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Tobacco

Tobacco Annual

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Prepared by:

Randolph H. Zeitner

U.S. Embassy

Drafted by:

Scott Turner

Report Highlights:

Production decreases.

Grower numbers continue to decrease while quality increases.

Change in excess tax expected to see cigarette imports increase.

Tobacco imports decrease.

Cigarette exports increase.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Canberra [AS1], AS

Executive Summary	1
Tobacco, Unmfg, Flue Cured	2
Production	2
General	3
Weather	4
Crop Area	4
Yields	4
Cross Commodity Developments	4
Consumption	4
General	4
Prices	5
Trade	6
General	7
Factors Affecting U.S. Trade	7
Recent Sales	8
Stocks	9
Factors Affecting Stocks	9
Policy	9
Production Policy	9
Tariff Changes	10
Quality, Safety and Health Regulations	10
Marketing	10
General	10
Tobacco, Unmfg, Burley	11
Tobacco, Mfg, Cigarettes	12
Commodity Outlook, Production	12
General	12
Consumption	13
General	13
Other	15
Trade	16
General	18
Policy	19
Quality, Safety & Health Regulations	19
Tariff Changes	20
Marketing	20
Marketing Channels	20
Tobacco, Unmfg, Total	22

Executive Summary

The Australian tobacco industry has been substantially deregulated in recent years. The Government of Australia (GOA) introduced a tobacco industry restructuring package which deregulated the industry. The national production quota, the Average Minimum Price (AMP), and the Local Leaf Content Scheme (LLCS) ceased on January 1, 1995. All imports of tobacco leaf, manufactured tobacco and tobacco products (not including cigarettes) have been free of duty since January 1, 1995.

Deregulation has led to production decreasing and prices paid to Australian growers falling. Inefficient producers have, and will continue to leave the industry, while the remaining producers will continue to become larger and produce a higher quality product. This has led to a higher volume of imports at the lower end of the market. Opportunities exist to increase US sales in this market however suppliers must compete with increasingly competitive domestic producers and with many other foreign suppliers.

Under the current market structure manufacturers deal with grower owned and run cooperatives in both Queensland and Victoria. The manufacturers negotiate the volume, and price, of tobacco that they will purchase each year with these grower bodies.

Australian tobacco production for 1998-99 is forecast to have fallen to 7.5 million kilograms, 1.5 million kilograms lower than during 1997-98.

The Government of Australia (GOA) plans to change the method of applying the excise tax to tobacco products on November 1, 1999. Excise will be charged on a per stick basis as opposed to the current system of levying the excise on a weight basis. This will increase the price of "budget" brand cigarettes. The price of more expensive brands will remain the same. Industry analysts believe that this change will make heavier imported cigarettes more price competitive and thus imports are expected to increase. The Australian Consumer and Competition Commission (ACCC) cautions that restrictions on marketing and advertising, plus the difficulty in cracking the distribution system (which is dominated by the current players), will limit the market penetration of imported cigarettes.

The GOA banned all forms of tobacco advertising on July 1, 1993 (tobacco advertising had already been banned in print media, and on radio and television). Tobacco companies are no longer able to advertise their tobacco products on billboards, in cinemas and on non-tobacco merchandise such as T-shirts, watches, lighters and hats.

The GOA banned tobacco advertising, via sponsorship, from December 31, 1995. There are limited exemptions for internationally televised events of international sport or cultural activities, held in Australia, whose future would be in jeopardy if immediately covered by the ban.

Smoking is banned in Federal, and most State, Government buildings, domestic airline flights, airport terminals, and on international flights flying over Australia. Smokeless tobacco products are banned and age limits for tobacco products are in place in all states.

