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## **Philippines**

## **Tobacco**

## **Annual Report**

## **1999**

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### **Report Highlights:**

**Total tobacco production rebounded in 1998 but is set to decline in both quantity and quality in 1999 as a result of off season rains. This will lead to increased imports as companies attempt to maintain stocks. Most of the imports will be cheaper/lower quality to replace domestic leaf. Production should recover in 2000. The NTA will continue its recent development policy which includes active technical assistance, new credit facilities and floor prices. These policies appear effective.**

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Includes PSD changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
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## **Section I. Situation and Outlook**

Tobacco production expanded substantially in 1998 after contracting in 1997 due to uncertainty during late 1996 over a new excise tax structure for cigarettes. The 1998 rebound was also in response to higher floor prices from the National Tobacco Administration (NTA). However, acreage planted in the last half of 1998 was damaged by off season La Nina rains. This will lead to a substantial decline in 1999 production as well as quality problems with the leaf that is produced. Production is expected to recover in 2000 if the NTA maintains attractive floor prices for farmers and adequate new planting seeds are acquired in time for planting in the second half of 1999. However, in the latter half of 1999 farmers may be discouraged from planting more tobacco as a result of the low prices they are now receiving for the low-grade tobacco leaf from the rain damaged 1998/99 crop. Consequently, NTA is fearful that farmers will shift to other crops such as vegetables and cotton, leading to further erosion of production and stocks for use in producing the cheaper quality domestic cigarettes.

With stocks set to be drawn down for the second time in four years and an uncertain outlook, the NTA and the industry will need to step up imports in order to replenish stocks.

## Section II. Statistical Tables

PSD Table						
Country	Philippines					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/98		01/99		01/00
Area Planted	37568	45171	0	41011	0	43998
Beginning Stocks	111929	113086	103199	106695	0	100092
Farm Sales Weight Prod	67500	72670	0	58500	0	70250
Dry Weight Production	60950	61664	0	51600	0	62800
U.S. Leaf Imports	3800	2262	0	2700	0	2505
Other Foreign Imports	18250	15336	0	20207	0	21000
TOTAL Imports	22050	17598	0	22907	0	23505
TOTAL SUPPLY	194929	192348	103199	181202	0	186397
Exports	16500	10806	0	6500	0	12200
Dom. Leaf Consumption	65000	62500	0	60640	0	63300
U.S. Leaf Dom. Consum.	2220	2543	0	2130	0	2045
Other Foreign Consump.	8010	9804	0	11840	0	11770
TOTAL Dom. Consumption	75230	74847	0	74610	0	77115
TOTAL Disappearance	91730	85653	0	81110	0	89315
Ending Stocks	103199	106695	0	100092	0	97082
TOTAL DISTRIBUTION	194929	192348	0	181202	0	186397

PSD Table						
Country	Philippines					
Commodity	Tobacco,Unmfg.,Flue Cured				(HA)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/98		01/99		01/00
Area Planted	21900	27835	0	25126	0	30100
Beginning Stocks	37094	37251	28024	32164	0	22884
Farm Sales Weight Prod	45000	46046	0	41100	0	48000
Dry Weight Production	39600	42362	0	35300	0	42000
U.S. Leaf Imports	800	485	0	700	0	580
Other Foreign Imports	5750	4432	0	8000	0	6750
TOTAL Imports	6550	4917	0	8700	0	7330
TOTAL SUPPLY	83244	84530	28024	76164	0	72214
Exports	5500	3062	0	2000	0	4300
Dom. Leaf Consumption	45000	44000	0	45000	0	46000
U.S. Leaf Dom. Consum.	720	667	0	680	0	700
Other Foreign Consump.	4000	4637	0	5600	0	5700
TOTAL Dom. Consumption	49720	49304	0	51280	0	52400
TOTAL Disappearance	55220	52366	0	53280	0	56700
Ending Stocks	28024	32164	0	22884	0	15514
TOTAL DISTRIBUTION	83244	84530	0	76164	0	72214

