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Venezuela

Tobacco

Cigarette consumption drops

1999

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Report Highlights:
Domestic production of Burley and Flue Cured tobacco is going through an adjustment process as cigarette consumption drops due to the steady increase in government taxes to this sector. U.S. tobacco exports to Venezuela will also likely fall.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

Venezuela produces only burley and flue cured tobacco. Venezuelan total leaf tobacco production reached 21,000 MT in 1998 and is forecasted to reach 21,550 MT in 1999.

Venezuela has two major cigarette companies, Bigott and Catana. Bigott is a representative of British American Tobacco (BAT) and Catana is affiliated with Phillip Morris. Bigott has 70 percent of the cigarette market in Venezuela, while the remaining 30 percent belongs to Catana.

Bigott buys tobacco from the Asociacion Venezolana de Cultivadores de Tabaco (The Venezuelan Tobacco Growers Association, or Avenculta). Catana purchases tobacco from another local grower association, the Asociacion Nacional de Cultivadores de Tabaco y Otros Rubros (The National Association of Producers of Tobacco and Other Products, or Asoncultra).

Venezuela's tobacco imports dropped by almost 14 percent between 1997 and 1998 in response to a declining domestic consumption of cigarettes. However, increasing leaf disappearance has been observed as result of export programs established by major cigarette companies in the country. One hundred percent of tobacco leaf imports goes into cigarette production to prepare blends to satisfy consumer preferences.

Venezuela's major tobacco leaf suppliers are Brazil, Argentina, United States, Colombia and Spain (with market shares of 55, 13, 10, 6 and 5 percent respectively). Tobacco imports from the United States have increased by almost 1,000 percent between 1997 and 1998. Catana is using more “waste” tobacco from the United States to include in local cigarette production.

Domestic consumption of cigarettes has decreased since late 1997 as result of price hikes and eroding purchasing power of the Venezuelan consumer. Cigarette manufacturers attacked the situation by focusing on export programs for the Andean region and the Caribbean Area. Domestic consumption has eroded by 9.8 percent from 6,991 million cigarettes in 1997 to 6,300 million in 1998, but, thanks to the efforts of cigarette manufacturers in expanding their export markets, overall sales have increased by 27.4 percent to 20,750 million cigarettes.

Production

Tobacco is an important and relatively profitable crop in Venezuela. Farmers grow only two types: burley and flue cured tobacco. The most important is flue cured. The Venezuelan tobacco production cycle culminates with 60 days of flue cured harvesting from March through April and 90 days of burley harvesting from May through July.

Tobacco production (farm sales weight) in 1998 increased by fifteen percent to around 21,000 MT, due mostly to better management and improved technical assistance, which resulted in higher yields. Production in 1999 is expected to reach 21,550 MT, a three percent increase from 1998. New price agreements were signed in 1998. The benefits of the price agreements between growers and manufacturers have led to significantly higher productivity, including not only increased yields, but also an increase in the number of new tobacco growers. The agreement provides an attractive price with an inflation index and technical assistance.

Table No. 1
Venezuela's Tobacco
Area & Production

	Area (ha.)			Production (MT)		
Product	1997	1998	1999	1997	1998	1999
Flue-Cured	4,400	5,500	5,500	10,980	13,500	14,000
Burley	2,928	3,000	3,000	7,349	7,500	7,550
TOTAL	7,328	8,500	8,500	18,329	21,000	21,550

Weather

Most tobacco grown in Venezuela is irrigated. Therefore, the impact of weather on tobacco production is minimal. However, during 1998 and the early months of 1999, drier than normal conditions affected some regions of the country . Tobacco growers have reported that the weather has not significantly impacted their tobacco yields.

Inputs

Bigott and Catana provide growers with seeds and technical assistance. These are distributed to growers by Avenculta and Asoncultra. Bigott and Catana also provide Avenculta and Asoncultra with funds for fertilizer which is distributed among producers. Price contracts also include financing without interests of insurance policies to machinery, transportation, medical services. Catana published and distributed among producers a tobacco planting & growing guide.

Crop Area

Crop area for 1998 increased 16 percent as compared with 1997 as result of the continuos efforts of both companies to provide special incentives to tobacco growers. Incentives include crop insurance, interest free production loans, and loan forgiveness. As result, new crop areas were incorporated (in the states of Barinas, Falcon, Sucre and47 Trujillo) during 1998. Crop area for 1999 is expected to change only slightly as compared with 1998 because both companies are trying to reduce the production incentives they traditionally offered. As result of this policy, Post believes that only a minimal increase in crop area will be seen in 1999/00.