Tobacco, Unmfg, Flue Cured

PSD Table						
Country	Australia					
Commodity	Tobacco, Unmfg., Flue Cured				(HA)(MT)	
	Revised	1997	Preliminary	1998	Forecast	1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Area Planted	3200	3200	3300	2900	0	2800
Beginning Stocks	19220	19783	19045	18851	0	16150
Farm Sales Weight Prod	9600	9200	9000	9000	0	7500
Dry Weight Production	9024	8648	8460	8460	0	7050
U.S. Leaf Imports	2250	2034	2160	1741	0	1800
Other Foreign Imports	7700	10799	10890	9872	0	11700
TOTAL Imports	9950	12833	13050	11613	0	13500
TOTAL SUPPLY	38194	41264	40555	38924	0	36700
Exports	1000	735	700	906	0	900
Dom. Leaf Consumption	7900	8650	8460	8460	0	7050
U.S. Leaf Dom. Consum.	2250	2034	2160	1741	0	1800
Other Foreign Consump.	7700	10800	10890	9872	0	12700
TOTAL Dom. Consumption	17850	21678	21510	21868	0	21550
TOTAL Disappearance	18850	22413	22210	22774	0	22450
Ending Stocks	19344	18851	18345	16150	0	14250
TOTAL DISTRIBUTION	38194	41264	40555	38924	0	36700

Production

	Area (ha.)			Production (MT)		
Product	1997	1998	1999	1997	1997	1999
Flue-Cured	3200	2900	2800	9.2	9.0	7.5

General

Australian tobacco production is totally dedicated to the production of flue-cured leaf.

The Australian tobacco industry was largely on January 1, 1995. The national production quota, AMP, and the LLCS ceased from that date. All imports of tobacco leaf, manufactured tobacco and tobacco products (not including cigarettes) have been free of duty since January 1, 1995.

Restructuring was initiated to make the industry more competitive. Deregulation has reduced production and has reduced prices paid to growers. Some of the more inefficient producers have left the industry, and more will follow. This has resulted in producers becoming larger and producing a higher quality product. This has led to a higher volume of imports at the lower end of the market. Opportunities exist to increase US sales in this market however suppliers must compete with increasingly competitive Australian producers and with many foreign suppliers.

The depreciation of the Australian dollar, which ABARE estimated, averaged A\$1.00=US\$0.78 during 1996-97 and is currently forecast to average A\$1.00=US\$0.62 during 1998-99, makes U.S. tobacco less price competitive on the Australian market.

Australian tobacco production for 1998-99 is estimated to have fallen to 7.5 million kilograms, 1.5 million kilograms lower than during 1997-98. Selling entitlements are negotiated between grower representatives and manufacturers.

The 1998-99 Victorian crop experienced generally favorable seasonal conditions however flooding in September 1998 delayed planting and resulted in the season finishing later than average thus risking frost damage late in the season. Some crops in the lower ends of the Ovens and King valleys have been affected by yellow dwarf virus which stunts the growth of the plant. The Victorian harvest is usually completed by the end of April. The 1989-99 Queensland crop was planted March-August 1998 (however growers usually avoid the colder months i.e. from late May through July), and is picked from August 1998-January 1999. The 1989-99 crop experienced generally favorable seasonal conditions. The earlier planted crop achieved a higher yield and better quality leaf. However heavy rain during harvesting delayed harvest and reduced the quality and yield of the late crop. Stem borer and leaf minor resulted in some crop damage while frog eye caused reduced quality in the early crop.

The Queensland industry has in the past had quality problems due to the climate in which they grow the crop. The industry reports that leaf quality and prices are improving due to continued research and development.

Grower numbers have been falling in recent years. Currently there are around 120 growers left in Victoria and about 170 growers in Queensland.

In order to compete with imported leaf, production costs, of which labor accounts for around 45 percent, must be substantially reduced and average leaf quality further enhanced. Since deregulation this appears to be occurring. Average prices were anticipated to fall sharply following deregulation. This did not occur as many of the growers who left the industry produced tobacco of an inferior grade. The Tobacco Research and Development Corporation (TRDC) continues to fund research which aims to improve varieties and cultural practices.

Weather

The 1998-99 Victorian crop experienced generally favorable seasonal conditions however flooding in September 1998 delayed planting and resulted in the season finishing later than average thus risking frost damage late in the season. The 1989-99 Queensland crop experienced generally favorable seasonal conditions. Heavy rain during harvesting delayed harvest and reduced the quality and yield of the late crop.

Crop Area

Restructuring has resulted in a reduction in the area sown to tobacco. The Victorian industry appears to have adjusted to the deregulated environment quicker than the Queensland industry. The area in Victoria is currently around 1600 hectares after falling to around 1200 hectares in 1993-94. The area in Queensland has fallen to around 1200 hectares and seems set to fall further following a restructuring package currently being offered by the Queensland Government.