PSD Table						
Country	Philippines					
Commodity	Tobacco, Unmfg., Burley				(HA)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/98		01/99		01/00
Area Planted	6668	6602	0	6295	0	5068
Beginning Stocks	67722	67722	69332	67304	0	70201
Farm Sales Weight Prod	13000	14406	0	9300	0	12500
Dry Weight Production	12610	10142	0	8800	0	12000
U.S. Leaf Imports	3000	1777	0	2000	0	1925
Other Foreign Imports	12500	10904	0	12207	0	14250
TOTAL Imports	15500	12681	0	14207	0	16175
TOTAL SUPPLY	95832	90545	69332	90311	0	98376
Exports	7000	4413	0	2500	0	4500
Dom. Leaf Consumption	14000	11800	0	9940	0	11000
U.S. Leaf Dom. Consum.	1500	1876	0	1450	0	1345
Other Foreign Consump.	4000	5152	0	6220	0	6050
TOTAL Dom. Consumption	19500	18828	0	17610	0	18395
TOTAL Disappearance	26500	23241	0	20110	0	22895
Ending Stocks	69332	67304	0	70201	0	75481
TOTAL DISTRIBUTION	95832	90545	0	90311	0	98376

PSD Table						
Country	Philippines					
Commodity	Unmfg.,Dark Air Cured,Cigar				(HA)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/98		01/99		01/00
Area Planted	9000	10734	0	9590	0	8830
Beginning Stocks	7113	7113	5843	6227	0	6007
Farm Sales Weight Prod	9500	12218	0	8100	0	9750
Dry Weight Production	8740	9160	0	7500	0	8800
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	15853	16273	5843	13727	0	14807
Exports	4000	3331	0	2000	0	3400
Dom. Leaf Consumption	6000	6700	0	5700	0	6300
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	10	15	0	20	0	20
TOTAL Dom. Consumption	6010	6715	0	5720	0	6320
TOTAL Disappearance	10010	10046	0	7720	0	9720
Ending Stocks	5843	6227	0	6007	0	5087
TOTAL DISTRIBUTION	15853	16273	0	13727	0	14807

Export Trade Matrix			
Country	Philippines		
Commodity	Tobacco, Unmfg., Total		
Time period	Jan-Dec	Units:	MT
Exports for:	1997		1998
U.S.	3046	U.S.	2339
Others		Others	
Tunisia	400	Tunisia	350
Greece	442	Greece	0
Japan	455	Japan	362
USR	585	USR	356
Ukraine	605	Ukraine	115
France	613	France	499
Belgium	943	Belgium	477
Spain	1375	Spain	708
Germany	2071	Germany	1065
Total for Others	7489		3932
Others not Listed	3496		4535
Grand Total	14031		10806

Import Trade Matrix			
Country	Philippines		
Commodity	Tobacco, Unmfg., Total		
Time period	Jan - Dec	Units:	MT
Imports for:	1997		1998
U.S.	4492	U.S.	2262
Others		Others	
Turkey	119	Malawi	0
Thailand	232	Egypt	0
Egypt	252	Indonesia	31
France	544	Thailand	128
South Africa	1030	Turkey	165
Malawi	2255	Zimbabwe	1415
China	2663	South Africa	1842
Zimbabwe	3826	Brazil	4809
Brazil	7306	China	5512
Total for Others	18227		13902
Others not Listed	387		1434
Grand Total	23106		17598

Export Trade Matrix			
Country	Philippines		
Commodity	Tobacco,Unmfg.,Flue Cured		
Time period	Jan - Dec	Units:	Jan - Dec
Exports for:	1997		1998
U.S.	218	U.S.	0
Others		Others	
Belgium	671	Belgium	229
USR	585	USR	356
UKR	515	UKR	115
Greece	442		
Italy	378		
Germany	475	Germany	495
Singapore	218	Singapore	386
Canada	200		
Turkey	198		
Australia	99	Australia	9
Total for Others	3781		1590
Others not Listed	838		1472
Grand Total	4837		3062

Import Trade Matrix			
Country	Philippines		
Commodity	Tobacco,Unmfg.,Flue Cured		
Time period	Jan - Dec	Units:	Jan - Dec
Imports for:	1997		1998
U.S.	1157	U.S.	485
Others		Others	
Brazil	4191	Brazil	1954
Zimbabwe	1519	Zimbabwe	966
China	134	China	1419
Argentina	77	Argentina	
Indonesia	69	Indonesia	31
Total for Others	5990		4370
Others not Listed	0		62
Grand Total	7147		4917

