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Czech Republic

Tobacco

Tobacco Annual

1999

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Report Highlights:
The largest cigarette manufacturing company in the Czech Republic, Tabak, sold 30 billion cigarettes in 1998 which is 2.5 billion less than the amount sold the previous year. This decline was caused mainly by the increase in the consumption tax in January 1998 and the buildup of stocks in 1997. Another reason for the decrease of sales is continuing economic recession and the lower purchasing power of consumers. Slovakia, the second most important market for Tabak, increased the consumption tax as well in 1998, which resulted in a 25 percent drop of sales in Slovakia. However, the decreased consumption in the Czech and Slovak Republics was compensated by increased exports to mainly former Soviet Union countries. Total exports increased by six percent.

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

Tobacco plantations that were once part of the former Czechoslovakia are now located in Slovakia. Czechoslovakia was divided into two countries in January 1993. As a result of the Czech Republic having improper climatic conditions for tobacco cultivation, no tobacco is grown in the country. Unmanufactured tobacco for the domestic processing industry is imported.

In 1998, Philip Morris International (a 78 percent stock holder of Tabak since 1992) continued to strengthen its position on the Czech market. Tabak with its 79 percent market share was until recently the only tobacco company in the Czech Repbublic that processed unmanufactured tobacco. Besides Tabak, there are other foreign companies on the market such as Reemtsma International Praha, a 100-percent subsidiary of the German Reemtsma International tobacco concern (12 percent market share), R.J. Reynolds Tobacco International (3 percent) and British American Tobacco (BAT) (also 3 percent), of which only BAT has production facilities in the Czech Republic.

Last year, Tabak sold 30 billion cigarettes, which is 2.5 billion less than the amount sold in 1997. This decline was caused mainly by the increase in the consumption tax in January 1998 and the buildup of stocks in 1997. Another reason for the decrease of sales is continuing economic recession and the lower purchasing power of consumers. Slovakia, the second most important market for Tabak, increased the consumption tax as well in 1998, which resulted in a 25 percent drop of sales in Slovakia. The decreased consumption in the Czech and Slovak Republics was compensated by increased exports to mainly former Soviet Union countries. Total exports increased by six percent.

PSD Table						
Country:	Czech Republic					
Commodity:	Tobacco, Unmfg.					
		1998		1999		2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Planted	0	0	0	0	0	0
Beginning Stocks	0	5000	0	5000	0	5000
Farm Sales Weight Prod	0	0	0	0	0	0
Dry Weight Production	0	0	0	0	0	0
U.S. Leaf Imports	0	300	0	320	0	320
Other Foreign Imports	0	17700	0	17850	0	17950
TOTAL Imports	0	18000	0	18170	0	18270
TOTAL SUPPLY	0	23000	0	23170	0	23270
Exports	0	250	0	250	0	250
Dom. Leaf Consumption	0	0	0	0	0	0
U.S. Leaf Dom. Consum.	0	300	0	320	0	320
Other Foreign Consump.	0	17450	0	17600	0	17700
TOTAL Dom. Consumption	0	17750	0	17920	0	18020
TOTAL Disappearance	0	18000	0	18170	0	18270
Ending Stocks	0	5000	0	5000	0	5000
TOTAL DISTRIBUTION	0	23000	0	23170	0	23270

PSD Table						
Country:	Czech Republic					
Commodity:	Tobacco, Mfg., Cigarettes					
		1998		1999		2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Filter Production	0	28664	0	31000	0	30000
Non-Filter Production	0	1536	0	1500	0	1500
TOTAL Production	0	30200	0	32500	0	31500
Imports	0	4500	0	5000	0	4000
TOTAL SUPPLY	0	34700	0	37500	0	35500
Exports	0	14700	0	18500	0	16500
Domestic Consumption	0	20000	0	19000	0	19000
TOTAL DISTRIBUTION	0	34700	0	37500	0	35500

(NOTE: Because tobacco is not grown in the Czech Republic and Tabak and BAT (since 1998), the only consumers of raw tobacco, do not release information regarding stocks and domestic consumption, the PS&D tables for unmanufactured tobacco are constructed from very limited data.)

Production

Tobacco plantations that were once part of the former Czechoslovakia are now located in Slovakia. Czechoslovakia was divided into two countries in January 1993. As a result of the improper climatic conditions for tobacco cultivation in the Czech Republic, no tobacco is grown in the country. Unmanufactured tobacco for the domestic processing industry is imported.