Manufacturers deal with the Queensland Tobacco Marketing Co-Operative Ltd (QTMC) and the Tobacco Co-Operative of Victoria (TCV). Both these bodies are grower run cooperatives. The manufacturers negotiate the amount of tobacco that they will purchase each year (in advance) with the co-operatives. The individual co-operative regulates production.

Yields

Cured leaf yields have risen from 1.5 to 3.0 MT/ha in the past twenty five years.

Cross Commodity Developments

A study of the Australian tobacco industry indicated that large farms had significantly lower costs of production. This is reflected in the exit of many smaller and less efficient growers from the industry.

Consumption

General

The domestic tobacco market has been contracting in recent years due to sharp increases in prices, which reflects tax increases, and anti-smoking campaigns by private and Government organizations.

An industry spokesman was quoted recently as saying that the Australian tobacco market has been contracting at a rate approximately 2.5-3.0 percent per year in recent years.

The recent increase in cigarette exports has resulted in an increase in consumption of tobacco leaf which has more than offset a fall in domestic cigarette consumption.

Prices

Prices are negotiated directly between grower representative bodies and the three manufacturers.

Since deregulation, the industry and the manufacturers have negotiated contracts which specify price and quantity. Growers agreed to an 18 Ac/kg, 10 Ac/kg, and 10 Ac/kg reduction for the three years following the 1994 average price of 603 Ac/kg. The 1996 notional price was 575 Ac/kg, however growers averaged 609 Ac/kg because a greater proportion of the crop fell into the higher grades. Industry sources state that prices for 1997, 1998 and 1999 have remained close to 600 Ac/kg.

Trade

Import Trade Matrix			
Country	Australia		
Commodity	Tobacco,Un mfg.,Flue Cured		
Time period	Jan - Dec	Units:	MT
Imports for:	1997		1998
U.S.	2260	U.S.	1934
Others		Others	
Brazil	2523	Brazil	3270
Taiwan	2408	Taiwan	2458
Zimbabwe	2172	Zimbabwe	1440
Thailand	839	Malawi	883
India	648	Thailand	578
China	466	Greece	529
Malawi	404	India	411
Greece	400	Italy	274
Argentina	395	Indonesia	220
Italy	350	Canada	215
Total for Others	10605		10278
Others not Listed	1394		691
Grand Total	14259		12903

Export Trade Matrix			
Country	Australia		
Commodity	Tobacco, Unmfg., Flue Cured		
Time period	Jan - Dec	Units:	MT
Exports for:	1997		1998
U.S.	0	U.S.	10
Others		Others	
Indonesia	231	Malaysia	320
Pap. New Guinea	228	India	97
Malaysia	202	Belgium	79
New Zealand	33	Indonesia	78
Solomon Islands	19	New Zealand	68
Brazil	15	South Africa	55
Italy	5	Pap. New Guinea	6
Germany	1	United Kingdom	4
Total for Others	734		707
Others not Listed			189
Grand Total	734		906

General

Tobacco imports increased following deregulation. However, the contraction in the domestic market since that time has led to imports trending down. It appears that the majority of imports fill the lower end of the market as many of the growers who exited the market were producing inferior quality leaf.

Imports of US leaf have fallen in recent years reflecting the general trend. This may be due to the increase in Australian tobacco quality, and may also reflect stronger competition from other exporting countries.

Local content legislation was repealed as of January 1, 1995.

Factors Affecting U.S. Trade

A smaller domestic crop has led to a higher volume of imports at the lower end of the market. It appears that U.S. producers have an opportunity to increase market share in this environment. They do however face the challenge of competing with higher quality Australian tobacco and many other foreign suppliers.

Currently Australia annually imports around 2,000 MT of tobacco from the U.S. with the majority being flue cured flavor leaf for blending with either Australian or poorer quality imported filler leaf. Industry sources indicate that the demand for higher quality U.S. leaf should remain strong for the foreseeable future.

Industry sources indicate that tobacco blends cannot change by more than five to seven percent in any one year as a greater change significantly alters the taste of the tobacco and will lead to consumers changing brands. This limits the speed of change that any manufacturer can effect in their blends.

