



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Scheduled Report - public distribution

Date: 5/17/1999

GAIN Report #AU9020

Austria

Tobacco

Tobacco, Annual

1999

Prepared by:

Allan Mustard

U.S. Embassy

Drafted by:

Walter Krucsay

Report Highlights:

The abolition of tax advantages of duty free shops within the EU will result in increased domestic cigarette sales in 1999. At the same time, cigarette exports should rise considerably. Increased requirements in the domestic and foreign markets will result in increased 1999 cigarette production.

Includes PSD changes: Yes
Includes Trade Matrix: No
Annual Report
Vienna [AU1], AU

Executive Summary	1
Tobacco, Unmfg., Total	2
Production	2
Consumption	3
Trade	4
Marketing	4
Cigarettes	5
Production	5
Consumption	6
Trade	8
Policy	9
Marketing	10

Executive Summary

Austria's limited tobacco production has stabilized. The 1998 yields reached a record level and the quality was excellent. Prospects for 1999 are very good.

As cigarette production increased significantly, tobacco consumption and consequently tobacco imports increased in 1998. For the same reason, leaf consumption and imports should rise again in 1999.

Given the elimination of duty free imports in mid 1997, domestic cigarette sales rose significantly in 1998 compared with 1997. The drop in tax advantages of duty free shops within the EU will result in higher prices and smaller sales of these outlets and consequently higher domestic sales.

Cigarette exports increased 7% in 1998, primarily due to larger deliveries to Germany. Again a significant export rise is expected in 1999. The main increase is expected in shipments to Germany, France, China and Japan.

In 1999, further shares in government possession will be sold. The government share may be reduced from 41.4% to 31% by the end of 1999.

Average rate of exchange: US dollar 1 = AS 12.21 in 1997
 AS 12.38 in 1998
 AS 12.74 on May 14, 1999

Tobacco, Unmfg., Total

Production

PSD Table						
Country	Austria					
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	98	103	105	101	0	102
Beginning Stocks	12827	12827	14371	14371	14947	15205
Farm Sales Weight Prod	163	199	199	205	0	175
Dry Weight Production	144	176	176	181	0	155
U.S. Leaf Imports	2100	2100	2700	2195	0	2200
Other Foreign Imports	14150	14150	14200	15494	0	15900
TOTAL Imports	16250	16250	16900	17689	0	18100
TOTAL SUPPLY	29221	29253	31447	32241	14947	33460
Exports	400	400	350	220	0	420
Dom. Leaf Consumption	140	140	150	130	0	200
U.S. Leaf Dom. Consum.	2400	2400	2600	2180	0	2240
Other Foreign Consump.	11910	11942	13400	14506	0	15200
TOTAL Dom. Consumption	14450	14482	16150	16816	0	17640
TOTAL Disappearance	14850	14882	16500	17036	0	18060
Ending Stocks	14371	14371	14947	15205	0	15400
TOTAL DISTRIBUTION	29221	29253	31447	32241	0	33460

Crop Area

Both the number of producers and tobacco area in Austria have stabilized. It is expected that no further drop in the number of tobacco producers and particularly in tobacco area will take place in 1999 and the short term future.

The main type of Austria's limited tobacco production is burley of which 101 ha were planted in 1998 (-3%). In addition, about 12 ha of dark flue cured tobacco intended for cigars was produced in 1998. About the same area will be used for tobacco production in 1999.

AT's commitment to buy the Austrian tobacco output expired in 1998. Nevertheless, AT will continue to use

up the entire domestic burley production. The small quantity of flue cured tobacco is purchased by a German cigar producer.

Yields

Weather conditions were excellent for tobacco production in 1998 which resulted in a record yield of 2 MT/ha. Blue mold occurred only in a few areas of the very eastern part of Austria but due to the timely application of the fungicide ridomil it did not constitute a problem.

The 1999 seeding of tobacco was carried out in the first half of March. At the beginning of May, seedlings were transplanted to fields under optimal soil conditions. Around May 20, field planting shall be finished.

Quality

Excellent 1999 weather conditions resulted not only in a record output but also in an exceptional high quality. Around 92% of the total crop was first and second grade.

Production Policy

In contrast to the pre-EU period, tobacco growing is no longer regulated by the monopoly law which required a license from Austria Tobacco (AT). Following EU membership, interested farmers must apply to "Agricultural Market Austria" (AMA), which is responsible for Austria's EU production quotas and direct payments. Due to Austria's relatively large tobacco quota (600 MT), newcomers are gladly accepted.

