in 1996 and 1997				
	1997 (Jan-Dec)		1998 (Jan-Dec)	
	M.T.	US\$ 1,000 1/	M.T.	US\$ 1,000 2/
1. U.S.A.	7,045	16,970.49	5,551	12,623.13
2. Germany	814	1,524.60	379	884.95
3. Belgium	0	0.00	259	598.75
4. Canada	317	802.09	495	1,608.14
5. France	1,079	2,523.57	1,809	4,607.59
6. U.K.	1,971	5,436.95	2,328	5,571.74
7. Italy	269	674.43	1,053	2,388.19
8. Malaysia	370	1,049.97	318	970.68
9. Netherlands	99	330.49	180	428.45
10. Singapore	143	436.78	210	661.53
11. Japan	292	665.33	303	666.23
12. Mexico	436	1,865.39	0	0.00
13. Others	577	1,716.76	1,429	3,641.66
TOTAL	13,412	33,996.85	14,314	34,651.04
1/ US\$ 1.0 = 35.00 Baht				
2/ US\$ 1.0 = 41.30 Baht				
Source: The Department of Customs				

Policy

There has been no change in TTM's authority for guaranteed price manipulation and non-tariff barriers. As for import tariff for unmanufactured tobacco, there have been two import tariff schedules for application. Firstly, the importation may be subject to the schedule which is in accordance with WTO agreements. Under this schedule, Thailand introduced the tariff-rate-quota system for unmanufactured tobacco in 1995. The quota in 1999 is 9,000 tons. The current in-quota tariff rate for unmanufactured tobacco is 30 percent, against 76.0 percent for the above-quota tariff rate. Secondly, the importation may also be subject to the general tariff schedule. Until December 1998, the tariff rate for unmanufactured tobacco under this schedule was 60 percent or 35 baht/kg whichever is higher. However, following TTM's import of Chinese tobacco for use in their cigarette production, the Ministry of Finance agreed with a request by TTM on December 16, 1998 to reduce the import tariff rates for unmanufactured tobacco under this general tariff schedule to 30 percent or 17.50 baht/kg whichever is higher. With the provision of these two tariff schedules, the maximum tariff rate is practically 30 percent (or 17.50 baht/kg).

The importation of tobacco products remains under the control of TTM. Licenses are required for imports of unmanufactured and manufactured tobacco (excluding cigarettes).

Marketing

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

PSD Table						
Country:	Thailand					
Commodity:	Tobacco, Mfg., Cigarettes					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Filter Production	46095	46095	39100	33833	0	29880
Non-Filter Production	1032	1032	1000	736	0	610
TOTAL Production	47127	47127	40100	34569	0	30490
Imports	1997	1997	2000	3311	0	4000
TOTAL SUPPLY	49124	49124	42100	37880	0	34490
Exports	87	87	400	172	0	200
Domestic Consumption	49037	49037	41700	37708	0	34290
TOTAL DISTRIBUTION	49124	49124	42100	37880	0	34490

Manufactured Tobacco, Cigarettes

Production

After a sharp reduction in 1998 (about 27 percent), TTM's cigarette production in 1999 is forecast to drop again by about 12 percent from the 1998 level. This parallels to sales of TTM's cigarettes. The proportion of filter cigarettes in total production in 1999 should be basically unchanged at 98 percent, with the balance going to non-filter production.

Sources in TTM report that production costs of TTM's cigarettes has increased by about 10-15 percent in 1999 due to higher expenses for domestic leaves, labor, and packaging materials. As a result of the economic crisis, TTM has suspended its plans to build a new plant. According to an executive TTM official, TTM has been targeted for privatization after the Government pass the privatization law. Thus far, there has not been an active move for privatizing TTM.

Consumption

TTM's cigarette sales in 1998 decreased by 23 percent to 35,867 million pieces, as a result of the economic turmoil in Thailand, higher prices for cigarettes, and fierce competition from imported cigarettes. Source from TTM reported that the troubled economy reduced purchasing power among low/medium income smokers and forced several smokers on the lowest end to switch to hand-rolled cigarettes. Meanwhile, an introduction of price-competitive imported cigarettes (from U.S., European, and Chinese brands) posed a greater threat to TTM's cigarette sales. TTM also raised its cigarette prices three times from late 1997 to early 1998. Total cigarette sales by TTM are forecast to decline again in 1999 by 10-15 percent.