Recent Sales

TOBACCO IMPORTS UNMANUFACTURED FLUE-CURED TOBACCO (A\$ fob)

	1996	1997	1998
Japan	17,922,006	6,750,414	0
USA	23,130,899	16,419,760	20,421,158
Taiwan	14,104,722	12,707,932	16,193,869
Brazil	15,428,500	12,161,348	14,574,287
Zimbabwe	11,914,515	11,363,383	6,927,387
Malawi	4,020,238	2,757,669	6,105,760
Thailand	1,584,112	4,698,743	3,700,598
Greece	3,493,147	2,502,086	3,698,451
China	1,436,064	2,688,179	464,466
India	470,611	3,146,627	2,099,122
Italy	948,608	1,295,499	1,109,743
Others	8,850,764	7,644,342	6,540,344
TOTAL	103,304,186	84,405,982	81,835,185

Exchange rate - US\$1.00 = A\$1.58, 4/16/99

Stocks

Factors Affecting Stocks

Before deregulation stocks of quota leaf were set on the basis of months of domestic consumption and were formally required to be held by manufacturers. Deregulation has led to reduced stock levels.

Farmers hold leaf on-farm as insurance against crop failure and subsequent shortfalls in production. Thus sales can be higher than production.

Policy

Production Policy

The industry was largely deregulated on January 1, 1995. The national production quota, AMP, and the LLCs ceased from that date. All imports of tobacco leaf, manufactured tobacco and tobacco products (not including cigarettes) have been free of duty since January 1, 1995.

As part of the structural adjustment in the industry, the State Governments of New South Wales, Queensland and Victoria introduced packages to buy out excess quota and to expedite the exit of growers from the industry. In addition to State Government contributions the three tobacco manufacturers provided "top up" payments of a further A\$2 per kilogram in N.S.W. and Queensland. In Victoria the manufacturers' contributed A\$3 million towards the relocation of a leaf threshing plant from Melbourne to Myrtleford. The remaining \$2 million for the relocation was provided by Victorian growers.

The threshing plant began operation in Myrtleford in May 96. The plant is expected to manufacture five million kilos annually of green leaf tobacco from Victoria and Queensland. It is reported to be more cost effective for manufacturers to transport unmanufactured tobacco as opposed to green leaf. The Co-op has a long term goal of exporting some of its value added product.

Under the deregulated environment manufacturers deal with the Queensland Tobacco Marketing Co-Operative Ltd (QTMC) and the Tobacco Co-Operative of Victoria (TCV). Both these bodies are grower cooperatives. The manufacturers will negotiate the amount of tobacco that they will purchase each year, and the grower bodies will regulate individual growers.

The Queensland Government provided a further A\$30 million package to encourage more growers to exit the industry and to help make those that remain more viable. This package includes three options. Under option one A\$5 million will be made available for those in hardship to leave the industry immediately. Option two provides money over five years (to 2002) for people to leave the industry. During this time they may continue to grow tobacco. Option three provides funds for people who want to stay in the industry to improve their viability.

It is estimated that 40 growers took option one, 160-170 growers are left at present and that around 130 growers will be left at the end of the five year scheme.

Tariff Changes

As part of the GOA's restructuring package all imports of tobacco leaf, manufactured tobacco and tobacco products (covered under category 2401 in the harmonized tariff schedule) are free of customs duties.

Quality, Safety and Health Regulations

The anti-smoking lobby in Australia is gaining momentum with increasing restrictions being imposed in recent years (Tobacco, Mfg, Cigarettes, Quality, Safety and Health Regulations).

Marketing

General

Local content legislation was repealed as of January 1, 1995. Manufacturers now negotiate contracts directly with grower bodies.

Tobacco leaf consumption data is not available. The Australian cigarette market is estimated at an approximate value of A\$6.5 billion (estimated retail value in 1997). The Australian cigarette market in 1998 was estimated to be split between Rothmans - 30.0 percent; Philip Morris - 39.9 percent; and W.D. & H.O. Wills - 30.1 percent.