In 1998, Philip Morris International (a 78 percent stock holder of Tabak since 1992) continued to strengthen its position on the Czech market. Tabak, with its 79 percent market share, was until recently the only tobacco company in the Czech Repbublic that processed unmanufactured tobacco. Besides Tabak, there are other foreign companies on the market such as Reemtsma International Praha, a 100-percent subsidiary of the German Reemtsma International tobacco concern (12 percent market share), R.J. Reynolds Tobacco International (3 percent) and British American Tobacco (BAT) (also 3 percent), of which only BAT has production facilities in the Czech Republic.

Philip Morris - Tabak

Tabak's net income slightly decreased in 1998 from 2.38 billion crown to 2.35 billion CZK. For comparison, the net profit of Tabak in 1996 was 1.6 billion CZK. The revenues from the sale of manufactured products dropped in 1998 from 41.94 to 21.68 billion crowns; whereas, in 1996, revenues were as high as 170.6 billion CZK. Despite the decrease of both revenues and net profit, Tabak will pay its shareholders a gross dividend of 996 CZK per share for last year, which is, at the minimum, a 13 percent increase from the previous year.

To date, Philip Morris International has increased its stake in Tabak to 78 percent. The other part of Tabak is owned by 16,000 individual share holders, which originated from so called “voucher privatization".

Tabak has four production facilities within the Czech Republic. The Kutna Hora plant is a state of the art unmanufactured tobacco processing plant and one of the most modern tobacco plants in Europe. Philip Morris utilizes the plant as an engineering center for Central Europe. Another plant, located in Novy Jicin, was also modernized and is Tabak’s largest production plant. The other two plants are in Hodonin and Straznice.

Last year, Tabak sold 30 billion cigarettes, which is 2.5 billion fewer than the amount sold in 1997. The decline was caused mainly by the increase of consumption tax in January 1998 and the stock piling in 1997. Another reason for the decrease of sales is the continuing economic recession and lower purchase power of consumers. Slovakia, the second most important market for Tabak, also increased the consumption tax in 1998, which resulted in a 25 percent decrease of sales in Slovakia. The decreased consumption in the Czech and Slovak Republics was compensated by the increased exports to mainly former Soviet Union countries. The total amount of exports climbed by 6 percent. In 1999, Tabak expects to increase sales of cigarettes, mainly because of the new contract that Philip Morris negotiated with European duty free shops.

Tabak produces these brands:
Marlboro (100's, Lights 100's, lights, lights menthol, regular)
Philip Morris super lights
L&M (filter 100's, filter, super lights, lights, lights 100's)
Bond Street (regular, lights)
Petra (100's, king size, lights menthol, lights, lights 100's, extra lights, extra lights 100's)
Start (filter, lights, king size lights, king size filter)
Sparta (classic, classic 100's, lights, lights 100's, extra lights)
Bakara

Reemtsma International

The German tobacco company Reemtsma International made its debut in the Czech market in 1993. Before Czechoslovakia split up in January 1993, Reemtsma built a production plant in the area that would soon become Slovakia. Reemtsma International Prague only imports tobacco products, mainly from Slovakia but occasionaly from Germany, and distributes them in the Czech Republic.

Reemtsma produces the following brands: West, Mars, Davidoff, Delta, R1, Dalila, Ernte, Astor.

British-American Tobacco (BAT)

In January 1995, British-American Tobacco officially started operating in the Czech Republic. BAT opened a new cigarette plant in Marianske Lazne in May 1995. Until 1998, BAT only imported manufactured tobacco to the Czech Republic, which was utilized for cigarette packing. BAT began manufacturing tobacco in the Czech Republic in 1998. Producing Lucky Strike and other brands, BAT controls 3 percent of the market share.

R.J. Reynolds (RJR)

In 1994, R.J. Reynolds (RJR) Tobacco International began producing cigarettes from imported processed tobacco in a new plant in Benesov (Central Bohemia). The capacity of the plant is approximately 2.5 billion cigarettes per year.

Camel, Winston, Monte, Carlo, Slavian are produced by RJR..

Consumption

Last year, Tabak sold 30 billion cigarettes, which is 2.5 billion fewer than the amount sold in 1997. The decline was caused mainly by the increase of consumption tax in January 1998 and the stock piling in 1997. Another reason for the decrease of sales is the continuing economic recession and the lower purchase power of consumers. Slovakia, the second most important market for Tabak, also increased the consumption tax in 1998, which resulted in a 25 percent decline of sales in Slovakia.

In 1998, the sales of the major player of the Czech tobacco market, Tabak, dropped by 12 percent. The higher consumption tax increased the price of the most popular cigarette, Format king size, by 10 percent, which represents 3 CZK. Since the consumption tax remained the same in 1999, no major stock piling occurred in 1998. Retail price for a box of 20 cigarettes ranges between 40 to 50 CZK.