Yields

Recently increased yields observed in Venezuelan tobacco production are mainly due to actions developed during the past three years by both cigarette companies, Bigott and Catana. These companies have invested time and money educating and providing improved technical assistance which has resulted in better production output. Average yields during the last three years have been about 2.5 mt/ha (farm sales weight, or fsw). This represents a dramatic increase as compared with yields obtained in the early 1990s which averaged around 1.5 mt/ha.

Consumption

Macroeconomic Overview

Venezuela's economy is being battered by a combination of external and internal factors. Unpredictable international oil prices and voluntary production cuts have resulted in greatly reduced government revenue and expenditures. Reduced government spending has had a related impact on private sector revenues and spending. Budget cuts and new taxes have contributed to a decline in domestic demand. Uncertainty over the government's economic policies and the Constitutional Assembly has caused domestic and foreign investors to postpone investments. All of these factors point to a deepening economic recession in 1999.

Total tobacco leaf disappearances during 1998 increased by three percent more than in 1997. The forecast for 1999/00 is that leaf disappearance will increase by one percent. Tobacco leaf disappearance has been driven mainly by non-domestic export demand of cigarettes rather than domestic demand. The cigarette export programs lead by Catana and Bigott have strongly supported tobacco leaf disappearance. As the cigarette export market grows, local demand for both domestic and imported tobacco leaf is expected to increase.

Prices

The two cigarette producers, Bigott and Catana, negotiate with Avenculta and Asoncultra to set producer prices before each year’s crop is planted. The producer average price for 1999 was set in October 1998 at Bs/kg.1,370 ($2.30/kg). Prices increased by 14 percent (in local currency terms) as compared with the previous year when the producer price was set at Bs. 1,200 per kg ($2.00/kg). These prices are for the most representative grade. Premiums and discounts apply for higher and lower quality leaf.

Trade

The Venezuelan statistical office has not yet published detailed trade data for 1998. The export and import figures given in the PSD are Post estimates based on field visits and industry interviews of a proprietary nature. We have, therefore, refrained from adding Trade Matrices to this report. Official trade data will be submitted as a voluntary report as soon as they become available.

Bigott and Catana have been net importers of tobacco leaf since 1994 in order to produce cigarettes for export. Imports in 1998 were approximately 6,000 MT, a 14 percent decrease as compared to the previous year. The forecast for 1999 sets imports at approximately 4,000 MT. If local cigarette manufacturers continue to aggressively develop export markets, there will be a strong demand for tobacco leaf imports.

Venezuela's major import suppliers are Brazil, Argentina, United States, Colombia, and Spain (with 55, 13, 10, 6 and 5 percent of the market, respectively). Tobacco imports from the United States increased by almost 1,000 percent between 1997 and 1998. However, U.S. exports to Venezuela are expected to drop sharply in 1999/2000, partially displaced by domestic production.

Venezuela is exporting reprocessed tobacco waste as leaf since 1998. Figures are insignificant, but manufacturers believe that reprocessed tobacco waste has export potential in the short to medium future.

Tariff Changes

Partly-stemmed or wholly-stemmed light and dark tobacco are charged an ad valorem duty of 15 percent. Tobacco refuse and unstemmed or stripped tobacco are charged a tariff of 10 percent. Tobacco imports from Andean Pact countries (Colombia, Ecuador and Bolivia) enter duty free.

Table No. 2
Venezuela's Ad Valorem for Tobacco & Tobacco Products

Item			Description	Import Duty (% Ad valorem)
24.01.			Unmanufactured tobacco; tobacco refuse:	
	.10		Tobacco, not stemmed / stripped:	
		.10	Light	10
		.20	Dark	10
	.20		Tobacco, partly or wholly stemmed /stripped:	
		.10	Light	15
		.20	Dark	15
	.30		Tobacco refuse	10
24.02			Manufactured Tobacco; tobacco extracts and essences:	
	.10		Cigars	20
	.20		Cigarettes	20
24.03	.10		Cut or shredded, for smoking	20
	.99		Other	20

Marketing

Market Development Opportunities

Venezuela is a net importer of tobacco leaf. While domestic production is sufficient for domestic cigarette consumption, Bigott and Catana must import tobacco leaf in order to meet their cigarette export commitments. Venezuela tends to import tobacco (mostly for blending) from Brazil, Argentina, United States, Colombia and Spain.

There will likely be more and more tobacco imports from the United States as Catana follows headquarter guidelines (Phillip Morris Inc.) for producing cigarettes overseas where the tobacco is grown. This seems to be a proposed guideline for Catana in response to U.S. tobacco growers' complaint that too much imported tobacco was entering the United States.