Export Trade Matrix			
Country	Philippines		
Commodity	Tobacco, Unmfg., Burley		
Time period	Jan - Dec	Units:	Jan - Dec
Exports for:	1997		1998
U.S.	1551	U.S.	1441
Others		Others	
Spain	1375	Spain	708
France	613	France	499
Germany	400		
Tunisia	400	Tunisia	350
Puerto Rico	288	Puerto Rico	72
Egypt	283	Egypt	99
Japan	104		
Singapore	59		
Belgium	45	Belgium	72
Netherlands	76	Netherlands	94
Total for Others	3643		1894
Others not Listed	67		1078
Grand Total	5261		4413

Import Trade Matrix			
Country	Philippines		
Commodity	Tobacco, Unmfg., Burley		
Time period	Jan - Dec	Units:	Jan - Dec
Imports for:	1997		1998
U.S.	3335	U.S.	1777
Others		Others	
Brazil	3115	Brazil	2855
China	2529	China	4093
Zimbabwe	2307	Zimbabwe	449
Malawi	2255	Malawi	
South Africa	1030	South Africa	1842
France	544	France	
Egypt	252	Egypt	
Thailand	232	Thailand	128
Turkey	119	Turkey	165
Total for Others	12383		9532
Others not Listed	241		1372
Grand Total	15959		12681

Export Trade Matrix			
Country	Philippines		
Commodity	Unmfg.,Dark Air Cured,Cigar		
Time period	Jan - Dec	Units:	Jan - Dec
Exports for:	1997		1998
U.S.	1277	U.S.	898
Others		Others	
Germany	1196	Germany	570
Japan	351	Japan	362
UK	303	UK	21
Belgium	227	Belgium	176
Ukraine	90	Ukraine	
Hongkong	99	Hongkong	99
Netherlands	79	Netherlands	
Total for Others	2345		1228
Others not Listed	311		1205
Grand Total	3933		3331

Import Trade Matrix			
Country	Philippines		
Commodity	Unmfg.,Dark Air Cured,Cigar		
Time period	Jan - Dec	Units:	Jan - Dec
Imports for:	1997		1998
U.S.	0	U.S.	0
Others		Others	
	0		0
	0		0
	0		0
	0		0
	0		0
	0		0
	0		0
	0		0
	0		0
Total for Others	0		0
Others not Listed	0		0
Grand Total	0		0

Production Table						
		Area (ha.)			Production (MT)	
Product	1997	1998	1999	1997	1998	1999
Flue-Cured	20108	27835	25126	41321	46046	41100
Burley	3386	6602	6295	9669	14406	9300
Dark Air-Cured, Cigar	5903	10734	9590	9909	12218	8100
Total	29397	45171	41000	60899	72700	58500

Exch. rates (Pesos per US Dollars) 1996 - 26.2, 1997- 29.5, 1998-38.1, 1999-37.5

Farmgate Prices Table				
Product	1996	1997	1998	1999
Virginia	34.6	37.07	41.72	42.1
Burley	24.1	27.59	35.78	
Dark Air-Cured, Cigar	19.4	21.57	24.81	
Total				

Exch. rates (Pesos per US Dollars) 1996 - 26.2, 1997- 29.5, 1998-38.1, 1999-37.5

Floor Prices by Grade - Virginia								
	AA	A	B	C	D	E	F1	F2
Virginia								
1996	38	37	35	33	30.5	29.5	26.5	23.5
1997	40	39	37	35	31.5	30.5	27.5	24.5
1998	43	42	40	38	34	33	30	27

Exch. rates (Pesos per US Dollars) 1996 - 26.2, 1997- 29.5, 1998-38.1, 1999-37.5

Floor Prices by Grade - Burley							
	A	B	C	D	E	F	R
Burley							
1996	26.5	24.5	23	20.5	19.5	11	10
1997	28	26	24	21.5	20.5	11.5	10
1998	30	28	26	23	22	15	10

