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Tobacco

Tobacco Products Annual Report

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Prepared by:

JAMIE ROTHSCHILD

U.S. Embassy, Sofia

Drafted by:

MILA BOSHNAKOVA

Report Highlights:

According to official data, the value of 1998 (Jan - Oct) tobacco leaf imports were US\$27.5 million. Virginia tobacco imports continued to increase as a result of the demand for American blend and "light" cigarettes. Bulgaria's 1998 (Jan-Oct) Virginian tobacco imports from the U.S. are estimated at 216 MT (US\$1.6 million). The major U.S. competitors were India, Brazil and Zimbabwe.

While imports for the U.S. may continue to rise, market opportunities for U.S. Virginia tobacco appear to be limited as local producers struggle to keep cigarette production costs down to be more competitive in the Russian and FSU markets.

Market opportunities for U.S. cigarettes should improve in 1999 with further liberalization of cigarette prices, a gradual increase in consumer income, and stricter border control against smuggling.

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Executive Summary

Prospects for 1999 are for a slight increase in imports varieties of tobacco due to an expected decrease in local Oriental tobacco production and trends for higher consumption of Virginia and Burley for local cigarettes.

Tobacco production has declined dramatically since 1997 due mainly to a 35% drop in Oriental tobacco area planted and a 45% drop in Burley planted area. The major reason for this decline is farmer's reluctance to plant tobacco after the GOB announced farm-gate prices in March 1998. This year, farmers again have responded to the GOB announcement by again planting a lower level of Oriental tobacco. However, apparently, it is believed that Burley and Virginia area will increase slightly. In 1999, the relative share of planted area for the respective varieties is estimated at: Oriental (74%); Flue-Cured (23%); and Burley (3%).

Tobacco and cigarettes have been a top foreign exchange earner for Bulgaria. However, since 1996, with the decline in cigarette exports to Russia, the total value of these earnings has dropped dramatically. That is, in 1996, according to official data, the total value of tobacco and tobacco products exports equaled US\$256 million. Currently, official statistics are not available, however, in 1997, tobacco and cigarette exports dropped to about US\$130 million. Despite this significant decline, Bulgaria continues to be a net exporter of tobacco and tobacco products to Russia and other FSU countries.

The GOB continues to be the major player in the tobacco industry via its ownership in "Bulgartabak", the major Oriental tobacco purchaser and the sole local cigarette producer, as well as its control of farm-gate tobacco and retail cigarette prices.

Production Table, Tobacco Total

Production Table						
	Area Planted			Production		
	(HECTARES)			Metric Tons		
	1997	1998	1999	1997	1998	1999
Burley	2096	1100	1300	2934	1413	1630
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
Flue Cured	6143	7000	7500	10217	11086	11413
Light Air Cured	0	0	0	0	0	0
Oriental	40540	26300	25000	65359	32608	35869
Tobacco, Unmfg.	48779	34400	33800	78510	45107	48912

PSD Table, Tobacco, Total

PSD Table						
Country	Bulgaria					
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	48511	48779	49000	34400	0	33800
Beginning Stocks	8361	8361	29217	36523	41852	41529
Farm Sales Weight Prod	78176	78510	79000	45107	0	48912
Dry Weight Production	72000	72100	72580	41500	0	45100
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	14800	11540	10100	11833	0	12200
TOTAL Imports	14800	11540	10100	11833	0	12200
TOTAL SUPPLY	95161	92001	111897	89856	41852	98829
Exports	21044	12678	24045	15527	0	20540
Dom. Leaf Consumption	38262	37464	39200	28464	0	32800
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	6638	5336	6800	4336	0	4800
TOTAL Dom. Consumption	44900	42800	46000	32800	0	37600
TOTAL Disappearance	65944	55478	70045	48327	0	58140
Ending Stocks	29217	36523	41852	41529	0	40689
TOTAL DISTRIBUTION	95161	92001	111897	89856	0	98829

1998 Import Trade Matrix, Tobacco Total

Import Trade Matrix			
Country	Bulgaria		
Commodity	Tobacco, Unmfg., Total		
Time period	1998	Units:	
Imports for:			1
U.S.	216	U.S.	
Others		Others	
Italy	100		
Brazil	1441		
Malawi	337		
Zimbabwe	1182		
Greece	269		
Turkey	412		
India	3772		
Moldova	50		
China	463		
Cuba	333		
Total for Others	8359		0
Others not Listed	3258		
Grand Total	11833		0

1998 Export Trade Matrix, Tobacco Total

Export Trade Matrix			
Country	Bulgaria		
Commodity	Tobacco, Unmfg., Total		
Time period	1998	Units:	metric tons
Exports for:			1
U.S.	230	U.S.	
Others		Others	
Russia	3318		
Belgium	338		
Egypt	4213		
Germany	506		
The Netherlands	503		
Italy	236		
Switzerland	680		
Czech Republic	231		
Austria	246		
Ukraine	271		
Total for Others	10542		0
Others not Listed	4755		
Grand Total	15527		0