CIGARETTES
Production

Filtered cigarettes are preferred among Venezuelan smokers, there is no domestic production of unfiltered cigarettes. As was mentioned before, there are only two prime players in the local market: Bigott and Catana. The most common cigarette brands are Belmont, Lucky Strike, Marlboro and Astor, all produced locally.

Cigarette production increased by 16 percent during 1998 in response to an aggressive export programs by manufacturers, once import bans imposed by Ecuador and Colombia for the Belmont brand (Bigott) were lifted. The production forecast for 1999 is to grow approximately 11 percent because cigarette manufacturers will continue supporting export programs to the Caribbean and Andean Community countries.

Inputs

The imported content of Venezuela cigarettes accounts for approximately 30 percent of final value. The remaining 70 percent is made up of nationally produced raw materials. Acetate filters are produced domestically, but the components for carbon filters are imported.

Consumption

Venezuelans are simply smoking less due mainly to falling disposable incomes. The forecast for 1999 is to see a further decline in domestic consumption as much as 10 percent as compared to 1998 because purchasing power of smokers cannot keep up with the price increases projected by manufacturers. A change in consumption patterns is observed by cigarette manufacturers as consumers are buying packages of ten cigarettes rather that the usual 20 piece pack.

Tobacco manufacturers must be creative when it comes to marketing cigarettes since Venezuela is one of the few countries in Latin America which bans cigarette advertizing on the radio and television. There is an active anti smoking campaign in Venezuela. Smoking is prohibited on domestic commercial flights and in schools, while some restaurants have special rooms for nonsmokers.

Prices

Cigarette prices continued to increase due to tax increases and increasing production costs. The average pack of cigarettes was Bs. 700 (US$ 1.17) in April 1998; one year later it had increased to Bs. 900 (US$1.50); a 28 percent increase.

Cigarettes continue to be heavily taxed in Venezuela. The total tax burden amounts to an average 82.5 percent of the wholesale price of each pack of twenty cigarettes. (see Policy section). The Government of Venezuela had revenue for 1998 at US $ 169 million, the forecasted for 1999 is US$ 246.47 million, a 45.7 percent rise.

A major reason for cigarette price increases is that cigarette taxes are one of the most reliable sources of tax revenues and the government has increased the tax liability. Of course, the cost of production is also rising, which also pushes up cigarette prices.

Policy

Taxes

Beginning April 17, 1998, the Government of Venezuela (GOV) established an additional 15 percent import tax or surcharge to an extensive list of commodities and goods, including unmanufactured and manufactured tobacco, cigars and cigarettes. According to Decree number 2484, dated April 16, 1998, all imports listed on the decree are obligated to pay an additional 15 percent of the Ad valorem tariff. For example, the Ad valorem with the new import tax for manufactured tobacco, cut or shredded, for smoking is 23 percent (20%+20%*15%). Imports of the above products coming from Andean Community countries and from those countries that have trade agreements with Venezuela are not subject to this additional charge.

Additionally, a two percent customs service charge is imposed on all imports.

Manufactured tobacco, cigars and cigarettes are subject to a 16.5 % luxury tax and a 10 percent wholesale tax in addition to the ad valorem duty and the tax of 15% of the ad valorem tariff.

Cigarettes are subject to a 50 percent excise tax on the retail price.

The taxes charged on cigarettes is shown below:

Table No. 3
Venezuela: Cigarette Taxes

TAX	PERCENT *
Cigarette Sales Tax**	50.0%
Value Added Tax	16.5%
Luxury Tax	10.0%
Municipal Tax	3.0%
Other Taxes	3.0%
TOTAL TAX PAID	**82.5%**

* percent of wholesale price.
** paid on the retail price

Source: Ministry of the Treasury

The sales, municipal and “other” taxes are paid by the manufacturer before the product leaves the plant. The luxury and value added taxes are paid in throughout the marketing channel.

Trade

Both cigarette manufacturers have come to rely on export markets in response to the depressed domestic demand for cigarettes. As a result, the Caribbean and Andean Community countries have been aggressively targeted by Bigott and Catana.

Venezuela exported 16.3 billion cigarettes during 1998, an increase in sales of 10 percent as compared with 1997. Almost 70 percent of total domestic production of cigarettes is being exported by manufacturers. There is a strong possibility that exports during 1999 could be as high as 81 percent as compared with 1998, when exports accounted for 76.7 percent of sales. The reason for the increase is that Colombia and Ecuador just recently lifted their import ban on cigarettes from Venezuela.

Tariff Changes

For current tariff changes see Table No. 2.

Marketing

There are a small number of Venezuelans that prefer U.S. cigarette brands, especially Camel, followed by Winston, Kool, and More. Another factor to consider is that the presence of American citizens in Venezuela has increased because of the opening of the oil sector in late 1997. The presence of American citizens should provide an opportunity for more imported U.S. cigarette brands.

