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# **Korea, Republic of**

## **Tobacco and Products**

### **Annual**

### **2000**

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#### **Report Highlights:**

In 2000, Korea's tobacco leaf output is down following policy objectives to lower production in line with shrinking end-use demand. Consumer demand for domestic cigarettes is giving way to preference for imported brands stifled during the country's economic crisis. The Korea Tobacco and Ginseng Co. (KTGC) is seeking export markets for surplus stocks of burley tobacco. Full privatization of KTGC is less an imperative now as the economy recovers.

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Includes PSD changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
Seoul [KS1], KS

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## Current Situation and Outlook

### Leaf tobacco:

In Calendar Year (CY) 2000, leaf tobacco output will be constrained by limits on contracted acreage, on farm households directly involved (down 2,218 from 34,053 in 1999) and on production inputs. Total leaf output is projected to decline as a result.

To note, the Korean Tobacco and Ginseng Corporation (KTGC), which administers the domestic tobacco program, is pursuing a policy to increase production efficiencies through: a) reduction in planted area, b) merger of marginal farm households (the average tobacco farmer is 57 years old and female), and c) increase in minimum farm size.

Next year, CY 2001, KTGC plans to introduce a production quota system where each contracted farmer is given a set output target with a 3-percent variance. Under the plan any overage in production would be subtracted from the target level established the following year.

In February, KTGC announced its CY 2000 leaf purchase price would be 5.5 percent higher than the 1999 price. The 1999 price increase was only 2.9 percent greater than the 1998 price. Given the announcement came just before the start of April's general election campaigning season, many industry analysts doubt the announced price increase would hold through the fall harvest.

Current stock levels are at a 30-month supply. According to KTGC, the market optimum is a 24-month supply. Presently, KTGC is top-heavy with burley tobacco in its inventory. It plans to bring down excessive burley stocks gradually to the optimum 24-month level by 2004 through exporting surplus leaves. Some flue-cured tobacco stocks will be drawn down in this manner and most probably as a tie-in to sales of burley tobacco. Leaf tobacco exports have never been profitable for KTGC due to the high purchase price.

### Cigarettes:

Since 1997, total cigarette production has been on the decline. Demand among adult male smokers, the largest consumer group for cigarettes, has steadily waned as awareness of health related problems with smoking grows. The only anomaly in this trend occurred during 1998. Production increased the later half 1998 to meet anticipated demand from mass hoarding of cigarettes prior to enactment of the new Value-Added Tax (VAT) on January 1, 1999. Cigarette sales did increase as projected. Production has since been scaled back and is projected to decline by nearly half-a-percent per year over the next several years. The reasons for this bearish outlook include:

- a) increasing cigarette retail prices due to the VAT,
- b) declining smoking rates among adult males exceed the increasing smoking rates recorded for females and students,
- c) increasing health concerns of consumers could be influenced by evidence being revealed in two civil actions against KTGC, and
- d) stricter governmental measure to discourage smoking.

KTGC is reacting to competition for consumer's shifting demand for lighter tasting cigarettes by introducing new brands that it expects to compete against imported brands.

In December 1999, the cigarette brand “Rich” was released on the market. It made using high-quality yellow leaves with a mild taste having a vanilla scent. It is a slim-sized cigarette and its target audience is the 40 to 50-year-old age bracket that prefers foreign brand cigarettes. It commands a premium price, retailing at 1,600 won (\$1.42) per pack of 20 cigarettes.

In April 2000, the "Hanmaum (One Mind)" brand was released on the market. It is marketed as a high-quality cigarette with a smooth flavor and scent. It is a product of a joint venture agreement between South and North Korean state firms. It is projected that about 100 million packs would be produced per year over five years. Roughly 80 percent of production is to be marketed in South Korea. It retails at 1,500 won (\$1.25) per pack of 20 cigarettes. The retail price includes 20 won that is designated for the North Korea cooperation fund.

The KTGC is reviewing its retail price structure to identify areas for adjustment after privatization when increases no longer would have to be approved by the government. This year, KTGC intends to raise the retail price of its most popular family brand, “THIS” and “THIS PLUS,” by 7~9 percent. These two brands account for half the total cigarette sales in Korea.

In December 1999, a foreign brand of new “Kent” was introduced at a price 18 percent lower than the original “Kent” product. It remains to be seen if other foreign brands will follow suit. The current trend in retail prices reveals a narrowing of the price gap between local and foreign brand cigarettes after widening to 596 won in 1999.

