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Taiwan

Tobacco

Annual Situation Report

1999

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Report Highlights:
The tobacco industry in Taiwan will undergo significant changes in the next few years as the government-owned tobacco monopoly is privatized as part of the process of preparing Taiwan's economy for WTO accession. Privatization will provide opportunities and challenges for US tobacco and tobacco product exports to Taiwan.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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Taiwan Annual Tobacco Report - 1999
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Executive Summary

Traditionally, about 60 percent of all tobacco leaf consumed on Taiwan is produced domestically, and 40 percent is imported. Total tobacco leaf consumption in 1998 was 22,000 mt, 8 percent less than in 1997. Leaf consumption has decreased because the market share of domestically manufactured cigarettes is eroding as foreign brands gain in popularity. Tobacco leaf consumption in 1999 is expected to remain at 1998 levels. In 1998, Taiwan imported about 14,000 mt of tobacco leaf; about 13,000 mt was *flue cured* and the rest, except for very small amounts of *burley*, was *oriental*. Roughly one-third of all tobacco imports came from the US. Imports in 1998 exceeded 1997 imports by about 50 percent as Taiwan cigarette manufacturers began to build stocks of low tar, low nicotine, strong flavored tobacco to use in new cigarette formulations designed to compete with imported cigarettes, which each year walk away with a larger share of the market. Leaf imports in 1999 are expected to remain at 1988 levels. Cigarette consumption in 1997 and 1998 was 40 billion pieces each year. Domestic cigarette production in 1998 totaled 25 billion, a decline of 2 billion from a year earlier. Market share of local brands was 62 percent, down 6 percent from1997. A significant increase in the market share of imported brands is not projected for 1999. The US share of the imported cigarette market in 1998 was 14 percent. The US share has been declining in recent years as Japanese brands have gained in popularity. Tobacco and tobacco product production, trade, and processing remain under the exclusive control of The Taiwan Tobacco & Wine Bureau (TTWB) a government-owned monopoly. Because Taiwan hopes to soon become a member of WTO, it is currently in the process of privatizing government monopolies, including TTWB. The Taiwan legislature recently passed one bill, and is working on two others, that will provide for TTWB's privatization. The Executive Yuan would like TTWB's privatization to be completed by the end of 2000. Upon privatization, the current monopoly tax on cigarette imports (NTD 890 per 1000 pieces) will be replaced with an import tariff (27 percent ad valorem) and a tobacco tax (NTD 590 per 1000 pieces). Cigarettes will also be assessed a 5% value-added tax. An additional tax surcharge (NTD 2.36 to NTD 10.00 per pack) is also contemplated. Surcharge revenues would be used, in part, to pay for anti-smoking projects. The Department of Health would like to amend current anti-smoking legislation to increase restrictions placed on smoking in public places, smoking by adolescents, and cigarette advertising.

Table 1. Total Tobacco Production, Supply and Demand in Metric Tons

PSD Table						
Country:	Taiwan					
Commodity:	Tobacco, Unmfg.					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Area Planted	4061	4061	4394	4321	0	4300
Beginning Stocks	38260	38260	30622	28245	0	29613
Farm Sales Weight Prod	10280	10283	10990	10120	0	10120
Dry Weight Production	7441	7441	7950	9475	0	9475
US Leaf Imports	4227	4227	5920	4645	0	4050
Other Foreign Imports	5490	5490	8160	9335	0	9950
TOTAL Imports	9717	9717	14080	13980	0	14000
TOTAL SUPPLY	55418	55418	52652	51700	0	53088
Exports	942	942	200	87	0	90
Dom. Leaf Consumption	14850	14850	14500	13307	0	13300
US Leaf Dom. Consum.	5731	5731	5400	4878	0	4850
Other Foreign Consump.	3273	3273	4100	3815	0	4200
TOTAL Dom. Consumption	23854	23854	24000	22000	0	22350
TOTAL Disappearance	24796	24796	24200	22087	0	22440
Ending Stocks	30622	30622	28452	29613	0	30648
TOTAL DISTRIBUTION	55418	55418	52652	51700	0	53088