Exch. rates (Pesos per US Dollars) 1996 - 26.2, 1997- 29.5, 1998-38.1, 1999-37.5

Floor Prices by Grade - Dark Air-Cured, Cigar						
	HG	M-1	M-2	L-1	L-2	
Dark Air-Cured, Cigar						
1996	28	22	18	13.5	7.5	
1997	30	23.5	19	14.5	8.5	
1998	33	25.5	21.5	15	8.5	

Exch. rates (Pesos per US Dollars) 1996 - 26.2, 1997- 29.5, 1998-38.1, 1999-37.5

PSD Table								
Country			Philippines					
Commodity			Tobacco Mfg., Cigarettes					
(MILLION PIECES)		1997	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New	Old	New
Market Year Begin		01/97		01/98		01/99		01/00
Cigarette Production	68550	67116	75000	67102	0	68620	0	69802
Imports	1626	1626	1500	4350	0	4500	0	4750
Total Supply	70176	68742	76500	71452	0	73120	0	74552
Exports	975	975	1500	1240	0	1500	0	1500
Domestic Consumption	69201	67767	75000	70212	0	71620	0	73052
Total Distribution	70176	68742	76500	71452	0	73120	0	74552

### Section III. Narrative on Supply and Demand, Policy & Marketing

#### Production

Total tobacco production rebounded to 72,670 MT in 1998, an increase of 12.4 percent. This increase was led by burley and dark air-cured tobacco which surged 30 percent while flue-cured was up 10 percent. Tobacco farmers have been encouraged by increases in both floor prices and farmgate prices in the last 2 years. However, it appears that off season rains in 1998, attributed to the La Nina phenomenon, are expected to drastically reduce yields and leaf quality for the current harvest being completed in 1999. Initial, unofficial reports from NTA are that the harvest is going to be as much as 20 percent below the 1998 level. If the current policies of NTA continue, and typhoons do not inflict significant damage of the acreage is planted in the latter part of 1999, production in 2000 is expected to approach the levels for 1998's harvest. For this to occur the NTA's technical and credit assistance through its - Tobacco Contract Growing Program (TCGP) will have to be as effective as it appeared to be in 1998. The low quality leaf brought to market this year is damaged by rains. Consequently, it is attracting lower-grade prices which could discourage farmers from planting tobacco again in the latter half of 1999. The successful expansion of production in 1998 was due to the resurgence of this program which gives farmers assurance of minimum tobacco floor prices. Final estimates from NTA are that nearly half total area planted or 17,000-plus hectares were covered under the TCGP in 1998.

#### Consumption

The economic problems stemming from both the peso adjustment and financial market failure in Asia that started in 1997 and continued in 1998 resulted in a shift to the cheaper domestic brands of cigarettes which use a higher percentage of domestic leaf. This led to an increase in demand for domestic leaf. As a result, total leaf consumption increased in 1998 compared to the previous year's level. Total foreign leaf consumption remained flat from 1997 to 1998.

However, in 1999 there will be lower domestic leaf supplies and lower quality based on current reports of

damage from late season rains. While this could provide some prospects for increased imported leaf, the bulk of domestic demand will still be focused toward cheaper local brands. Consequently, the prospects for foreign leaf imports will be kept in check since the incidence of smuggled cigarettes will probably be more prominent in 1999. Meanwhile, foreign leaf will continue to be used in blending with the bland local tobacco leaf. At the same time, with the turn around in the regional economic crisis, demand for locally produced foreign brands should also support leaf imports to be nearly the same as 1998. Into 2000, with continued general recovery of the economy, particularly in the real estate and construction sectors, consumption patterns will begin to show increased demand for cigarettes containing the fuller-flavored foreign leaf. With a stronger peso, which has maintained a level of 37-38 pesos to the dollar, consumption should at least keep pace with population growth into the year 2000.