In 1999, cigarette-related taxes and fees collected by the government totaled 3,468 billion won (about 2.9 billion U.S. dollars), a 435 million won increase over the 1998 total. Of the total amount, 358 million won was generated from the new value-added tax enacted in January 1999.

Labeling requirements for cigarette packages require two health warnings. The package front cover must carry a phrase “Smoking can be a source of various kinds of disease including lung cancer. Especially, smoking is harmful to health for pregnant and adolescents.” The package back cover must carry the phrase, “The sale of this product to adolescents under the age of 19 is banned.” This latter phrase is required to cover one-fifth of the back cover. Labeling of tar and nicotine content is not mandatory. Labeling of cigarette content is provided by only one local brand and two imported brands. Other brands simply state “low/ultra low tar and nicotine.”

In 2000, KTGC intends to reduce its import of leaf tobacco, mostly Oriental which is in high stock, to meet lower projected cigarette production requirements. Import of flue-cured tobacco is projected at the same level recorded for 1999 as the inventory of that variety is considered at its optimum.

Market shares of imported cigarettes is expected to expand in 2000 as consumers are reverting to buying patterns existing prior to the economic crisis. With Korea’s economy strengthening, consumers are purchasing more expensive luxury items that include foreign cigarette brands.

During the first quarter 2000, foreign cigarettes’ market share stood at 8.6. After setting a record in 1995 of 12.5 percent, foreign cigarettes’ market share dropped in 1998 to 4.9 percent due to the financial crisis before rebounding in 1999 to 6.5 percent.

Government privatization plans for KTGC remain unchanged from the original 1998 plan though the economic

imperative to do so no longer remains. In 1999, the government sold 18 percent of its stake in KTGC and in 2000, plans to sell another 15 percent through issuance of depository receipts. The specifics have yet to be decided how and when the equity sale would take place.

## Statistical Tables

### PSD Tables

#### PSD Table - Tobacco, Unmfg, Total

PSD Table						
Country:	Korea, Republic of					
Commodity:	Tobacco, Unmfg.					
		1998		1999		2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Area Planted	25730	25796	24886	24886	0	24300
Beginning Stocks	133151	148793	132329	132329	126098	127909
Farm Sales Weight Prod	52040	55534	64096	65444	0	59600
Dry Weight Production	46836	49980	57686	58900	0	53660
U.S. Leaf Imports	10000	4461	6000	5934	0	6000
Other Foreign Imports	8000	7398	6000	6847	0	4500
TOTAL Imports	18000	11859	12000	12781	0	10500
TOTAL SUPPLY	197987	210632	202015	204010	126098	192069
Exports	500	6501	6000	5618	0	6500
Dom. Leaf Consumption	64310	57607	55817	56983	0	55000
U.S. Leaf Dom. Consum.	7000	6995	7800	7000	0	6000
Other Foreign Consump.	7300	7200	6300	6500	0	5000
TOTAL Dom. Consumption	78610	71802	69917	70483	0	66000
TOTAL Disappearance	79110	78303	75917	76101	0	72500
Ending Stocks	118877	132329	126098	127909	0	119569
TOTAL DISTRIBUTION	197987	210632	202015	204010	0	192069

## PSD Table - Burley Tobacco

PSD Table						
Country	Korea, Republic of					
Commodity	Tobacco, Unmfg., Burley (HA)(MT)					
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Planted	7860	7899	7432	7432	0	7120
Beginning Stocks	48795	61821	57905	57905	55545	55262
Farm Sales Weight Prod	17320	19188	22087	22399	0	19200
Dry Weight Production	15588	17269	19878	20159	0	17300
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	64383	79090	77783	78064	55545	72562
Exports	0	3121	5000	4772	0	5500
Dom. Leaf Consumption	24000	18064	17238	18030	0	16500
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	0	0	0	0	0	0
TOTAL Dom. Consumption	24000	18064	17238	18030	0	16500
TOTAL Disappearance	24000	21185	22238	22802	0	22000
Ending Stocks	40383	57905	55545	55262	0	50562
TOTAL DISTRIBUTION	64383	79090	77783	78064	0	72562