Table 2. Flue Cured Tobacco Production, Supply and Demand in Metric Tons

Production Table						
Country:	Taiwan					
Commodity:	Flue Cured					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin						
Area Planted	4061	4061	4394	4321	0	4300
Beginning Stocks	37652	37652	30000	30000	0	30846
Farm Sales Weight Prod	10283	10283	10990	10120	0	10120
Dry Weight Production	7441	7441	7950	9475	0	9475
US Leaf Imports	4227	4227	5820	4610	0	4000
Other Foreign Imports	5140	5140	7001	8208	0	8450
TOTAL Imports	9367	9367	12930	12818	0	12450
TOTAL SUPPLY	54460	54460	50880	52293	0	52771
Exports	942	942	200	87	0	90
Dom. Leaf Consumption	14850	14850	14500	13307	0	13300
US Leaf Dom. Consum.	5709	5709	5350	4838	0	4800
Other Foreign Consump.	2959	2959	3500	3215	0	3200
TOTAL Dom. Consumption	23518	23518	23350	21360	0	21300
TOTAL Disappearance	24460	24460	23550	21447	0	21390
Ending Stocks	30000	30000	27330	30846	0	31381
TOTAL DISTRIBUTION	54460	54460	50880	52293	0	52771

Table 3. Oriental Tobacco Production, Supply and Demand in Metric Tons

Production Table						
Country:	Taiwan					
Commodity:	Oriental					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin						
Area Planted	0	0	0	0	0	0
Beginning Stocks	371	371	407	407	0	934
Farm Sales Weight Prod	0	0	0	0	0	0
Dry Weight Production	0	0	0	0	0	0
US Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	350	350	1050	1127	0	1500
TOTAL Imports	350	350	1050	1127	0	1500
TOTAL SUPPLY	721	721	1457	1534	0	2434
Exports	0	0	0	0	0	0
Dom. Leaf Consumption	0	0	0	0	0	0
US Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	314	314	600	600	0	1000
TOTAL Dom. Consumption	314	314	600	600	0	1000
TOTAL Disappearance	314	314	600	600	0	1000
Ending Stocks	407	407	857	934	0	1434
TOTAL DISTRIBUTION	721	721	1457	1534	0	2434

Table 4. Burley Tobacco Production, Supply and Demand in Metric Tons

Production Table						
Country:	Taiwan					
Commodity:	Burley					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin						
Area Planted	0	0	0	0	0	0
Beginning Stocks	237	237	215	215	0	210
Farm Sales Weight Prod	0	0	0	0	0	0
Dry Weight Production	0	0	0	0	0	0
US Leaf Imports	0	0	100	35	0	50
Other Foreign Imports	0	0	0	0	0	0
TOTAL Imports	0	0	100	35	0	50
TOTAL SUPPLY	237	237	315	250	0	260
Exports	0	0	0	0	0	0
Dom. Leaf Consumption	0	0	0	0	0	0
US Leaf Dom. Consum.	22	0	50	40	0	50
Other Foreign Consump.	0	0	0	0	0	0
TOTAL Dom. Consumption	22	22	50	40	0	50
TOTAL Disappearance	22	22	50	40	0	50
Ending Stocks	215	215	265	210	0	210
TOTAL DISTRIBUTION	237	237	315	250	0	260

Tobacco, Unmanufactured

Production

Table 5. Tobacco Production Table

	Area Planted			Production		
	(Hectares)			(Metric Tons)		
Year	1997	1998	1999	1997	1998	1999
Burley	0	0	0	0	0	0
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	4061	4321	4300	10283	10120	10120
Light Air Cured	0	0	0	0	0	0
Oriental	0	0	0	0	0	0
Tobacco, Unmfg.	4061	4321	4300	10283	10120	10120

Taiwan only produces flue-cured tobacco. It grows two tobacco crops a year, one in the fall and one in the spring. In 1998, 98 percent of total annual production was derived from the fall crop. Under the current monopoly system, The Taiwan Tobacco and Wine Board (TTWB) issues annual permits granting farmers the right to produce tobacco on a stipulated number of acres. The number of hectares depends on a farmer's yields during the previous year. If a farmer's yields fall below 2.5 mt per ha. (farm weight basis) the TTWB will allow farmers additional acres in the coming year. TTWB is obliged to buy all tobacco produced on these acres for set prices determined annually by the Tobacco Price Committee (TPC). The TPC consists of representatives from TTWB, the Ministry of Finance (MOF), the Council of Agriculture (COA), and grower associations. There has been no discussion concerning what tobacco production policy will replace the current acreage-permit and guaranteed-price system after privatization.