PSD Table, Oriental Tobacco

PSD Table						
Country	Bulgaria					
Commodity	Tobacco, Unmfg., Oriental				(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	40540	40540	41000	26300	0	25000
Beginning Stocks	3623	3623	21785	31411	33785	27501
Farm Sales Weight Prod	65359	65359	66304	32608	0	35869
Dry Weight Production	60000	60000	61000	30000	0	33000
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	6000	6424	2000	1793	0	1800
TOTAL Imports	6000	6424	2000	1793	0	1800
TOTAL SUPPLY	69623	70047	84785	63204	33785	62301
Exports	20000	12100	23000	15367	0	20000
Dom. Leaf Consumption	25000	25000	25000	19000	0	22000
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	2838	1536	3000	1336	0	1300
TOTAL Dom. Consumption	27838	26536	28000	20336	0	23300
TOTAL Disappearance	47838	38636	51000	35703	0	43300
Ending Stocks	21785	31411	33785	27501	0	19001
TOTAL DISTRIBUTION	69623	70047	84785	63204	0	62301

1998 Import Trade Matrix, Oriental Tobacco

Import Trade Matrix			
Country	Bulgaria		
Commodity	Tobacco, Unmfg., Oriental		
Time period	1998	Units:	metric tons
Imports for:			1
U.S.		U.S.	
Others		Others	
Moldova	50		
Turkey	412		
Brazil	354		
China	463		
Zimbabwe	58		
Spain	9		
Total for Others	1346		0
Others not Listed	447		
Grand Total	1793		0

1998 Export Trade Matrix, Oriental Tobacco

Export Trade Matrix			
Country	Bulgaria		
Commodity	Tobacco, Unmfg., Oriental		
Time period	1998	Units:	metric tons
Exports for:			1
U.S.	230	U.S.	
Others		Others	
Russia	2468		
United Kingdom	4213		
Switzerland	680		
The Netherlands	503		
Germany	506		
Belgium	340		
Austria	245		
Czech Republic	215		
Italy	236		
Ukraine	272		
Total for Others	9678		0
Others not Listed	5459		
Grand Total	15367		0

PSD Table, Flue Cured Tobacco

PSD Table						
Country	Bulgaria					
Commodity	Tobacco, Unmfg.,Fl ue Cured				(HA)(MT)	
	Revised	1997	Preliminar y	1998	Forecast	1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Area Planted	6143	6143	6000	7000	0	7500
Beginning Stocks	4044	4044	6921	5067	7921	13983
Farm Sales Weight Prod	10217	10217	9782	11086	0	11413
Dry Weight Production	9400	9400	9000	10200	0	10500
U.S. Leaf Imports	40	80	0	216	0	0
Other Foreign Imports	6560	3636	6000	8224	0	8500
TOTAL Imports	6600	3716	6000	8440	0	8500
TOTAL SUPPLY	20044	17160	21921	23707	7921	32983
Exports	1000	537	1000	160	0	500
Dom. Leaf Consumption	10123	9556	11000	7564	0	8900
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	2000	2000	2000	2000	0	2000
TOTAL Dom. Consumption	12123	11556	13000	9564	0	10900
TOTAL Disappearance	13123	12093	14000	9724	0	11400
Ending Stocks	6921	5067	7921	13983	0	21583
TOTAL DISTRIBUTION	20044	17160	21921	23707	0	32983

1998 Import Trade Matrix, Flue-Cured Tobacco

Import Trade Matrix			
Country	Bulgaria		
Commodity	Tobacco, Unmfg., Flue Cured		
Time period	1998	Units:	metric tons
Imports for:			1
U.S.	216	U.S.	
Others		Others	
Brazil	1035		
Cuba	200		
Greece	100		
India	3415		
Malawi	200		
Nigeria	91		
Zimbabwe	1033		
Tanzania	40		
Total for Others	6114		0
Others not Listed	2110		
Grand Total	8440		0

1998 Export Trade Matrix, Flue-Cured Tobacco

Export Trade Matrix			
Country	Bulgaria		
Commodity	Tobacco,Un mfg.,Flue Cured		
Time period	1998	Units:	metric tons
Exports for:			1
U.S.		U.S.	
Others		Others	
Poland	50		
Russia	73		
Total for Others	123		0
Others not Listed	37		
Grand Total	160		0

PSD Table, Burley Tobacco

PSD Table						
Country	Bulgaria					
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	2096	2096	2000	1100	0	1300
Beginning Stocks	694	694	511	45	146	45
Farm Sales Weight Prod	2826	2934	2820	1413	0	1630
Dry Weight Production	2600	2700	2580	1300	0	1600
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	2200	1400	2100	1600	0	1900
TOTAL Imports	2200	1400	2100	1600	0	1900
TOTAL SUPPLY	5494	4794	5191	2945	146	3545
Exports	44	41	45	0	0	40
Dom. Leaf Consumption	3139	2908	3200	1900	0	1900
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	1800	1800	1800	1000	0	1500
TOTAL Dom. Consumption	4939	4708	5000	2900	0	3400
TOTAL Disappearance	4983	4749	5045	2900	0	3440
Ending Stocks	511	45	146	45	0	105
TOTAL DISTRIBUTION	5494	4794	5191	2945	0	3545