## PSD Table - Flue-cured Tobacco

PSD Table						
Country	Korea, Republic of					
Commodity	Tobacco,Unmfg.,Flue Cured (HA)(MT)					
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Planted	17870	17897	17454	17454	0	17180
Beginning Stocks	81216	83832	71086	71086	67515	68962
Farm Sales Weight Prod	34720	36346	42009	43045	0	40400
Dry Weight Production	31248	32711	37808	38741	0	36360
U.S. Leaf Imports	10000	4461	6000	5934	0	6000
Other Foreign Imports	0	0	0	0	0	0
TOTAL Imports	10000	4461	6000	5934	0	6000
TOTAL SUPPLY	122464	121004	114894	115761	67515	111322
Exports	500	3380	1000	846	0	1000
Dom. Leaf Consumption	40310	39543	38579	38953	0	38500
U.S. Leaf Dom. Consum.	7000	6995	7800	7000	0	6000
Other Foreign Consump.	0	0	0	0	0	0
TOTAL Dom. Consumption	47310	46538	46379	45953	0	44500
TOTAL Disappearance	47810	49918	47379	46799	0	45500
Ending Stocks	74654	71086	67515	68962	0	65822
TOTAL DISTRIBUTION	122464	121004	114894	115761	0	111322

## PSD Table - Oriental Tobacco

PSD Table						
Country	Korea, Republic of					
Commodity	Tobacco, Unmfg., Oriental (HA)(MT)					
	Revised	1998	Preliminary	1999	Forecast	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	3140	3140	3338	3338	3038	3685
Farm Sales Weight Prod	0	0	0	0	0	0
Dry Weight Production	0	0	0	0	0	0
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	8000	7398	6000	6847	0	7000
TOTAL Imports	8000	7398	6000	6847	0	7000
TOTAL SUPPLY	11140	10538	9338	10185	3038	10685
Exports	0	0	0	0	0	0
Dom. Leaf Consumption	0	0	0	0	0	0
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	7300	7200	6300	6500	0	7185
TOTAL Dom. Consumption	7300	7200	6300	6500	0	7185
TOTAL Disappearance	7300	7200	6300	6500	0	7185
Ending Stocks	3840	3338	3038	3685	0	3500
TOTAL DISTRIBUTION	11140	10538	9338	10185	0	10685

## PSD Table - Cigarette

PSD Table						
Country:	Korea, Republic of					
Commodity:	Tobacco, Mfg., Cigarettes					
	1998		1999		2000	
	Old	New	Old	New	Old	New
Market Year Begin				00/0000		00/0000
Filter Production	96200	103586	101300	97135	0	94000
Non-Filter Production	0	0	0	0	0	0
TOTAL Production	96200	103586	101300	97135	0	94000
Imports	8000	5246	7000	6525	0	7200
TOTAL SUPPLY	104200	108832	108300	103660	0	101200
Exports	2200	2260	2300	2629	0	2700
Domestic Consumption	102000	106572	106000	101031	0	98500
TOTAL DISTRIBUTION	104200	108832	108300	103660	0	101200

## Production Table - Unmanufactured Tobacco Total

	Area Planted			Production		
	(HECTARES)			Metric Tons		
	1998	1999	2000	1998	1999	2000
Tobacco, Unmfg., Burley	7899	7432	7120	19188	22399	19200
Dark Air & Sun Cured	0	0	0	0	0	0
Dark Air Cured	0	0	0	0	0	0
Dark Fire Cured	0	0	0	0	0	0
Tobacco, Unmfg., Flue Cured	17897	17454	17180	36346	43045	40400
Light Air Cured	0	0	0	0	0	0
Tobacco, Unmfg., Oriental	0	0	0	0	0	0
Tobacco, Unmfg.	25796	24886	24300	55534	65444	59600

**Consumption Table - Domestic and Foreign Cigarette Sales to Retailers**

(unit in Million pieces)

Year	Domestic	Growth	Foreign	Growth	Total	Growth
1988	86,068	5.5%	1,271	355.6%	87,339	6.7%
1989	87,980	2.2%	4,206	230.9%	92,186	5.5%
1990	91,527	4.0%	4,188	-0.4%	95,715	3.8%
1991	93,848	2.5%	4,990	19.1%	98,838	3.3%
1992	96,356	2.7%	5,333	6.9%	101,689	2.9%
1993	99,119	2.9%	7,158	34.2%	106,277	4.5%
1994	87,699	-11.5%	8,549	19.4%	96,248	-9.4%
1995	88,293	0.7%	12,490	46.1%	100,783	4.7%
1996	93,010	5.3%	11,509	-7.9%	104,519	3.7%
1997	92,622	-0.4%	11,686	1.5%	104,308	-0.2%
1998	101,326	9.4%	5,246	-55.1%	106,572	2.2%
1999	89,322 1/	-11.8%	6,167	17.6%	95,489	-10.4%

1/ Sales to retailers increased in late 1998 in response to stronger demand prior to enactment of the cigarette VAT in January 1999. Sales declined through the first quarter 1999 as retailers drew down carry-over stocks.