Since 1995 it has been TTWB's goal to decrease tobacco production because Taiwan tobacco is high in tar and nicotine, and, therefore, used in smaller proportions in newer cigarette formulations. Thus, it has strictly controlled tobacco acreage using the mechanism described above. This explains 1998 and 1999 production declines as compared with 1997. TTWB allows farmers to increase tobacco area in the coming year only if yields were lower than 2.5 mt per ha (farm weight) in the previous year. TTWB hopes to keep production at 1998 levels until privatization. TTWB has begun penalizing farmers for low quality leaf. Thus, farmers now focus on quality, not quantity, and yields have declined.

After privatization, tobacco area is expected to decrease from the current annual average of 4,300 ha. to 3,000 ha. because, to remain competitive, Taiwan manufacturers will have to use less Taiwan tobacco, which tends to be low in quality, and high in tar and nicotine. TTWB is gradually lowering the tar and nicotine content of its cigarettes to adjust to current tastes and to meet the requirements for tar and nicotine reductions stipulated by the Tobacco Hazards Prevention Act.

Price

In 1998 the average price for domestic tobacco was NTD 191 ($5.71) per kg (farm sales) and NTD 300 ($8.95) per kg (redried) which compares with a CIF price of $6.06 per kg for imported US flue-cured. Domestic 1998 prices (in US dollar terms) were 13 percent lower than in 1997 due to an 18 percent devaluation of the NTD in that year. The TPC pegs domestic prices to international ones. Domestic prices in 1999 are currently the same as those quoted above for 1998.

Monopoly System Reform

TTWB is currently a government-owned monopoly. However, because Taiwan plans to join the WTO soon, the TTWB must be privatized. Three bills have been drafted for this purpose: a tobacco and alcohol administration bill, a tobacco and alcohol taxation bill; and a bill to revise the Statute Governing the Organization of the Department of the National Treasury. On June 4, 1999, the tobacco and alcohol administration bill became law, and the other two bills are expected to do so before July 1999. The new laws will take three months to implement, meaning that privatization will begin some time after October 1999. The law provides TTWB five years to become a limited share company, but the Executive Yuan would like TTWB to complete the transition by the end of 2000. After privatization, TTWB will likely become separate cigarette, beer, and distilled spirits/wine companies. TTWB has taken several measures to prepare for privatization. As mentioned above, it has limited increases in tobacco production. In addition, it has reduced the number of tobacco processing facilities from four to two, and the number of cigarette factories from four to three. It has reduced its personnel from 12,000 to 9,000, and plans to cut personnel further, to 7,500 employees, before privatization.

Consumption

Total tobacco leaf consumption (unofficial numbers) in 1998 was approximately 22,000 mt, of which 21,630 mt was *flue-cured*, 600 mt was *oriental*, and 40 mt *burley*. Consumption of expanded tobacco increased to 12 percent of the total consumption from the previous year's 11 percent and the consumption of tobacco stems increased to 24 percent from the previous year's 22.5 percent. Of the total stemmed tobacco consumed, domestic tobacco accounted for 40 percent, US tobacco 36 percent, and stemmed tobacco from other countries 24 percent. In comparison with 1997, domestic stemmed tobacco consumption decreased 4 percent, US tobacco remained the same, and all other countries combined increased 5 percent. The use of stemmed tobacco is increasing because manufacturing tobacco products from stemmed tobacco is less labor intensive. TTWB has reduced the use of labor intensive technologies to increase competitiveness.

According to TTWB, consumption of *oriental* and *burley* tobacco will begin to gradually increase in 1998 because these tobaccos have a stronger flavor which can compensate for taste lost when lowering nicotine and tar levels. Consumption of *flue cured* tobacco from Thailand, South Africa and Zimbabwe will increase substantially due to their lower nicotine and tar characteristics and price competitiveness (refer to the Trade Section). Consumption of expanded tobacco leaves and stems will increase as well, once again because they are lower in tar and nicotine. In an attempt to lower costs of production, TTWB began importing cheaper leaf from Canada and Brazil (in 1995) and from Zimbabwe (in 1997) displacing more expensive *flue-cured* imports from the US (see TW8018). Taiwan used to turn to Malawi for low-priced tobacco, but has found other suppliers with better quality for equivalent prices. No tobacco was imported from Malawi in 1998 (refer to Table 14).