1998 Import Trade Matrix, Burley Tobacco

Import Trade Matrix			
Country	Bulgaria		
Commodity	Tobacco, Unmfg., Burley		
Time period	1998	Units:	metric tons
Imports for:			1
U.S.		U.S.	
Others		Others	
Argentina	144		
Brazil	52		
Cuba	133		
Greece	169		
India	358		
Italy	100		
Malawi	137		
Zimbabwe	90		
Total for Others	1183		0
Others not Listed	390		
Grand Total	1573		0

TOBACCO

PRODUCTION

General

After unusual record high production in 1997 due to attractive farm-gate prices and good export demand, a drastic 43% reduction in total production occurred in 1998. This decline was a result of unsatisfactory farm - gate prices of Oriental tobacco determined in March 1998 and prolonged purchasing campaign (and at many places Oriental tobacco was not contracted and purchased and about 3,000 MT - 4,000 MT remained unsold). It resulted in considerable 35% decline in crop area for Oriental tobacco. Crop area for Burley tobacco also was lowered, 48%, partly due to a lack of clear policy towards Burley producers. At the same time, all tobacco growers faced unfavorable climate conditions - summer drought and spring frosts resulting in 18% lower yields and deteriorated quality (Table #1,2 and Production Table). The production data in the 1998 P,S&D's was revised significantly downward based on preliminary official statistical and MinAg data.

Farm-gate prices for Oriental tobacco were not changed in 1999. Purchasing campaign was also slow and farmers claimed against delayed payments. Therefore, the forecast for 1999 is for a slight increase in total production to its traditional level as a result of higher yields and higher crop area for Virginia and Burley due to more favorable prices. A further decline in Oriental tobacco crop area is expected.

Crop Quality

Generally, the quality of the 1998 tobacco crop was lower compared to 1997 due to adverse climate conditions. The percent of first class of tobacco was reportedly very small, not more than 10%.

Production Policy

The Tobacco Law was amended in April 1999 as important changes were included (see Table # 9).

As in 1997, the policy in 1998 had several major elements: input policy, tobacco quotas, organization of purchasing campaign, prices, and technical assistance.

Purchase Quotas (state quota) - There is not any available data for the filling of the 1998 quota of 76,154 MT (Oriental - 59,355 MT, Virginia - 13,134 MT, Burley - 3,665 MT) since purchasing of tobacco is still on. It is expected that the quota will not be filled due to low production.

Prices and Bonuses (see the Tables #3,4,5,6)

The minimum farm-gate prices approved in March 1998 for Oriental tobacco were lower than those in 1997. Prices for flue-cured were increased 20% and for burley 20.1%. Later on prices for Oriental tobacco were updated in November 1998 based on official inflation rate (2.9%) as required in the Tobacco Law. In July 1998, the GOB also updated farm-gate prices for Virginia and Burley based on inflation rate of 2.3%. "Bulgartabak" stated that if prices are higher than GOB prices, it might be more profitable to import Virginia tobacco than to purchase locally produced. According to traders, the import price of Virginia tobacco is about US\$2.00/kilo and any farm-gate price exceeding this value is not possible.

Purchasing Campaign

Bulgartabak, Daemon, Sokotab, and the Greek company "Mihailidis" were the major players in 1998/99 purchasing campaign. By middle February 1999, about 40% of tobacco has been purchased and the campaign was almost completed in time by March 31.

According to farmers, average controlled purchase farm-gate prices for 1998 tobacco crop were 300-1,100 Bleva/kilo (US\$0.17-US\$0.63) lower compared to 1997. "Bulgartabak" experts claimed, however, that prices are down due to lower tobacco quality. By March 1999, "Bulgartabak" reported that over 30,000 MT (US\$50 million) of tobacco had purchased at an average price of US\$1.6/kilogram. According to official statistical data, average actual farm-gate prices for 1998 crop were as follows: Oriental tobacco - 3,100 Bleva/kilo (US\$1.77); Virginia tobacco - 2,826 Bleva/kilo (US\$1.6); Burley tobacco - 1,674 Bleva/kilo (US\$0.96). Nevertheless, lower prices were discouraging farmers and they started looking for alternative crops. Reportedly, there are currently about 2,000 MT of Oriental tobacco unsold so far.

In 1998/99, farmers complained that "Bulgartabak" experts were taking advantage of lower crop quality and forcing many of them to declare even worse than actual quality. Bulgartabak experts were determining between 8% and 12% impurities in tobacco leaves which negatively affected farmers gross return.

Bonuses, Grants and Support Payments

Bonuses for the 1998 crop (total US\$8.6 million) approved in April 1999 were 10% of minimum farm-gate prices for Oriental tobacco, 18% for Virginia and 30% for Burley (Table#4).

CONSUMPTION

Consumption in the P,S&D table for 1998 was revised down due to lower cigarette production and lower cigarette exports. The industry demand for big leaf and semi-Oriental (certain varieties) of tobacco, however, continued to increase to meet the growing demand for American and Virginia blend cigarettes.

Consumption in 1999 should increase slightly to 37,000 MT due to an expected slight increase in cigarette production.

TRADE

Data provided in the trade matrixes for 1997 have been revised based on final official data. For 1998, the export/import data reflects trade in the first nine months according to official data. AgOffice has estimated the total exports/imports based on extrapolation and trade sources data.