Tobacco, Unmfg, Burley

PSD Table						
Country	Australia					
Commodity	Tobacco, Unmfg., Burley				(HA)(MT)	
	Revised	1997	Preliminary	1998	Forecast	1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Area Planted	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Farm Sales Weight Prod	0	0	0	0	0	0
Dry Weight Production	0	0	0	0	0	0
U.S. Leaf Imports	203	226	216	193	0	190
Other Foreign Imports	1080	1200	1089	1097	0	1190
TOTAL Imports	1283	1426	1305	1290	0	1380
TOTAL SUPPLY	1283	1426	1305	1290	0	1380
Exports	0	0	0	0	0	0
Dom. Leaf Consumption	0	0	0	0	0	0
U.S. Leaf Dom. Consum.	203	226	216	193	0	190
Other Foreign Consump.	1080	1200	1089	1097	0	1190
TOTAL Dom. Consumption	1283	1426	1305	1290	0	1380
TOTAL Disappearance	1283	1426	1305	1290	0	1380
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	1283	1426	1305	1290	0	1380

Tobacco, Mfg, Cigarettes

PSD Table						
Country	Australia					
Commodity	Tobacco, Mfg., Cigarettes				(MIL PCS)	
	Revised	1997	Preliminary	1998	Forecast	1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Filter Production	28400	28400	27700	28700	0	28000
Non-Filter Production	1500	1500	1500	1500	0	1500
TOTAL Production	29900	29900	29200	30200	0	29500
Imports	1254	1254	1300	1629	0	1600
TOTAL SUPPLY	31154	31154	30500	31829	0	31100
Exports	3155	3155	3000	3955	0	4000
Domestic Consumption	27999	27999	27500	27874	0	27100
TOTAL DISTRIBUTION	31154	31154	30500	31829	0	31100

Commodity Outlook, Production

General

The Australian cigarette market has shrunk in recent years in volume terms, however it has actually increased in value terms. Retail sources indicate that consumers are increasing purchases through grocery stores at the expense of other outlets. The pack size preferred by smokers continues to increase in an attempt to economize as the price of the product increases. The cost of cigarettes has increased sharply in recent years with increases in taxes making up a large part of this increase.

The Australian cigarette market has experienced waves of heavy price discounting in recent years due to increased restrictions on tobacco advertising, and falling demand for tobacco and tobacco products. Industry players suggest that heavy price discounting, which severely reduced company profits, has eased. Prices of cigarettes have increased and profits have improved.

The approximate A\$6.5 billion (estimated total market value in 1997) cigarette, tobacco, etc, market,(of which the majority is cigarettes) is split between Rothmans - 30.0 percent; Philip Morris - 39.9 percent; and W.D. & H.O. Wills - 30.1 percent.

The proposed merger of the local arms of British American Tobacco and Rothmans International i.e.WD&HO Wills and Rothmans Australia was recently investigated by the ACCC. The ACCC concluded in April 1999 that the merger was likely to “substantially lessen competition in the Australian cigarette market”. The two companies are estimated to control around 62 percent of the cigarette market. The ACCC is willing to discuss arrangements which would enable the merger to proceed. This may include the two companies divesting some of their brands. The companies appear optimistic of overcoming the obstacles posed by the ACCC.

Consumption

General**TOP CIGARETTE BRANDS
PERCENT SHARE (VOL)**

Brand	Percent Share
Longbeach 25s/40s	20.6
Horizon 50s	17.1
Peter Jackson 20s/30s	14.0
Winfield 25s	13.4
Holiday 50s	9.7
Benson & Hedges 20s/25s	7.4
Stradbroke 40s	3.0
Alpine 25s	3.2
Marlborough 25s	2.2
Dunhill 20s/25s	2.0
Escort 35s	1.6
Brandon	0.9
Special Mild 35s	0.3
Peter Stuyvesant 20s/25s	0.6
Wills Super Mild 35s	0.3
Craven A	0.2
Freedom	0.9
More	0.9

**CIGARETTE PACK SIZE
PERCENT SHARE (VOL)**

20s	3.5
25s	30.7
30s	17.6
35s	2.6
40s	22.5
50s	23.0

**SEGMENT PERCENT SHARES
(VOL)**

1mg	6.0
2mg	9.4
4mg	13.7
5-8mg	32.8
9-12mg	25.8
13-16mg	12.3

Other**RETAIL CIGARETTE PRICES (A\$)**

BRAND	QTY	ALL OF AUSTRALIA
Alpine (Menth)	25	7.05
Benson & Hedges - Extra Mild	20	6.05
Dunhill - King Size Filter	20	6.35
- Int. Superior Mild	20	7.30
Winfield - Virginia Filter	25	7.05

State Taxes: All states impose a 100 percent tax on cigarette sales.