Trade

Table 6. Taiwan Total Tobacco Imports for 1997 and 1998

Import Trade Matrix			
Country:	Taiwan	Units:	Metric Tons
Commodity:	Tobacco		
Time period:	01/1998		
Imports for	1997		1998
US	4227	US	4645
Others		Others	
Brazil	316	Brazil	960
Canada	69	Canada	81
Malawi	2324	Greece	357
South Africa	547	South Africa	2152
Thailand	140	Thailand	2383
Yugoslavia	350	Yugoslavia	770
Zimbabwe	1743	Zimbabwe	2630
Netherlands	1	Netherlands	2
Total for Others	5490		9335
Others not listed			
Grand Total	9717		13980

Table 7. Total (Flue Cured) Tobacco Exports for 1997 and 1998

Export Trade Matrix			
Country:		Units:	Metric Tons
Commodity:			
Time period:	01/1998		
Exports for	1997		1998
US	0	US	0
Others		Others	
Egypt	138	Japan	87
Indonesia	661		
Japan	72		
Norway	71		
Total for Others	942		87
Others not listed			
Grand Total	942		87

Total Tobacco Leaf Imports

Tobacco leaf imports are primarily *flue-cured* with small amounts of *oriental* tobacco imported from Balkan and Mediterranean countries. Taiwan does not regularly import *burley* tobacco, but when it does, it typically comes from the US. Tobacco imports in 1998 totaled 13,980 mt, 44 percent higher than in 1997. The huge jump in 1998 imports was due primarily to current and anticipated changes in domestic cigarette formulations which will include a higher proportion of imported leaf. According to TTWB, imported tobacco is typically not ready for use in the manufacture of cigarettes until 18 months after its purchase is transacted. Therefore, formulation changes anticipated for 2001 and later were already reflected in 1998 tobacco import decisions.

In 1998, of the 13,980 mt of tobacco imports, 12,818 mt were *flue cured*, 1,127 mt were *oriental*, and 35 mt were *burley*, with a total import value of CIF $61 million, up $9 million or 17 percent from 1997. The unit value of tobacco imports in 1998 dropped to $4.35 per kg from $5.36 per kg in 1997. This reflects the fact that Taiwan tobacco imports are becoming more price driven. This trend does not favor US tobacco which tends to cost more than tobacco from other suppliers. That is why Taiwan tobacco imports from the US dropped significantly in 1997 and 1998 as shown on Table 8. TTWB sources say that US *flue cured* prices were about $6 per kg in those two years as compared with $3 to $4 per kg for other suppliers.

Table 8. Tobacco Imports from the United States 1995-1998

Year	Kilos	USD	CIF $/Kilo	Market Share
1995	6,466,792	$40,800,000	$6.31/Kilo	67%
1996	6,418,738	$40,900,000	$6.38/Kilo	63%
1997	4,226,979	$27,300,000	$6.48/Kilo	44%
1998	4,644,620	$28,200,000	$6.06/Kilo	33%
Source: Taiwan Customs				

Table 9. Flue Cured Tobacco Imports from Zimbabwe 1995-1998

Year	Kilos	USD	CIF $/Kilo
1995	0	$0	0
1996	1,777,200	$5,220,000	$2.94/Kilo
1997	1,743,000	$8,165,400	$4.68/Kilo
1998	2,629,800	$9,669,200	$3.68/Kilo
Source: Taiwan Customs			

Table 10. Flue Cured Tobacco Imports from South Africa 1995-1998

Year	Kilos	USD	CIF $/Kilo
1995	801,600	$2,083,000	$2.60/Kilo
1996	341,000	$1,080,000	$3.16/Kilo
1997	547,200	$2,542,000	$4.64/Kilo
1998	2,152,200	$7,949,000	$3.69/Kilo
Source: Taiwan Customs			

Table 11. Flue Cured Tobacco Imports from Thailand 1995-1998

Year	Kilos	USD	CIF $/Kilo
1995	660,000	$2,052,000	$3.11/Kilo
1996	414,000	$1,420,000	$3.42/Kilo
1997	140,000	$495,000	$3.54/Kilo
1998	2,382,600	$8,149,000	$3.41/Kilo
Source: Taiwan Customs			

Table 12. Flue Cured Tobacco Imports from Brazil 1995-1998

Year	Kilos	USD	CIF $/Kilo
1995	504,000	$1,945,000	$3.86/Kilo
1996	217,000	$1,023,000	$4.71/Kilo
1997	315,800	$1,308,000	$4.14/Kilo
1998	959,600	$3,749,000	$3.91/Kilo
Source: Taiwan Customs			