Exports

In 1998, Bulgaria exported tobacco to its traditional markets, US, Russia, and Switzerland but also a high amount to Egypt. Although there was a 22% increase in total exports, total exports remained below its traditional level of 20,000 MT.

Projections for 1999 exports are more optimistic due to expected higher consumption of Bulgarian tobacco at Bulgarian JV in Russia and Ukraine (see the policy section).

Imports

In 1997 (final data), Bulgaria imported a total of 11,500 MT of tobacco of which 56% was Oriental tobacco, 32%, Virginia tobacco and 12%, Burley. Imports from the U.S. totaled 80 MT of Virginia tobacco (US\$680,000). Based on preliminary data, in 1998 Bulgaria imported a total of about 12,000 MT as the major suppliers were India, Zimbabwe and Brazil. It is projected that imports in 1999 should slightly increase to meet the demand for higher production of cigarettes and to compensate expected lower local production.

STOCKS

Despite low tobacco production, higher import level in 1998, and lower consumption, 1998 ending stocks in 1998 increased to about 42,000 MT. A slight decrease in 1999 ending stocks is expected if tobacco exports and consumption for cigarettes reach the forecasted levels. Currently, some experts are concerned about high stocks which required extra funds for storage, however, most managers estimate them as normal in the time of shrunk export market for Oriental tobacco.

POLICY

Except for the Tobacco Fund, no specific GOB programs existed for the tobacco sector in 1998 and none are likely for 1999.

Most GOB efforts in 1998 were directed to support exports of tobacco and to assist farmers in their claims for non purchased tobacco and low farm-gate prices.

Privatization

Privatization of "Bulgartabak" is still vague and pending. An intermediary agent for privatization was selected in 1998 (Dresdner Kleinwork Benson, London, CAIB, Vienna). According to the latest GOB statements in the press, privatization is postponed for the second

half of 1999. Currently, it is planned that about 30% of shares can be sold to a strategic foreign investor, 15% to be sold at the stock exchange and the remaining to be kept for the State.

Tariff Changes and Non Tariff Barriers

In 1999, trade in tobacco and tobacco products was liberalized and no registration or permits are required. There are no import preferences, duty free quotas (except for those in trade agreements with EU, CEFTA and Turkey), etc. No export taxes are levied on tobacco and cigarettes.

Bulgarian TRQ for tobacco imported from EU:

Commodities	Import Duty
HS# 2401 10 10 0 to 2401 10 30 0	7%
HS# 2401 10 49 0 to 2401 10 90 0	28%
HS# 2401 20 10 0 to 2401 20 41 0	7%
HS# 2401 20 49 0 to 2401 20 90 0	28%
Total 6,000 MT	

According to CEFTA agreements, there is a TRQ for tobacco imported from Hungary - HS#2401 10 10 0 to 2401 20 20 0 - 1,000 MT at 5% duty.

According to the free trade agreement with Turkey implemented in January 1999, the following preferences are granted for imports of tobacco products:

TRQ of 100 MT for the following products and duties:

HS#2401 10 10,20,30,41 and HS#2401 20 10,20,30,41 - 7%

HS#2401 10 49,50,70,80,90 - 28%

HS# 2401 10 60 and HS# 2401 20 60 - 40%

The VAT on imports was lowered to 20% in 1999, and a temporary import tax was terminated.

1999 Tariff Code:

Commodity	Import Duty
HS#2401 10 10 0 - 41 0	10% (7% for developing countries)
HS#2401 10 49 0 - 90 0	40% (30% for developing countries)
HS#2401 20 10 0 - 41 0	10% (7% for developing countries)

HS#2401 20 49 0 - 90 0	40% (30% for developing countries)
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CIGARETTES

PRODUCTION

General

Production in the P, S and D table for 1998 was revised down due to a sharp decline in cigarette production, a result of reduced exports throughout the year. Prospects for 1999 are for a slightly higher production based on expected higher exports to Russia, Ukraine and other FLU republics.

Production estimates for cigarettes in 1998 vary from 25,000 to 37,000 MT. The AgOffice estimate is for 33,000 MT of which, according to trade, 11,000 MT or 33% were exported. With the exception of three major factories (in Sofia, Blagoevgrad and Stara Zagora), other factories worked at 10%-22% of their capacity and many workers were released.

In 1999, several Bulgarian-FSU joint ventures are planned to start operations.

"Bulgartabak" Joint Ventures in Russia and Ukraine in Operation		
Location and Start of Operations	Produced Cigarette Brands	Capacity
Belgorod (JV with Stara Zagora BT (77%), opened in 1998	"Rodopi", "TU", "Stewardess", "Inter", "Opal"	Current 1,500 MT and 3,000 MT-5,000 MT in the future
Poltava, Ukraine (JV with Blagoevgrad BT), opened in July 1998	"Vega", "Inter", "Stewardess", "BT", "Fenix" and "Opal"	11,000 MT
Tver (with Chaskovo BT), opened in late 1996.	N.A.	Current 1,700 MT and 5,000 MT in the future.