In 1997, American blend cigarettes continued to dominate cigarette sales by TTM, accounting for almost 96 percent, followed by English blend cigarettes (3.5 percent), and dark aromatic blend cigarettes (0.8 percent).

By contrast, sales of imported cigarettes are estimated to continue to grow by 20-30 percent in 1998, due mainly to an introduction of price-competitive imported cigarettes against TTM's high-quality cigarettes and its increased popularity among youth and women smokers. As a result, the market share of imported cigarettes increased from about 5 percent of total consumption in 1997 to 9 percent in 1999. Sales of imported cigarettes are forecast to grow by another 15-20 percent in 1999. Smuggled cigarettes reportedly represent about 2-3 percent of total consumption.

The Excise Department controls the maximum retail prices for all domestic and imported cigarettes. Since the last Annual Report, there had been no change in the retail price list of both domestic and imported cigarettes for most of 1998. However, a reduction in value added tax, effective on April 1, 1999, resulted in a slight decrease in retail cigarette prices. Retail prices for TTM's cigarettes have dropped by 1.0 baht/pack to 16.00-39.00 baht/pack (US\$ 0.43-1.04/pack). The price for TTM's most popular brand cigarettes is presently 28 baht/pack. Meanwhile, retail prices for imported cigarettes also decreased to 24-50 baht/pack (US\$ 0.64-1.33/pack). Prices for several imported brands declined and are close to those for TTM's popular brands in recent years because a few importers began to import well-known cigarettes from factories in Malaysia and Singapore.

Despite a sharp drop in TTM's cigarette sales, the Excise Department reported that their revenue generated from excise taxes on total manufactured cigarettes in FY 1998 was down only 3 percent to 28,693 million baht (approx. US\$ 689 million). This is attributed to increased revenue from imported cigarettes and an increase in prices for TTM's cigarettes. Of the total amount, the revenue generated from excise taxes on domestic cigarette sales was 25,824 million baht.

There has been no change in demographic survey on smoking behavior since the last Annual Report. The National Statistics Office (NSO) recently reported its 1996 survey on cigarette smoking habits of Thai nationals. According to NSO, the number of regular smokers in Thailand dropped from 11.41 million persons in 1991 to 11.25 million persons, accounting for 23 percent of the population more than 10 years of age. Most regular smokers are male (95 percent). About 54 percent of the adult male population (aged 20 years and over) are regular smokers compared to only 3 percent of the female population. Young smokers aged 11-15 years increased by 4 percent, from 522,200 persons in 1991 to 541,500 persons in 1996. The number of female smokers also rose by 8 percent, from 566,200 persons in 1991 to 609,900 persons in 1996.

Trade

In an effort to monitor the amount of cigarette imports by using the actual collected excise tax basis and on the PS&D unit (pieces) basis, FAR/Bangkok began to use figures on cigarette imports and exports which are reported by the Excise Department. This means that we no longer use import and export data reported by the Customs Department (which is normally reported on weight basis).

According to the Excise Department, imports of cigarettes in 1998 increased by 66 percent from 1,997 million pieces in 1997 to 3,311 million pieces. This is in line with a sharp increase in sales of imported cigarettes and a need to build up stocks. About 80 percent of total imports are American brand cigarettes, followed by U.K. brand (11 percent), Chinese brand (6 percent), and Japanese brand (3 percent), respectively. It should be noted that these cigarettes were mostly imported from Malaysia and Singapore. Imports should increase further to about 4 billion pieces in 1999, in anticipation of increased market share of imported cigarettes. TTM's cigarette exports almost doubled from 87 million pieces in 1997 to 172 million pieces in 1998, of which major markets were Malaysia and Singapore. Exports will increase moderately in 1999.

Trade Matrix

As the Excise Department has not reported the shipment origin for their import figures, FAR/Bangkok decided not to present a trade matrix for cigarettes in 1997 and 1998.

Policy

The only change in taxes on cigarettes since the last Annual Report is that the Ministry of Finance (MOF) has decreased the value-added tax (VAT) in April 1999 from 10% to 7% on retail prices of all goods, which included cigarettes. The excise tax on both domestic and imported cigarettes is currently 70 percent. The import duty on cigarettes is 60 percent, plus a special surcharge of 10 percent of the import duties.

There have been no changes in regulations which require health warnings on cigarette labels, a ban on cigarette advertisements, smoking prohibitions in public places, and a request for all cigarette manufacturers and importers to disclose ingredients by brand.

Marketing

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