*Cigarettes* - From 1997 to 1998, consumption increased from 67,767 million sticks to 70,212 million sticks, a 3-percent increase, staying slightly ahead of population growth. Cigars kept pace, increasing to 3.7 million pieces in 1998. With the impending tightness of domestic supplies of leaf any upward pressure on the prices of the cheaper domestic cigarette brands will certainly lead to increased smuggling. Smuggled cigarettes are said to normally account for as much as 20 percent of all cigarettes sold. As an example, in two separate incidents in April 1999, fake Marlboro and Winston cigarettes were seized at the Subic Bay Freeport. Authorities say they were brought in from China (with the odor of Chinese champoy) through Singapore. Their estimated value was 60 million pesos (\$1.6 million). It is expected that consumption will keep pace with population growth thru 2000, despite current efforts in the Philippine Senate to pass anti-smoking legislation. The previous Senate did not pass the last version of a 'no smoking' bill for the Philippines. Current efforts, which attempt to follow similar measures taken in the United States on under-age smoking, are also expected to fail.

## **Trade**

Total leaf imports were down by 24 percent in 1998, led primarily by a 30-percent decline in foreign flue-cured leaf imports. Exports did not increase in 1998 as expected despite the peso devaluation, falling by 23 percent. Exports to the United States fell by approximately the same amount led primarily by declines in the flue-cured and dark air-cured varieties. Export prospects are generally limited since the Virginia-type domestic leaf from the Philippines is primarily a low-quality product used for filler. Further, given the draw down in stocks, the need to maintain stock levels may have been given higher priority.

While imports are expected to increase in 1999 in order to rebuild stocks, these imports are expected to be of the lowest price/quality possible in order to cover domestic consumption needs for cheap brands after this year's reduced harvest. Otherwise, imports are regularly required to blend with the locally produced leaf. U.S. flue-cured leaf is known to be used in local cigarettes but it is transhipped through other trading centers and does not always appear in Philippine statistics.

## **Stocks**

Despite the increase in production for 1998, stocks declined slightly. Of course there is no way to definitely estimate the impact of smuggled cigarettes on inventories. Stocks are not expected to increase significantly through the end of 1999 and into 2000 without a substantial recovery in production. Further, the industry must keep up with projected consumption needs of the domestic market. The NTA has been able to offer higher floor prices to farmers for the second season in a row. If this continues, farmers may be encouraged to plant more tobacco for 2000. Cigarette manufacturers cannot allow stocks of the low-grade domestic leaf to fall too far since the bulk of the Philippine consumers demand the cheap domestic brands. Consequently, NTA and the two major manufacturers will probably seek to provide incentives for farmers to plant tobacco in 1999.

## **Policy**

The tripartite system for negotiating floor prices has been able to encourage farmers to increase planting in the last 2 years. Farmgate prices have also increased gradually. The tripartite system involves active participation from tobacco farmers, industry buyers, primarily Fortune Tobacco and the NTA. A continuation of this policy along with a strong TCGP's technical assistance program will be necessary to prevent farmers from shifting to competing crops.

Farmer incentives to produce are also supported by efforts to attract foreign investment in Ilocos Sur Province where 50 percent of the country's acreage of Virginia-type tobacco is located. Plans started last year to set up computerized flue-curing barns and engage in a joint venture with Swiss investors for redrying facilities in Ilocos Sur. The local government in Ilocos Sur is able to acquire funds to attract these projects using its share of the proceeds from the excise tax collected on cigarettes by the Bureau of Internal Revenue.

The Bureau of Internal Revenue's 'specific' product excise tax program places the same levy on the same specific product, whether domestic or imported. Consequently, imported cigarettes are burdened with this excise tax on top of the 10 percent VAT and the import duty of 15 percent. The import duty will drop to 10 percent on January 1, 2000.

Under the Department of Agriculture's Agrikulturang MakaMASA program (an action plan for agricultural modernization), a new credit facility being initiated should offer tobacco farmers and traders easier access to credit. Under the program, while NTA screens potential borrowers, QUEDANCOR (Quedan and Rural Credit Guarantee Corporation), the GOP's credit guarantor, will choose participating banks. This is an attempt to address past problems with these arrangements, primarily the reluctance of local banks to lend to farmers because of perceived high credit risk.

## **Marketing**

Cigarettes in duty-free stores are free of both tariffs and excise taxes. Consequently, duty-free stores have become the primary legal entry point for cigarette imports. However, the duty-free outlets, which number around 30 stores, were severely impacted by the peso devaluation in 1997. A recent visit to Clark found that these outlets have not yet recovered and several are expected to close.