Reportedly, the fourth JV will be opened in Sochi (5,000 MT annual capacity) this year and a permission from authorities for a factory in Moscow (10,000 MT-20,000 MT annual capacity) is awaited.

“Bulgartabak” goal is to set up more production facilities (total 5 by the end of 1999) in Russia and Ukraine to avoid the prohibitive customs duties (according to the latest change in the Russian trade regime, Bulgaria can use 25% reduction in basic duties for tobacco but no reduction for cigarettes). “Bulgartabak” plans to produce about 25,000 MT of cigarettes in the near future at these JV as 10,000 MT - 15,000 MT are planned to be produced in 1999. In the long-term, this production should reach 45,000 MT. Other JV (with Shoumen BT) are intended to be opened also in Romania in the town of Lupeni (3,000 MT annual capacity) close to Bucharest. Negotiations are also being held for JV in Germany and Czech Republic.

Price Regulations

The increase in the excise and imports duties at the end of 1998 led to new increase in retail prices of locally produced and imported cigarettes (see Table#7). The average increase was average 20%, from 5% to 63%, for locally produced cigarettes, and 25%-30% for imported cigarettes. The increase in prices for cigars was average 33%, from 20% to 112% due to higher excise duties compared to cigarettes.

CONSUMPTION

General

In 1998, “Bulgartabak” factories sold 22,000 MT-23,000 MT to the local market which is 5,000 MT - 6,000 MT higher than the traditional consumption level. Higher consumption is explained by “Bulgartabak” and GOB officials as a result of terminated smuggling. It is highly unlikely, however, that such an increase is possible for only one year upon constant number of smokers.

The data in the P,S and D Table is revised based on estimates for cigarette production in 1998 (33,200 MT) and reported cigarettes exports (11,000 MT). No official production or export data is available so far. Consumption level is estimated at 18,000 MT and unknown stocks or illegal exports (about 4,000 MT) are included in exports line since there is not a separate category for stocks.

The latest marketing study has shown that 36% of Bulgarians over 15 years age are regular smokers (about 50% of men and 24% of female are active smokers). The average number of cigarettes consumed by a smoker is between 11 and 20 per day. The average increase in cigarette consumption in the country is 7% per year.

Exports

No official data is available for cigarettes exports in 1998 so far. Reportedly, exports of cigarettes to Russia declined considerably and Bulgarian cigarettes were replaced by competitive exports from Turkey, Greece and China.

At the latest Bulgarian-Russian trade negotiations in March 1999, a reduction in excise duties for imported Bulgarian cigarettes which are currently twice as high as compared to these levied on cigarettes manufactured at the "Bulgartabak" JV in Russia has been discussed. The major obstacle in cigarette exports so far was the lack of licenses issued by the Russian GosStandard Agency and should be solved soon. A Russian delegation of experts is planned to come to Bulgaria to make an inspection and approve licenses which should afterwards lead to reduction in import duties and excise duties.

Imports

No official data about import of cigarettes is available to date. Reportedly, smuggling of imported cigarettes was suspended in 1998.

POLICY

General

A of January 1, 1999, Bulgaria became a full member of Central European Free Trade Agreement. The following preferences are granted to CEFTA countries for imports of tobacco products: Slovenia - HS# 2402 20 Cigarettes - TRQ of 30 MT at 50% reduction of the basic duty.

According to the free trade agreement with Turkey implemented in January 1999, the following preferences are granted for imports of tobacco products: HS#2402 Cigarettes - 200 MT at 28% or minimum 5.39 ECU/1,000 PCE

In order to prevent smuggling and corruption, in December 1998, the GOB began levying excise and imports duties as well as VAT of 20% on all imported cigarettes in free-trade zones.

Tariff Changes and Non-Tariff Barriers

Tariff Table

The tariff rates were revised in December 1998 and are valid throughout 1999 (Table #8). The import duties were increased to compensate for lower excise duties. The import duty was 40% or minimum 7.7 ECU/1,000 pieces and currently is 68% or minimum 13.1 ECU/1,000 pieces.

The excise duties were changed in December 1998 (Official Gazette #153 of December 23, Act on Changes and Amendment to the Excise Act) as follows:

- Filter cigarettes - 2 Bleva (US#0.0011) for one piece plus 30% from the sale price;
- Non- filter cigarettes - 1 Bleva per (US\$0.00057) one piece plus 10% from the sale price;
- Tobacco for cigarettes, cigars, chewing and snuffing - 4,500 Bleva (US\$US\$2.57) per 100 grams plus 10% of sales price;
- Cigars and cigarillos - 2,000 Bleva (US\$1.14) per one piece plus 10% of the sale price.

It has been estimated that the new excise duties should generate an additional 110 billion leva (US\$63 million) for the state budget paid by consumers.

MARKETING

Distribution

Currently, there are about 230 distributors and retailers trading in cigarettes on the local market. Reportedly, “Bulgartabak” plans to establish a limited liability company for distribution on the local market which would unite current distributors. Similar companies exist in some EU countries such as Germany, France, Italy and Austria. In December 1998, the GOB determined the trade surcharge for wholesalers and retailers at total 10% of fixed price. The trade surcharge must be divided in 40% for wholesalers and 60% for retailers.