In 1998, the producer price for first- and second- grade tobacco was AS 14.20/kg and for third- grade AS 0.50/kg. Both prices were the same as in 1997. In addition to the base price, tobacco producers received the normal EU premium of AS 29.90/kg and the north premium of AS 5.80 for all grades. In 1999, these premiums will increase to AS 32.80/kg and 12.14/kg.

While EU subsidies for tobacco growers are considerably higher than those provided previously by the Austrian government, tobacco prices declined significantly after accession. Thus, the income situation of tobacco farmers has worsened under the EU regime.

Tobacco is collected by the tobacco producer organization and shipped to the company Diamon Rota in Karlsruhe, Germany, for processing.

Consumption

The increased cigarette output tracked a corresponding rise in tobacco consumption in 1998. In 1999, the expected rise in cigarette output should match further growth in tobacco consumption. Leaf use for other tobacco products than cigarettes is small.

According to AT the Virginia type cigarette is not so popular any more. The present taste goes more in the direction of American blends. These cigarettes contain more burley which results in an increase in consumption of this tobacco.

Trade

Official 1998 tobacco trade data cannot be used as they are much too low. The problems due to the change to the EU survey system have not yet been overcome for tobacco. Instead of official trade data, figures provided by AT were used in PSDs. However, as AT cannot provide trade figures by countries so no trade matrix is provided.

Given the increased demand and stock buildup, imports in 1998 rose 9% compared to 1997. The larger requirements resulted in increased imports of U.S. tobacco.

In 1999, tobacco imports should again rise considerably because of the expected increase in cigarette production. The larger requirement should also result in increased imports from the U.S. Tobacco coming from the U.S. is predominantly Virginian.

As Phillip Morris does not reveal its tobacco recipes for its cigarettes produced under license in Austria, completely blended tobacco for these cigarettes is imported from the U.S. Blends for other U.S. license cigarettes are prepared by AT.

Marketing

The production monopoly for cigarettes remains with AT despite EU membership. Thus, all promotional activities have to be conducted with AT. According to AT, no foreign countries promote their tobacco in Austria.

A certain quantity of U.S. tobaccos will always be required since the special flavor of these tobaccos can hardly be replaced by leaf from other countries. In addition, special blends for Marlboro licensed cigarettes will come from the U.S. for at least the next 9 years.

Cigarettes

Production

PSD Table						
Country	Austria					
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	19873	19873	20300	22321	0	23100
Non-Filter Production	100	100	100	190	0	200
TOTAL Production	19973	19973	20400	22511	0	23300
Imports	1120	1102	1300	1392	0	1500
TOTAL SUPPLY	21093	21075	21700	23903	0	24800
Exports	7870	7870	8400	8400	0	9200
Domestic Consumption	13223	13205	13300	15503	0	15600
TOTAL DISTRIBUTION	21093	21075	21700	23903	0	24800

AT's cigarette factories are located in Linz (8 - 9 billion pieces/year, 84 employees), Hainburg (6 - 7 billion pieces/year, 187 employees), and Schwarz (about 4 billion pieces/year, 84 million employees). In addition, AT owns a cigar factory in Fuerstenfeld where 54 workers are employed.

All plants produce AT's own brands (39) and licensed brands (21).

Given the high requirement, the 1998 production increased by 12.7%. As usual the major share (99.6%) were filter tipped cigarettes.

Since the interest in the brands Belvedere, Da Capo, Head Lights, Man, Olds Splendor, and United Europe was already low, their production was canceled. However, two new brands (all AT's own brands) were put on the market: Ronson American blend and Memphis blue lights 100. In addition, the name of the blend Arktis, a menthol cigarette, was changed into Memphis Menthol. Since only 2 brands will be advertised, i.e. Milde Sorte and the Memphis group, it was decided to have one menthol cigarette included.

Due to expected rise in domestic sales and exports, the 1999 production should increase by 3 - 4%. The share of filter tipped cigarettes will be about the same as in 1998.

As in the past years, probably two new brands will be developed in 1999. It is intended to increase the brand groups Memphis and Milde Sorte by one light cigarette each.