In recent years state tobacco tax levels have increased dramatically. These increases have sharply lifted cigarette prices.

The GOA plans to change the method of applying the excise tax to tobacco products on November 1, 1999. Excise will be charged on a per stick basis as opposed to the current system of levying the excise on a weight basis. This will increase the price of lighter weight "budget" brands of cigarettes. Local cigarettes are said to be 25 percent lighter than the imported product. The price of more expensive brands will remain the same as the policy is not to decrease the price of any cigarette. Industry analysts believe that this change will enable heavier imported cigarettes to be more price competitive, therefore imports are expected to increase. The ACCC cautions that restrictions on marketing and advertising, plus the difficulty in cracking the distribution system (which is dominated by the current players), will limit market penetration of imported cigarettes.

The GOA currently obtains around A\$4 billion per year from taxes on tobacco products. This is expected to increase by around A\$300 million during the 1999-2000 financial year (Jul-Jun) when the new scheme is introduced.

Trade

Import Trade Matrix			
Country	Australia		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	Jan - Dec	Units:	M Pieces
Imports for:	1997		1998
U.S.	635	U.S.	588
Others		Others	
China	192	China	624
United Kingdom	116	The Netherlands	111
The Netherlands	107	United Kingdom	108
New Zealand	76	New Zealand	81
Japan	48	Japan	44
Australia	22	Australia	11
Hong Kong	12	Cuba	9
Indonesia	11	Dominican Republic	7
Switzerland	7	Slovenia	7
Cuba	4	Indonesia	6
Total for Others	595		1008
Others not Listed	24		33
Grand Total	1254		1629

Export Trade Matrix			
Country	Australia		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	Jan - Dec	Units:	M Pieces
Exports for:	1997		1998
U.S.	1	U.S.	0
Others		Others	
Belgium	1047	Belgium	1886
Saudi Arabia	895	Singapore	451
New Zealand	201	Saudi Arabia	352
Solomon Islands	134	New Zealand	254
New Caledonia	130	Solomon Islands	162
Singapore	120	New Caledonia	141
Polynesia	84	Malaysia	111
Tonga	82	Polynesia	90
Hong Kong	70	Tonga	80
Vanuatu	49	United Arab Em.	74
Total for Others	2812		3601
Others not Listed	342		354
Grand Total	3155		3955

General

Australian cigarette imports increased in volume and value terms during 1998. Imports of US cigarettes increased in value terms while sustaining a slight fall in volume.

Post receives trade data in kilograms and converts this data to million pieces using a conversion factor of 1600 sticks per kilo. This is an industry estimate given that the figure can range from 1200 to 2000 sticks per kilo.

TOBACCO IMPORTS - CIGARETTES (A\$ FOB)

	1996	1997	1998
USA	14,132,633	14,966,249	16,202,318
Netherlands	8,237,441	8,464,329	12,873,912
United Kingdom	2,732,014	2,350,565	2,345,303
Japan	2,575,430	1,362,337	1,382,696
China	2,537,907	4,494,100	12,212,969
New Zealand	1,097,530	1,237,202	1,405,490
Cuba	870,451	1,263,630	2,519,759
Germany	330,515	190,640	185,868
Belgium	22,293	125,869	59,268
Indonesia	357,122	285,945	232,691
Other	9,957,419	3,881,605	4,653,105
TOTAL	42,850,755	38,622,471	54,073,379

Exchange rate - US\$1.00 = A\$1.58 4/16/99

Exports of Australian cigarettes have increased from a very low base in recent years. The main increase is in sales to Belgium, Singapore and Saudi Arabia.

The new method of levying excise tax on tobacco products, which will come into effect on November 1, 1999, will be charged on a per stick basis as opposed to the current system of levying the excise on a weight basis. Industry analysts believe that this change will enable heavier imported cigarettes to be more price competitive, therefore, imports are expected to increase under the new tax regime.