Source: KTGC prior to 1994, Ministry of Finance Trade data since 1994.

**Trade Matrix****Korea: Imports of Total Unmanufactured Tobacco for CY 1999 - CY 2000**

	1999		2000 (Jan-Feb)	
	MT	\$1,000	MT	\$1,000
U.S.A.	5,934	50,360	0	0
Greece	2,078	13,297	303	2,116
Turkey	4,769	23,490	185	1,200
Bulgaria	0	0	56	256
Macedo	0	0	0	0
Other	0	0	0	0
Total	12,781	87,147	544	3,572

Source: Korea Trade Information Services

**Korea: Imports of Burley for CY 1999 - CY 2000**

	1999		2000 (Jan-Feb)	
	MT	\$1,000	MT	\$1,000
U.S.A.	0	0	0	0
Other	0	0	0	0
Total	0	0	0	0

Source: Korea Trade Information Services

**Korea: Imports of Flue cured for CY 1999 - CY 2000**

	1999		2000 (Jan-Feb)	
	MT	\$1,000	MT	\$1,000
U.S.A.	5,934	50,360	0	0
Other	0	0	0	0
Total	5,934	50,360	0	0

Source: Korea Trade Information Services

**Korea: Imports of Oriental Tobacco for CY 1999 - CY 2000**

	1999		2000 (Jan-Feb)	
	MT	\$1,000	MT	\$1,000
Greece	2,078	13,297	303	2,116
Turkey	4,769	23,490	185	1,200
Bulgaria	0	0	56	256
Macedo	0	0	0	0
Other	0	0	0	0
Total	6,847	36,787	544	3,572

Source: Korea Trade Information Services

**Korea: Imports of Filter Tip Cigarettes for CY 1999 - CY 2000**

Value	1999		2000 (Jan-Feb)	
	MT	\$1,000	MT	\$1000
U.S.A	3,251	68,620	190	3,191
Japan	2,141	40,409	446	8,894
Germany	371	10,973	41	1,423
U.K.	522	8,225	81	1,408
Netherland	5	122	0	10
Other	5	53	0	8
Total	3,043	59,782	569	11,743

Source: Korea Trade Information Services

**Korea: Exports of Total Unmanufactured Tobacco for CY 1999 - CY 2000**

Country Name	1999		2000 (Jan-Feb)	
	MT	\$1,000	MT	\$1,000
U.S.A	612	1,267	0	0
Turkey	4,216	19,401	0	0
Spain	306	1,077	0	0
Greece	284	1160	61	124
France	84	379	0	0
Poland	46	93	0	0
Bulgaria	45	189	0	0
Belgium	16	34	0	0
Malaysia	9	44	0	0
Philippine	0	3	0	0
China	0	1	0	0
Iran	0	0	198	606
Total	5,618	23,648	259	730

Source: Korea Trade Information Services

**Korea: Exports of Burley Tobacco for CY 1999 - CY 2000**

Country Name	1999		2000 (Jan-Feb)	
	MT	\$1,000	MT	\$1,000
U.S.A	612	1,267	0	0
TURKEY	3,562	16,101	0	0
SPAIN	306	1,077	0	0
GREECE	108	374	61	124
FRANCE	84	379	0	0
POLAND	46	93	0	0
BULGARIA	45	189	0	0
MALAYSIA	9	44	0	0
PHILIPPINES	0	1	0	0
PR.CHINA	0	1	0	0
VIET NAM	0	0	0	0
IRAN	0	0	198	606
Total	4,772	19,526	259	730

Source: Korea Trade Information Services

**Korea: Exports of Flue-Cured Tobacco for CY 1999 - CY 2000**

	1999		2000 (Jan-Feb)	
	MT	\$1,000	MT	\$1,000
Turkey	654	3300	0	0
Greece	176	786	0	0
Belgium	16	34	0	0
U.S.A.	0	0	0	0
Other	-	2	0	0
Total	846	4122	0	0

Source: Korea Trade Information Services

**Korea: Exports of Filter Tip Cigarettes for CY 1999 - CY 2000**

	1999		2000 (Jan-Feb)	
	MT	\$1,000	MT	\$1,000
U.S.A	203	1,751	66	790
Turkey	2,188	7,252	506	1,601
U.A.E.	436	1,347	324	1,046
Uruguay	183	819	26	125
Uzbekistan	142	429	0	0
Greece	99	460	0	0
A.Samoa	54	273	0	0
Venezuela	54	263	0	0
Oman	49	156	134	420
Other	255	1,737	617	2,203
Total	3,663	14,487	1,673	6,185