Table 13. Flue Cured Tobacco Imports from Canada 1995-1998

Year	Kilos	USD	CIF $/Kilo
1995	0	$0	$0/Kilo
1996	90,000	$326,000	$3.62/Kilo
1997	69,000	$311,000	$4.50/Kilo
1998	81,000	$323,000	$3.98/Kilo
Source: Taiwan Customs			

Table 14. Flue Cured Tobacco Imports from Malawi 1995-1998

Year	Kilos	USD	CIF $/Kilo
1995	1,004,400	$2,237,000	$2.22/Kilo
1996	806,400	$2,313,000	$2.87/Kilo
1997	2,323,600	$11,129,000	$4.79/Kilo
1998	0	$0	$0/Kilo
Source: Taiwan Customs			

Oriental/Burley Tobacco Imports

In 1998 Taiwan imported 350 mt and 770 mt of *oriental* tobacco from Greece and Yugoslavia, respectively, twice as much as in 1997. *Burley* imports (all US) in 1998 were 35 mt. None was imported in 1997. Imports of *oriental* tobacco are increasing because, owing to its stronger flavor, it can be used to compensate for taste lost in the process of lowering tar and nicotine content. Taiwan recently established diplomatic relations with Macedonia, the only European country to recognize Taiwan in this way. As a result, TTWB has agreed to purchase 200 to 300 mt (worth NTD 800,000 or $25,000) of *oriental* tobacco from Macedonia in 1999.

Tobacco Import Projections for 1999

Tobacco imports in 1999 are expected to remain roughly at 1998 levels. *Burley* imports are projected at 50 mt (all from the US), and *oriental* tobacco at 1,500 mt. *Flue cured* tobacco imports are expected to decrease slightly to 12,450 mt. The US share will remain at about the same level as in 1998. The import share of *flue-cured* imports from other countries will vary depending on price and quality. The long term prognosis for US *flue cured* imports is not positive for the reasons cited above.

Tobacco Exports

Taiwan produces only *flue-cured* tobacco. TTWB saves the best domestic *flue cured* to manufacture cigarettes and exports the rest. Its export market is very small. In 1998, exports totaled 87 mt worth FOB $270,000 in comparison with 1997 exports of 942 mt, valued at $1.4 million. It is difficult for TTWB to locate an export market for the surplus domestic tobacco due to its low quality.

TTWB has an annual contract for the production of expanded tobacco cutfiller with Philip Morris in Australia. TTWB ships domestic tobacco cutfiller to Philip Morris for processing and re-imports it as expanded tobacco cutfiller. This arrangement accounts for the 260 mt tobacco exports to Australia which appear in 1998 Taiwan Customs statistics. (These shipments to Australia are not included in this report's trade matrix..) This re-imported tobacco is levied a 20 percent tariff. TTWB is planning to build a tobacco expansion processing plant in Taiwan which is scheduled to start operating within the next two years.

Tariff Changes

The tariff rate for tobacco leaf remains at 20 percent. The rate for tobacco stems, dusts, siftings, and refuse remains at 35 percent. The tariff rate for manufactured tobacco products or manufactured tobacco substitutes, such as homogenized tobacco sheets, expanded tobacco leaves, tobacco extract and essences, is 20 percent.

Stocks

Tobacco stocks are high due to TTWB's guaranteed purchase contracts with farmers and because Taiwan's exportable surplus tends to be hard to export. Accumulations will likely begin to decline after privatization.

Marketing

The US share of tobacco exports to Taiwan in 1998 was 33 percent, as compared to 44 percent in 1997. This decline in market share is the result of a trend towards the importation of cheaper raw materials, and changes in cigarette formulation. TTWB has closed two of its four tobacco processing plants. The two plants that remain in operation use mostly stemmed tobacco; consequently, imports of unstemmed tobacco will decrease. Closure of the two factories was motivated by TTWB's wish to reduce investments in labor intensive, older technology, in order to cut costs of production.