Local market

In 1998, the brand “Victory” continued to hold the major share on the local market. According to a marketing study, Bulgarian smokers prefer to buy locally produced brands since they are certain in quality while the majority of imported cigarettes are smuggled and counterfeit. According to another marketing study (September 1998), the market share of cigarette brands is as follows:

“Victory” blue- 14%

“Shipka” - 12%

“Victory” light - 10%

“Melnik”, “Sredetz” and “Sredetz” light - 7%

Another 10 brands have a market share from 2% to 4%.

Different studies show “Bulgartabak” market share from 83% to 98% in 1998. Some experts estimate higher market share of imported cigarettes based on the fact that they are smuggled and therefore, sold at much lower than GOB determined price. It makes these imports price competitive to Bulgarian cigarettes in spite of GOB regulations.

The 1999 “Bulgartabak” marketing policy is for higher production of American (such as “Sredetz” and “Trezor”) and Virginia blend (such as “Victory” and “Nevada”) and “light” brands. In the last two year, the “light” brands had a market share of 24%. New trade marks in 1999 will include “super light” and “medium” versions of familiar brands.

According to the MinTrade, on December 18, 1998, Bulgartabak signed a contract with RJ Reynolds International B.V. for production of “Camel” brand in the tobacco factory in Sofia. The contract provides the right to manufacture and sell in Bulgaria 84 mm carton pack “Camel” filter cigarettes for a period of three years. About 75% of tobacco content will be provided from RJR, and 25% from “Bulgartabak” of which 15% are local Oriental tobacco. According to experts, if the quality of Bulgarian-made “Camel” meets the requirements, “Bulgartabak” will likely obtain licenses for production of other brands from RJR’s list. Reportedly, the next

licensed brand will be “Winston”.

Tobacco Types	1996	1997	1998
Flue Cured	1,257	1,530	1,460
Burley	1,196	1,240	1,180
Oriental	1,495	1,480	1,140
Total	1,428	1,470	1,206

	State		Private		Total	
	HA	MT	HA	MT	HA	MT
Tobacco Total	300	500	34,100	41,000	34,400	41,500
Oriental	100	200	26,200	29,800	26,300	30,000
Flue Cured	100	200	6,900	10,000	7,000	10,200
Burley	100	100	1,000	1,200	1,100	1,300

	I class	II class	III class
Virginia	3,480	2,300	1,330
Burley	2,460	1,690	1,330

	I class	II class	II class
Virginia	626	414	239
Burley	738	507	399
Oriental	422 - 528	320-368	160

Table #5 . Minimum Farm-Gate Prices (November) for the 1998 harvest.			
	I class in Bleva/kg	II class in Bleva/kg	III class in Bleva/kg
Oriental by region			
Djebel	5450	4840	2060
Nevrokop	4580	3470	1600
Dupnitza	4460	3200	1600
Melnik	4300	3200	1600
Ustina	4220	3140	1600
Harmanli	4320	3200	1600
Krumovgrad	5280	3680	1600
Tekne	4140	3090	1600
Iztochen Balkan	4430	3400	1600
Topolovgrad	4320	3200	1600
Severna Bulgaria	2990	2270	1600
Svilengrad	4480	3400	1600

Table #6 . Minimum Farm-Gate Prices (March) for the 1999 Harvest.			
	I class in Bleva/kg	II class in Bleva/kg	III class in Bleva/kg
Oriental by region			
For all origins and regions the prices are the same as in the Table #5.	4480 - 5450	3400 - 4840	1600 - 2060
Virginia	3480	2300	1330
Burley	2460	1690	1330

Table # 7. Fixed Retail Prices of Local and Imported Cigarettes in Bleva per Pack	
Luxury cigarettes:	
Carton pack: 100 and 120 mm.	
Davidoff Magnum	6,900
Davidoff - classic and light slim classic and slim light	3,500
Cartie vendom	2,700
Dunhill International Rothmans Royals Rothmans International	2,700
Vogue (super slim)	2,400
Diplomat, Sevt, Sevens, Orient Express	1,150
ISL	3,500
Paper pack - 100 and 120 mm.	
Camel	2,700
West, West light	2,200
Diplomat, Sevt, Sevens, Orientat Express	1,100
Moore	3,000
Carton pack - 85 mm.	
Marlboro - red & light	2,600
Rothmans KS, Rothmans lights, Dunhill KS	2,400
R 1	2,300
West, West light, R6, Ernte 23	2,200
Peter Styvizant	2,200
Rothmans Pal Mall	1,800
Dallas KS	1,700
Diplomat, Sevt, Sevens, Orientat Express	1,050

Carton pack 84 mm	
Table # 7. Fixed Retail Prices of Local and Imported Cigarettes in Bleva per Pack	
The Box Tree	2,500
Camel - license	1,600
Paper pack - 85 mm	
R1 slim line	2,300
Rot Handle, Reval	2,200
Diplomat, Sevt, Sevens, Orient Express	950
Kent - 100	2,700
Kent-KC	2,500
Salem - all types	2,850
Benson and Hedges	2,800
Capitan Black	4,900
Koiba	4,700
Quality and Brand Name Cigarettes:	
HB 100 and HB light	2,200
Pal Mal KC	1,700
Kim Menthol	2,600
Kim Ultra Slim	2,500
Lucky Strike KC	2,000
Lucky Strike Light	2,250
Lucky Strike 100	2,300
HB KC	2,100
Kim Super Light	2,500
Kim Light	2,400
Pal Mal Light	1,750
Pal Mal 100	2,000