Petra still remains the most popular cigarette brand in the Czech Republic. Also popular from the domestic production is Sparta. Marlboro, Lucke Strfike and Camel are among the most popular international brands..

Trade

Since production of unmanufactured tobacco does not occur within the Czech Republic, it must be imported. The following table exhibits 1998 imports in metric tons:

Country	MT
Turkey	4,175
Zimbabwe	3,780
Malawi	2,900
Italy	2,688
Brazil	814
Greece	579
India	160
Total	20,644

The Czech Republic imports oriental tobacco mostly from Turkey, Greece, former Yugoslavia, and Bulgaria. Burley is imported from Italy, Malawi, and India. Flue-cured tobacco is imported primarily from Zimbabwe, Brazil, Switzerland, Belgium and the Netherlands.

Tabak increased the share of exports in its overall production by only 6 percent, compared to 36 percent last year. Also, exports to Slovakia fell by 25 percent last year in relationship to 1997. This decline was a result of the stock piling of the Slovak market in December 1997, which was before the increase of the consumption tax in early 1998. On the other markets, however, Tabak's exports increased by 9 percent against 1997. Apart from Slovakia, the main market for the company's products are the countries of the former Soviet Union. Tabak does not export directly, but through its primary owner, the Philip Morris company, which orders the required quantity of cigarettes from Tabak. Having one of the lowest overhead costs within the Philip Morris group, Philip Morris is interested in using Tabak's capacities for exports. In 1999, Tabak should begin to supply the European duty free shops.

Stocks

The average amount of stocks of unmanufactured tobacco held by Tabak in the Czech Republic is 5,000 metric tons.

Policy

Tariff Changes

The Czech Republic's 1998 import tariffs on unmanufactured tobacco were as follows:

Tariff No.	Article Description	Special Rate of Duty (%)
2401	Unmanufactured tobacco, tobacco refuse:	
2401.10	Tobacco, not stemmed/stripped:	6.6
2401.20	Tobacco, partly or wholly stemmed, stripped:	6.6
2401.30	Tobacco refuse:	3.5
2402	Cigars, cigarillos, cigaretts	
2402.10	Cigars, cigarillos	42.0
2402.20	Cigaretts	56.7
2403	Other tobacco products	22.8

Non Tariff Barriers

In 1989, both a value added and a consumption tax were introduced for tobacco products. The consumption tax depends on the cigarette size and, in January 1998, jumped to 640 CZK/1000 pcs (12.80 CZK/box) for cigarettes shorter than 70 mm. The consumer tax on cigarettes 70 mm and larger is 740 CZK/1000 pcs, which is 14.80 crowns.

Quality, Safety & Health

Czech consumer protection legislation has undergone many changes since 1989. Even though billboard advertising of cigarettes was banned in 1993, it was renewed the same year. The situation repeated itself in 1994. Currently, the new legislation is being drafted by the Ministry of Health suggesting the restriction of advertising and selling of tobacco products mainly by increasing the age limit for purchasing cigarettes from 16 to 18 years, licencing the distribution, and banning advertising. The last step compliments EU regulations, which perceives the complete elimination of advertising of tobacco products by 2006.

Marketing

Labeling Requirements

Packages of cigarettes sold in the Czech Republic must contain two kinds of labels. First, packages have to contain a warning from the Ministry of Health: "Koureni skodi zdravi" (Smoking Endangers the Health) or "Koureni zpusobuje rakovinu" (Smoking Causes a Cancer).

In December 1994, the Czech Parliament passed a bill abolishing the state's tobacco monopoly that was established in 1950. As a consequence of the new legislation, beginning in 1994, all tobacco products sold in the Czech Republic have to contain special stamps. Labeling with the stamps was introduced to prevent tax evasion and cigarette smuggling into the Czech Republic. Cigarettes not stamped can only be sold in special duty-free shops, diplomatic shops and on airplanes of foreign airlines.

Distribution and Retailing System

In the past, tobacco products were distributed primarily through wholesalers within the Czech Republic. In September 1994, Tabak introduced its own distribution system, which is helping to stabilize the presence of Tabak in the Czech market. The system consists of a computerized network of 32 distribution depots with 200 dealers who monitor the situation at the sale points daily. Roughly one-third of the total employees of this distribution system are employees of Tabak. The new system is able to register the amount of daily purchases and stocks of individual brands of cigarettes at the sales points. Tabak has a network of 16 sale warehouses in the Czech Republic and 7 warehouses in Slovakia.

(Exchange rate: April 1999: 1USD = 35CZK)

END OF REPORT