Manufactured Tobacco (Cigarettes)

Table 15. Cigarette Production, Supply and Demand in Million Pieces

PSD Table						
Country:	Taiwan					
Commodity:	Tobacco, Mfg., Cigarettes					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Filter Production	26730	27102	26730	24960	0	25000
Non-Filter Production	0	0	0	0	0	0
TOTAL Production	26730	27102	26730	24960	0	25000
Imports	10911	12934	10911	15159	0	15100
TOTAL SUPPLY	37641	40036	37641	40119	0	40100
Exports	9	24	9	15	0	20
Domestic Consumption	37632	40012	37632	40104	0	40080
TOTAL DISTRIBUTION	37641	40036	37641	40119	0	40100

Production

Domestic cigarette production in 1998 totaled 25 billion pieces, a decline of 2 billion pieces from a year earlier. Market share of local brands was 62 percent of the total cigarette market, down 6 percent from 1997. Since Taiwan opened the cigarette market to most foreign brands in 1987, and to Japanese brands in 1993, the market share held by local brands has declined continuously. This trend will be hard to reverse. To counter it TTWB is developing new types of cigarettes, including menthol, light, and mild brands, as well as new packaging (e.g. hard pack boxes) and new presentations (e.g., 100 mm cigarettes).

Domestic brands are mostly British style cigarettes. All TTWB attempts to launch American style cigarettes have failed. In 1998 TTWB introduced one brand (*Long Life* milds) and removed three brands: *Golden Dragon* (hard pack--introduced in 1987), *Hsiang Ho* lights (introduced in 1994), and *Marshal* (introduced in 1996). The survival rate of new cigarette brands is low. Japanese mixed-style brands, such as *Mild Seven*, are becoming increasingly popular. TTWB targeted *Mild Seven* by creating its own mixed-style cigarette named *5-2-0* which sounds similar to "I love you" in Chinese. Because the packaging and advertizing for this new brand obviously targeted young women, TTWB was forced to remove the product from the market, but will relaunch it under a different name in the future.

Currently, the nicotine content of most domestic brands is around 1.5 mg. TTWB will gradually reduce the nicotine content of existing brands to meet the new requirement of the Tobacco Hazards Prevention Act (THPA) which became law in September 1997. By July 2001 tar levels must be below 15 mg and nicotine levels below 1.5 mg. By July 2007, tar and nicotine levels must be below 12 mg and 1.2 mg respectively. The TTWB has already developed several cigarette brands with nicotine contents that are even lower than 1.2 mg. Cigarette production for 1999 is anticipated to remain at about the level of 1998's 25 billion pieces.

Consumption

The Tobacco Hazards Prevention Act (THPA), which identified several categories of public areas as smoke-free zones and imposed certain constraints on cigarette advertising, became law in September 1997. Prior to the enactment of this law, TTWB and cigarette importers engaged in an advertising blitz that led to significant consumption increases. In 1997 consumption, which averaged 37 billion cigarettes from 1994 through 1996, rose to 40 billion. Most of the 1997 increase went to foreign brands. Cigarette consumption in 1998 remained at 40 billion. In 1998 consumption of domestic brands dropped by 2 billion pieces as compared with 1997. (Because actual consumption data is not available, consumption estimates are based on total cigarette supply.)

In 1997 a survey conducted by the Department of Health (DOH) indicated that the male smoking population declined slightly from 30 percent in 1995 to 28 percent last year. Meanwhile, the female smoking population increased from 5 percent in 1995 to 10 percent in 1997. (In 1987 it was only 2 percent.) The rise is mostly the result of advertising which increased considerably after foreign brands were introduced into the market. DOH has proposed amendments to the THPA aimed at reducing the number of teenaged smokers. The amendments would designate schools as smoke-free areas, prohibit teachers from smoking in schools, and prohibit all students from smoking during school hours when in public. Anti-smoking groups have criticized advertising campaigns targeted at teenagers and women, and increased controls on advertising will likely be imposed in the future. The tobacco and alcohol tax bill, currently under consideration by the Legislature, includes provisions for a tax surcharge of either NTD 2.36 or NTD 10 per pack, in addition to new taxes that will replace the former monopoly tax, and a value-added tax. Depending on the form of the bill when it becomes law, the total tax on a pack of cigarettes will total between NTD 17.50 and NTD 30.00 compared to the current monopoly tax of NTD

16.6. Taiwan cigarette manufacturers calculate that an increase of 10 percent in the retail price of a pack of cigarettes will reduce consumption by 4 to 14 percent. This suggests that these new taxes could have a significant impact on cigarette consumption. Therefore, cigarette consumption is not expected to rise in 1999, and is projected, in this report, to remain at around 40 billion pieces.