Policy

Quality, Safety & Health Regulations

The GOA banned all forms of tobacco advertising on July 1, 1993 (tobacco advertising had already been banned in print media, and on radio and television). Tobacco companies are no longer able to advertise their tobacco products on billboards, in cinemas or on non-tobacco merchandise such as T-shirts, watches, lighters and hats.

The GOA banned tobacco advertising, via sponsorship from December 31, 1995. There are limited exemptions for internationally televised events of international sport or cultural activities, held in Australia, whose future would be in jeopardy if covered by the ban.

The anti-smoking lobby in Australia is gaining momentum with increasing restrictions being imposed in recent years. Smoking is banned in Federal, and most State, Government buildings, domestic airline flights, commonwealth owned/controlled airport terminals, and on international flights flying over Australia. Smokeless tobacco products are banned and age limits for tobacco products are in place in all states.

Tobacco packaging in Australia must display information regarding pack contents and health warning labeling. The regulations state that the following information must be printed on the side of a cigarette packet:

(xx) mg or less of tar - condensed smoke containing many chemicals, including some that cause cancer;

(xx) mg or less of nicotine - a poisonous and addictive drug; and

(xx) mg or less of carbon monoxide - a deadly gas which reduces the ability of blood to carry oxygen.

All tobacco products must also carry health warnings such as;

-smoking causes lung cancer;

-smoking is addictive;

-smoking kills;

-smoking causes heart disease;

-smoking when pregnant harms your baby; and

-your smoking can harm others.

Tariff Changes

The following general import tariff rate applies to cigarettes imported into Australia: A\$88.05/kg, and 50.32 percent of the wholesale list price. This also applies to developing countries. Previously different tariffs applied for different import sources(See previous annual tobacco reports). As part of the GOA's recent restructuring package all imports of tobacco leaf, manufactured tobacco and tobacco products (covered under category 2401 in the harmonized tariff schedule) are free of customs duties.

Marketing

Marketing Channels

The following table shows the number of outlets across Australia selling cigarettes (in percentages). Milk bars represent 40.8 percent of the total number of retailers selling cigarettes. Convenience stores are included among 'Other'.

NUMBER OF OUTLETS WHICH SELL CIGARETTES (%)

Milk Bars	40.8
Hotel/Liquor Stores	20.0
Service Stations	12.3
Grocery Stores	10.3
Newsagent	7.3
Other	6.6
Tobacconist	2.7

The following table shows the split (in percentages) of cigarette sales nationally, by volume. 'Grocery' is mainly supermarkets. Late-trading convenience stores are shown in 'Other'.

**NATIONAL CIGARETTE SALES
BY VOLUME (%)**

Milk Bars	30.0
Grocery	24.9
Tobacconist	14.7
Other	12.5
Service Stations	6.9
Newsagents	5.7
Hotel/Liquor Stores	5.3

Tobacco, Unmfg, Total

PSD Table						
Country	Australia					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	Revised	1997	Preliminary	1998	Forecast	1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Area Planted	3200	3200	3300	2900	0	2800
Beginning Stocks	19725	19725	18987	18988	0	16151
Farm Sales Weight Prod	9200	9200	9000	9000	0	7500
Dry Weight Production	8648	8648	8460	8460	0	7050
U.S. Leaf Imports	2260	2260	2400	1934	0	1900
Other Foreign Imports	11999	11999	12100	10969	0	11900
TOTAL Imports	14259	14259	14500	12903	0	13800
TOTAL SUPPLY	42632	42632	41947	40351	0	37001
Exports	735	734	700	906	0	900
Dom. Leaf Consumption	8650	8650	8460	8460	0	7050
U.S. Leaf Dom. Consum.	2260	2260	2400	1934	0	1900
Other Foreign Consump.	12000	12000	12200	12900	0	14050
TOTAL Dom. Consumption	22910	22910	23060	23294	0	23000
TOTAL Disappearance	23645	23644	23760	24200	0	23900
Ending Stocks	18987	18988	18187	16151	0	13101
TOTAL DISTRIBUTION	42632	42632	41947	40351	0	37001