Import Requirements and Restrictions

Imports of unmanufactured tobacco require phytosanitary permits issued by the country of origin plus phytosanitary permits issued by the Venezuelan Ministry of Agriculture. Imports of manufactured tobacco, cigars and cigarettes only require phytosanitary permits issued by the country of origin. There are currently no import restrictions for cigarettes.

Anti Smoking Measures

Tobacco manufacturers must be creative when it comes to marketing cigarettes since Venezuela is one of the few countries in Latin America which bans cigarette advertizing on the radio and television ads for cigarettes. However, advertizing is prevalent in movie theaters, magazines, public events (concerts, sporting events) and in public advertising media (billboards, etc).

The GOV requires a health warning on all cigarette packs. The same warning is required in all advertisements; newspapers, billboards, etc. Smoking is prohibited in elevators, on public transportation, commercial air flights, schools and in certain other areas designated by the government. Separate smoking and nonsmoking sections are required at places of assembly.

Tobacco, Unmanufactured, Total

PSD Table						
Country	Venezuela					
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	7320	7328	8500	8500	0	8500
Beginning Stocks	24140	24425	27144	24425	0	24425
Farm Sales Weight Prod	18329	18329	21000	21000	0	21550
Dry Weight Production	13379	12790	14630	14700	0	15085
U.S. Leaf Imports	803	803	800	800	0	420
Other Foreign Imports	7177	7000	6000	6000	0	4000
TOTAL Imports	7980	7803	6800	6800	0	4420
TOTAL SUPPLY	45499	45018	48574	45925	0	43930
Exports	0	0	0	0	0	0
Dom. Leaf Consumption	13246	12790	14490	14700	0	15085
U.S. Leaf Dom. Consum.	803	803	800	800	0	420
Other Foreign Consump.	4306	7000	3600	6000	0	4000
TOTAL Dom. Consumption	18355	20593	18890	21500	0	19505
TOTAL Disappearance	18355	20593	18890	21500	0	19505
Ending Stocks	27144	24425	29684	24425	0	24425
TOTAL DISTRIBUTION	45499	45018	48574	45925	0	43930

Flue Cured

PSD Table						
Country	Venezuela					
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	4392	4400	5500	5500	0	5500
Beginning Stocks	18702	18702	21655	18702	0	18702
Farm Sales Weight Prod	10980	10980	13500	13500	0	14000
Dry Weight Production	8235	7680	9450	9450	0	9800
U.S. Leaf Imports	803	803	800	800	0	420
Other Foreign Imports	7177	7000	6000	6000	0	4000
TOTAL Imports	7980	7803	6800	6800	0	4420
TOTAL SUPPLY	34917	34185	37905	34952	0	32922
Exports	0	0	0	0	0	0
Dom. Leaf Consumption	8153	7680	9360	9450	0	9800
U.S. Leaf Dom. Consum.	803	803	800	800	0	420
Other Foreign Consump.	4306	7000	3600	6000	0	4000
TOTAL Dom. Consumption	13262	15483	13760	16250	0	14220
TOTAL Disappearance	13262	15483	13760	16250	0	14220
Ending Stocks	21655	18702	24145	18702	0	18702
TOTAL DISTRIBUTION	34917	34185	37905	34952	0	32922

Burley

PSD Table						
Country	Venezuela					
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	2928	2928	3000	3000	0	3000
Beginning Stocks	5723	5723	5774	5723	0	5723
Farm Sales Weight Prod	7349	7349	7500	7500	0	7550
Dry Weight Production	5144	5110	5180	5250	0	5285
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	10867	10833	10954	10973	0	11008
Exports	0	0	0	0	0	0
Dom. Leaf Consumption	5093	5110	5130	5250	0	5285
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	0	0	0	0	0	0
TOTAL Dom. Consumption	5093	5110	5130	5250	0	5285
TOTAL Disappearance	5093	5110	5130	5250	0	5285
Ending Stocks	5774	5723	5824	5723	0	5723
TOTAL DISTRIBUTION	10867	10833	10954	10973	0	11008

Cigarettes

PSD Table						
Country	Venezuela					
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	23270	23270	27000	27000	0	30000
Non-Filter Production	0	0	0	0	0	0
TOTAL Production	23270	23270	27000	27000	0	30000
Imports	10	10	50	50	0	50
TOTAL SUPPLY	23280	23280	27050	27050	0	30050
Exports	16289	16289	22950	20750	0	24350
Domestic Consumption	6991	6991	4100	6300	0	5700
TOTAL DISTRIBUTION	23280	23280	27050	27050	0	30050