Prices

The retail price for most foreign brands is currently NTD 50, and local brands are mostly priced at NTD 30 per pack. A year ago those prices were NTD 40 and NTD 25 per pack respectively. Retail prices for imported cigarettes rose due to the devaluation of the NTD and domestic prices followed suit. Further price hikes, due to increased taxes, will take place when the tobacco and alcohol tax bill is passed. There are some luxury cigarettes priced two to three times higher than mainstream brands. For example, *555 Equinox* is priced at NTD 300 per pack, *Mi-Ne International* at NTD 200 per pack, *Davidoff Magnum* at NTD 150 per pack, and BAT's *Silk Gut XQ* at NTD 150 per box. (The average exchange rate in 1997 was $1=NTD 28.57; in 1998 it was $1=NTD 33.51; and as of June 14, 1999 it was $1= NTD 32.50.)

Trade

Table 16. Cigarette Imports for 1997 and 1998

Import Trade Matrix			
Country:	Taiwan	Units:	Million Pieces
Commodity:	Cigarettes		
Time period:	01/1998		
Imports for	1997		1998
US	2228	US	2197
Others		Others	
U. Kingdom	3434	Japan	5968
Japan	3011	Germany	3231
Germany	2593	U. Kingdom	2635
Switzerland	1463	Switzerland	598
Singapore	112	Slovenia	213
Netherlands	37	Singapore	115
Belgium	22	Netherlands	97
Austria	9	Belgium	65
		Austria	16
		Philippines	9
Total for Others	10681		12947
Others not listed	25		15
Grand Total	12934		15159

Table 17. Cigarette Exports for 1997 and 1998

Export Trade Matrix			
Country:	Taiwan	Units:	Million pieces
Commodity:	Cigarettes		
Time period:	01/1998		
Exports for	1997		1998
US	2	US	3
Others		Others	
Hongkong	2	Hongkong	7
Japan	13		
Malaysia	7		
Total for Others	22		7
Others not listed			
Grand Total	24		10

Taiwan's cigarette exports are insignificant as compared to imports. However, TTWB is eager to increase cigarette exports to cover losses resulting from loss of market share to imported brands. The targeted export market is the PRC and Hong Kong. In 1998 exports were down to 10 million pieces from the previous year's 24 million. Cigarette exports are projected to increase to 20 million pieces in 1999 due to TTWB's attempts to increase exports to the PRC.

In 1998, total cigarette imports were about 15 billion pieces, a 2 billion increase over the previous year. The large increase in cigarette imports was attributed to marketing endeavors on the part of cigarette importers. *Mild Seven* cigarette consumption increases accounted for a large part of the overall rise. The top five supplier countries remained the same as in previous years. They were Japan, Germany, the United Kingdom, the United States, and Switzerland. However, their relative ranking in the market has changed (see Table 18). In 1998, for the first time, Japan held first place, followed by Germany. The United Kingdom and the United States are losing market share. Increased market share for Japanese cigarettes is attributed to the fact that JT Tobacco International, which prior to 1993, had to export cigarettes to Taiwan from its Switzerland and the United Kingdom factories, can now export directly from Japan, and to the growing popularity of Japanese cigarettes. Although the current trend has been for cigarette imports to increase each year, this report puts 1999 imports at the same level as 1998. It is not likely that cigarette consumption will increase significantly given the possibility of new taxes and additional restrictions on smoking. Furthermore, TTWB is making a concerted effort to win back market share lost to imported brands during the past several years.

Table 18. Top Five Cigarette Supplier Countries

Cigarette Supplier Country	1998 Import		1997 Import		1996 Import		1995 Import		1994 Import	
	Share	Rank	Share	Rank	Share	Rank	Share	Rank	Share	Rank
Japan	39%	1	23%	2	16%	4	19%	3	<1%	
Germany	21%	2	20%	3	18%	3	15%	4	13%	4
U. Kingdom	17%	3	27%	1	29%	1	28%	1	41%	1
US	14%	4	17%	4	19%	2	21%	2	31%	2
Switzerland	4%	5	11%	5	15%	5	14%	5	14%	3
Others	5%		2%		2%		3%		1%	
Total Imports	15.2 billion pieces		12.9 billion pieces		10.9 billion pieces		10.2 billion pieces		8.1 billion pieces	
Source: Taiwan Customs Statistics										

The US share of the imported cigarette market is declining (31 percent in 1994 to 14 percent in 1998) but exports are increasing in absolute terms (2.1 billion piece in 1995 to 2.2 billion in 1998). According to trade sources, US cigarette sales of *Marlboro* and *Parliament* have been stable. *Virginia Slims* is the leading brand among women smokers.