Silk Cut	2,500
Viceroy KC	1,600
Table # 7. Fixed Retail Prices of Local and Imported Cigarettes in Bleva per Pack	
Viceroy Light	1,650
Hollywood	1,500
Carton pack - 100 mm and 120 mm	
Bulgartabak - golden and black, and Bulgartabak-light	1,020
Victory, Victory - light, midium,super light, ultra light	960
Vector - American and Virginia blend, MM, MM-light	810
Bridge, Nevada, Nevada light	780
Paper pack - 100 mm and 120 mm	
Fenix, Bridge	750
Carton pack - 85 and 80 mm	
Bulgartabak - golden and black, and Bulgartabak-light	970
Victory - blue, light,menthol, GD, GD light, GD menthol, Hubava Jena - red, blue, menthol, Victory - midium,super light,ultra light Poslanie kim sveta 2000 - Bulgartabak light	860
Welcome - red and green, MM, Reks	750
Seven Hills, Marsa	740
Boss-clasic, Boss-light,Boss-soft	1,980
Winston-all types	2,500
Popular cigarettes:	
Carton pack - 100 mm	

Sredetz, Sredetz light, midium,,super light,ultra light	730
Trezor, Trezor light, Inter, Inter-light, Sofia, Sofia-light, Femina, Femina-light	690
Table # 7. Fixed Retail Prices of Local and Imported Cigarettes in Bleva per Pack	
Paper pack - 100 mm	
Sredetz, Sredetz light,Nevada, Nevada-light	700
Trezor, Trezor light, Inter, Inter-light, Sofia, Sofia-light, Femina, Femina-light	680
Carton pack - 85 and 80 mm	
Prestige, Nevada, Nevada light Inter, BT de lux, Vector - American blend and Virginia blend, Vector-light, Vector-menthol, Golden eagle, Golden eagle light, Trezor, Trezor light,	650
Victory - red and brawn	640
Sredetz, Sredetz light, Sredetz medium,super light,ultra light, menthol, Melnik	600
BT, Femina - blue, red, green, Rodopi, Fenix, Haskovo, Shoumen, Summer, Kanton, Club R, OK, Pirin, Bridge, Arda, Na - Na, Augusta Trajana	580
Charly	550
Prestige, Prestige -light, Femina-light, Kailuka, Chance, Pleven	520
Paper pack - 85 mm	
BT, Rodopi, Fenix, Pleven, Haskovo, Shoumen, Slantze, Vidin, Femina - blue and red, Augusta Trajana, Poslanie kim sveta 2000 - Bulgartabak-light, Prestige, Prestige-light	500
Melnik, Melnik-light, Nevada	550

Kanton	510
Arda, Stewardess, Opal, Inter, TU 134, Rado, OK, Frema, Alia, Na Na, Verea	420
Varna. Shipka, Luna	400
Charly	420
Table # 7. Fixed Retail Prices of Local and Imported Cigarettes in Bleva per Pack	
Paper pack 85 mm, 10 pieces	
Vidin	260
Arda, Stewardess	220
Shipka	190
Non filtered cigarettes	
Paper pack 85 mm	
Rali, Varna	320
Paper pack 69 mm	
Yantra, Dunav, Arda, Varna, Rodopi, Slantze	300
Camel	1900
Cigars: The price list includes about 100 kinds of trade brands of cigars. Their prices per pack (usually of 25 pieces) are ranging from 36,000 to 985,000 leva.	
Tobacco for cigarettes, pipes, snuff, chewing: This category includes 13 brands (Samson, Welcome, Arda, Clan Malt Whisky, Clan Bleak Regular, Clan Bleak Gold, Clan Bleak Royal, Van Daik, Seil, Erinor, Dunhill, Drum, Amphora, Mixer Ambrosia, Neptun, Slaten luv) at a prices per 40/50grams of 3,300 Bleva (US\$1.88) to 14,200 Bleva (US\$8.11)	
Note: As of December 1998, the exchange rate is approximately 1,800 leva per one U.S. dollar.	

Table #8. Import Duties on Tobacco Products in 1999	
HS# Numbers	Import Duties
HS#2402 Cigars, cigarillos and cigarettes containing tobacco ortobacco substitutes	
HS#2402 10 00 0 Cigars and cigarillos containing tobacco	40%
HS#2402 20 Cigarettes containing tobacco	
HS#2402 20 10 0 Containing clove	68% minimum 13.1 ECU/1000 pieces
HS#2402 20 90 0 Other	68% minimum 13.1 ECU/1000 pieces
HS#2402 90 00 0 Other	68% minimum 13.1 ECU/1000 pieces
HS#2403 Other types of tobacco, processed, homogenized, tobacco extracts and juices	
HS#2403 10 Tobacco for smoking	
HS#2403 10 10 0 In packs not exceeding 500 grams	40%
HS#2403 10 90 0 Other	40%
HS#2403 99 10 0 Tobacco for chewing and snuffing	5% (3% for developing countries)