Source: Korea Trade Information Services

**Price Tables****Korea: KTGC 1999 Purchase Price of Burley and Flue-cured Tobacco**

(Unit in Kg/Won)

	Stalk Position		Leaf & Cutter				Tip & Lug		
	Grade	No. 1	No. 2	No. 3	No. 4	No. 1	No. 2	No. 3	
Burley		6,060	5,460	4,850	3,940	5,150	4,240	3640	
Flue-cured		7,020	6,320	5,620	4,560	5,970	4,910	4210	

Source: Korea Tobacco &amp; Ginseng Corporation (KTGC)

**Korea: Import Prices of Flue-cured and Oriental Tobacco (US\$/Kg, CIF basis)**

Year	1993	1994	1995	1996	1997	1998	1999
Flue-cured	5.74	5.91	7.39	8.41	9.07	9.16	8.49
Oriental	5.17	4.59	5.02	5.45	5.45	6.07	5.37

Source: Korea Trade Information Services

**Korea: Export Prices of Burley and Flue-cured Tobacco (US\$/Kg, FOB basis)**

Year	1993	1994	1995	1996	1997	1998	1999
Burley	7.00	6.99	8.11	4.6	No trade	4.33	4.13
Flue-cured	5.87	6.11	6.06	4.43	4.14	4.31	4.87

Source: Korea Trade Information Services

**Korea: CY 1999 Imported Cigarette Sales by Major Competitors**

(Unit in Million Pieces)

	1998		1999	
	Sales	Mkt Shr	Sales	Mkt Shr
KT&G (Korea)	101,326	95.1%	89,322	93.5%
Philip Morris (USA)	2,459	2.3%	3,020	3.2%
Japan Tobacco (Japan)	1,842	1.7%	2,156	2.3%
British American Tobacco (U.K)	321	0.3%	326	0.3%
Rothmans (U.K)	407	0.4%	473	0.5%
R.J.R. (Japan)	186	0.2%	173	0.2%
Others	31	0.0%	20	0.0%
Total Sales	106,572	100%	95,490	100%

Source: Industry

**Korea: CY 1999 Market Share of Top 5 Foreign Cigarettes Brands**

(Unit in %)

Brand	1998	1999
Mild Seven (JT)	34.5%	34.4%
Virginia Slims (PM)	25.7%	27.2%
Marlboro (PM)	17.7%	13.6%
Philip Morris SP LTS (PM)	2.2%	7.4%
Dunhill (RT)	7.3%	7.4%
Other	12.6%	10.3%

Source: Industry

**Tariffs and Taxes****Korea: Taxes and Charges for Cigarettes**

(Unit in Won)

Tax and Charge	Retail price of over 200 Won per pack	Retail price of less than 200 Won per pack
Taxes		
* Consumption (Excise) tax	460	40
* Education Tax (40% of Consumption tax)	184	16
Charges		
* Health Fund (Public Health Promotion Supporting Fund)	2	–
* Green Fund (Public Environment Supporting Fund)	4	–
Subtotal of taxes and charges	650	56
Value added tax (10% of retail price)	10%	-
Retail Margin (10% of retail price)	10%	10%
Net Sales of KT&G	Retail price – 650 – 20% of retail price	Retail price – 56 – 10% of retail price

Source: Korea Local Industry

**Korea: Tariff Rates for Tobacco and Cigarettes 1/**

HS code	Description	1999	2000	2004
2401	Unmanufactured tobacco: tobacco refuse 2/	62.5	60.8	54.0
2402	Cigars, cheroots, cigarillos, and cigarettes, of tobacco or of tobacco substitutes 3/	82.8	79.3	65.5
2403	Other manufactured tobacco and manufactured tobacco substitutes: homogenized" or "reconstituted" tobacco: tobacco extracts and essences:	82.8	79.3	65.5

1/ According to the WTO agreement, the tariff rate is scheduled to drop evenly over a 10 year period from 1995 to 2004.

2/ Actual applied rate is 20 percent.

3/ As of January 1, 1994, a flat cigarette tax of 460 Krw/pack is applied evenly to all cigarettes. No separate

duty is applied. Thus the actual applied tariff rate is "zero percent".