Table 19. US Cigarette Imports 1994-1995

Year	US Cigarette Import Volume (in billion pieces)	US Cigarette Import Value (in million USD and Share)	Total Import Value (in million USD)
1994	2.5	70 (31%)	223
1995	2.1	63 (21%)	307
1996	2.1	55 (17%)	325
1997	2.2	60 (16%)	378
1998	2.2	48 (13%)	384

Tariff Changes

Currently, importers must pay a monopoly tax of NTD 830 per thousand cigarettes (equivalent to NTD 16.6 per pack). After the new tobacco and alcohol tax bill is passed, the monopoly tax will be replaced by a 27 percent tariff, and a tobacco tax of NTD 590 per thousand pieces (equivalent to NTD 11.8 per pack). These two taxes will be roughly equivalent to the current monopoly tax. In addition, a 5 percent value-added tax (also referred to as a *business* tax) will be implemented. As mentioned earlier, a surcharge tax of between NTD 2.36 and NTD 10.00 per pack is also being debated for inclusion in the tobacco and alcohol tax bill. Revenues collected from the surcharge would be used to pay for anti-smoking programs (10 percent), health insurance programs (20 percent), and social welfare programs (70 percent). Only imported cigarettes are assessed the monopoly tax.

Advertising

The Tobacco Hazards Prevention Act (Articles 9 and 10) stipulates that (1) each manufacturer can take out only 120 magazine advertisements per year; (2) cigarette manufacturers can display their cooperate name when they sponsor activities but they cannot use those events to directly promote tobacco products or brands; and (3) point-of-sale promotions are permitted, but limited in certain ways (for example, the value of give-away gifts cannot exceed 25 percent of the retail price of the cigarette product, and the gift can not bear the cigarette's brand name). All other advertising is prohibited. Marketing channels are also limited by this law. The DOH, the authority responsible for enforcing the THPA, has proposed that tobacco advertisements display health warnings, that all sponsorship of public events by cigarette manufacturers be banned, and that gift give-away promotions be prohibited.

Labeling Requirements

Tobacco product labels must include tar and nicotine level information and health warnings. There are six officially approved health warnings which product manufacturers must display on labels in rotation in accordance with the provisions of the THPA.

Marketing

The total cigarette market in 1998 was 40 billion pieces. Foreign brands held 38 percent of the market share, up by 6 percent from a year ago. Consumption of domestic brands fell by 2 billion pieces. The growth in market share of foreign brands was attributed to market promotions, especially gift give-away promotions. Gifts were reportedly designed to attract teenagers and women smokers. These two categories of smokers tend to smoke exclusively foreign brands. Male smokers are declining, while teenage and women smokers are increasing. The market trend has been for the share of foreign brands to increase.

Several new brands were launched in 1998. This includes TTWB's *Long Life* mild; JT's *Mild Seven* menthol; Reemstma's *Boss* lights and FF; RJR's *Salem* pianissimo slim lights; BAT's *Finesse* menthol slims; PMI's *Marlboro* lights in 10-cigarette packs; and *Virginia Slims* menthols. Reportedly, the market share for light and menthol cigarettes is increasing due to health concerns and the growing number of female smokers. Taiwan consumers prefer hard pack to soft pack cigarettes. According to point-of-sale statistics, and the Taiwan Tobacco Institute, the leading brands in Taiwan remain the same. *Long Life* still holds the first market position, followed by *Mild Seven* and *Davidoff*. In general, *Long Life* held about 60 percent of the total market, *Mild*

Seven held a 50 percent share of foreign brands, and *Davidoff* a 25 percent share of foreign brands. *Mild Seven* is imported from Japan, the United Kingdom and Switzerland. *Davidoff* is imported from Germany. (See Table 20.)

Table 20. Current Top Ten Leading Brand Family in the Taiwan Cigarette Market

Rank	Brand Name	Corporation
1	Long Life	TTWB
2	Mild Seven	JT
3	Davidoff	Reemstma
4	555	BAT
5	Mi-Ne	JT
6	Parliament	Philip Morris Incorporate (PMI)
7	Marlboro	PMI
8	Boss	Reemstma
9	Cartier	Rothmans
10	New Paradise	TTWB

Increased taxes on cigarette consumption; future restrictions on cigarette smoking in some public areas and in schools; and proposed new limitations on advertising will likely result in limited or no growth in cigarette consumption on Taiwan in the future. Therefore, competition will become stronger to increase market share.