Table #9. Changes in Tobacco Law

1. Upon contracting with farmers, purchasing companies should pay in advance 10% to 20% of the contracted tobacco value. If the tobacco is not purchased, this amount will remain for the producers. The other required documents for purchasing of tobacco are a quota statement, a purchasing protocol, and a municipality registration document.
2. In cases of delay in payments of tobacco, producers will receive compensatory payment in the size of inflation for the period of delay.
3. Only licensed (by the GOB) companies will be able to purchase tobacco during the purchasing campaign (September/October - March). Non licensed companies trading in tobacco will be fined up to 100 million Bleva if they purchase tobacco before March 31, however, after this date they are allowed to do so. Fines are imposed also when tobacco is purchased without a respective contract with farmers and for traders who contracted tobacco but have not purchased it.
4. Minimum farm-gate prices will be determined by the GOB by January 31 each year based on new methodology considering international and export tobacco prices.
5. The regulation on updating minimum farm-gate prices by July 15 for big-leaf and by October 15 for Oriental tobacco considering inflation index is terminated. Producers will continue to receive bonuses which is equal to the difference between the production cost and minimum farm-gate prices.
6. Tobacco Fund will have the right to release loans to traders to facilitate purchasing campaign.

Table #10. 1997 Export and Import Trade Matrix, Total Tobacco (by countries in metric tons)			
Export		Import	
U.S.	3570	U.S.	80
Russia	2915	Italy	3897
Belgium	750	Brazil	1809
Moldova	553	Malawi	1130
Germany	832	Zimbabwe	1780
Greece	436	Greece	721
France	671	Switzerland	450
Switzerland	822	Thailand	384
Korea	600	Moldova	230
Turkey	138	China	180
Ukraine	130	Cuba	155
Total for Others	7847	Total for Others	10736
Others not listed	1261	Others not listed	804
Grand Total	12678	Grand Total	11540

Table #11. 1997 Export and Import Trade Matrix, Oriental Tobacco (by countries in metric tons)			
Export		Import	
U.S.	3565	U.S.	
Russia	2650	Italy	3406
Belgium	750	Brazil	680
Moldova	553	Malawi	220
Germany	832	Zimbabwe	355
Greece	253	Greece	549
France	614	Switzerland	450
Switzerland	822	Thailand	384
Korea	600	Moldova	230
Turkey	138	Macedonia	102
Ukraine	88	Belgium	48
Total for Others	7300	Total for Others	6424
Others not listed	1191	Others not listed	
Grand Total	12056	Grand Total	6424

Table #12. 1997 Export and Import Trade Matrix, Flue Cured Tobacco (by countries in metric tons)			
Export		Import	
U.S.	5	U.S.	80
Russia	240	Italy	441
Greece	183	Brazil	876
France	57	Malawi	593
Ukraine	35	Zimbabwe	1300
		China	180
		Belgium	116
		Greece	40
		Cuba	90
Total for Others	515	Total for Others	3716
Others not listed	17	Others not listed	
Grand Total	537	Grand Total	3716

Table #13. 1997 Export and Import Trade Matrix, Burley Tobacco (by countries in metric tons)			
Export		Import	
U.S.		U.S.	
Russia	25	Italy	50
Georgia	7	Brazil	253
Ukraine	7	Malawi	317
		Zimbabwe	125
		Greece	132
		India	21
		Syria	2
		Argentina	109
		Mozambique	196
		Cuba	65
Total for Others	41	Total for Others	1270
Others not listed		Others not listed	130
Grand Total	41	Grand Total	1400

PSD Table, Cigarettes

PSD Table						
Country	Bulgaria					
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	40300	40300	41000	31200	0	35000
Non-Filter Production	5000	3000	5000	2000	0	3000
TOTAL Production	45300	43300	46000	33200	0	38000
Imports	1000	1000	1000	200	0	1000
TOTAL SUPPLY	46300	44300	47000	33400	0	39000
Exports	25910	25700	27000	15400	0	20000
Domestic Consumption	20390	18600	20000	18000	0	19000
TOTAL DISTRIBUTION	46300	44300	47000	33400	0	39000

1997 Imports Trade Matrix, Cigarettes

Import Trade Matrix			
Country	Bulgaria		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	1997	Units:	metric tons
Imports for:			1
U.S.	26	U.S.	
Others		Others	
Cyprus	92		
Germany	11		
Romania	13		
Macedonia	23		
Total for Others	139		0
Others not Listed	835		
Grand Total	1000		0

1997 Exports Trade Matrix, Cigarettes

Export Trade Matrix			
Country	Bulgaria		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	1997	Units:	metric tons
Exports for:			1
U.S.	111	U.S.	
Others		Others	
Afghanistan	1300		
Azerbaijan	2178		
Georgia	2060		
Moldova	2983		
Russia	5762		
Tajikistan	3875		
Ukraine	1819		
Mongolia	730		
Turkmenistan	702		
Armenia	1050		
Total for Others	22459		0
Others not Listed	3085		
Grand Total	25655		0