AT produces its own brands and license brands and in addition issued cigarette licenses to Hungary, Slovakia, Czech Republic, and Croatia, which produced a combined number of about 0.5 billion Austrian brand

cigarettes. Austria produces 23 brands under license including U.S. brands of Philip Morris, Rendsma, Reynolds, BRT, and Brown and Williams.

Consumption

In 1998, 15.1 billion cigarettes were officially sold in Austria, which is the highest number ever sold on the domestic market. (Note: The correct consumption figures for 1997 are 13.6 billion, 1998 15.1 billion, and 1999 15.3 billion pieces. Since PSD tables do not include stocks, domestic consumption figures had to be adjusted to balance total supply and distribution.) Of this number, 8.6 billion were AT's own brands, 5.4 billion license brands and 1.1 billion were imported cigarettes.

The large consumption increase of 10.8% is a consequence of the changes in the legal framework governing private imports (see policy) and sharper border controls. Thus, the increased sale is less a real increase in cigarette consumption but a shift from private imports or smuggling to legal domestic purchases by smokers.

At the end of December 1998, the brand range on the Austrian market included 40 AT brands, 20 license brands, and 63 import brands. However, six brands account for nearly 60% of total consumption. They are as follows:

Memphis Classic	16.7%
Marlboro	13.8%
Marlboro Lights	10.2%
Milde Sorte Classic	8.0%
Memphis Lights	5.4%
Hobby Box	2.5%

In 1999, domestic sales are expected to rise by about 1% since the tax advantages of duty free shops within the EU will be abolished on June 1, 1999. Thus, there will be no more reason to buy larger quantities from these outlets. In addition, anti-smoking campaigns are infrequent and weak.

Due to rising imports by AT, the brand range fluctuates considerably within a year. However, the number of AT's own brands and license brands will remain stable. In addition, little fluctuation is expected within the leading six cigarette brands.

According to AT, in Austria there are 6.5 million persons above 16 years of which around 30% are smokers. The average smoker smokes 23 cigarettes per day which results in around 17 billion cigarettes total annual consumption of the Austrian population. Thus, theoretically the market is saturated with 17 billion pieces. However, due to legal and illegal private imports, this figure cannot be reached.

Smokers are only counted if they are above 16 years. Beginning with this age, smoking is legally permitted. However, actually the number of younger children smoking in the public is rising.

Prices

On November 1, 1998, prices for 110 cigarette brands were increased by AS 1.00 per package (20 pieces).

The current price (in AS/piece) is as follows (old price in parenthesis):

Milde Sorte	1.65	(1.60)
Memphis Classic	1.65	(1.60)
Memphis Lights	1.65	(1.60)
Gauloises Blondes	1.90	(1.85)
Hobby	1.60	(1.60)
Falk	1.60	(1.60)
Gitane Filter	1.85	(1.80)
Dames Filter	1.60	(1.60)
Player #6	2.00	(1.95)
Smart Export	1.60	(1.60)
Camel Medium	2.00	(1.95)
Flirt Filter	1.45	(1.45)
Kim	1.95	(1.90)
Jonny filter	1.60	(1.60)
Marlboro Lights 100s	2.15	(2.10)
Player's M.N.C.	2.05	(2.00)
Chesterfield Original	1.95	(1.90)
Benson & Hedges	2.05	(2.00)
Cartier Vendome Lights	2.25	(2.20)
Davidoff Classic	2.15	(2.10)
Dunhill International	2.25	(2.20)
Tussardi Light 100	2.15	(2.10)
Kent Deluxe	2.05	(2.00)
Marlboro Medium	2.05	(2.00)
Philip Morris One	2.05	(2.00)

US dollar 1 = AS 12.74 on May 14, 1999

According to AT, in the period May - December 1999, no price rise for tobacco products is expected.

Retail Trade

All outlets of tobacco and tobacco products (special tobacco shops, hotels, restaurants, gas stations, etc.) must have a license of an agency of the Finance Ministry. In Austria there are 3200 special tobacco shops ("trafiken") and 5800 other outlets (hotels, etc.). The latter buy from special tobacco shops ("trafiken") and add a profit margin of up to 20% to the normal retail price.

Trade

Exports

Export Trade Matrix			
Country	Austria		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	1997	Units:	1998
Exports for:		Million Pieces	1
U.S.	61	U.S.	43
Others		Others	
Germany	3943	Germany	5204
Guinea	1156	Guinea	1352
Slovenia	501	United Kingdom	297
United Kingdom	458	Slovenia	284
Hungary	238	Jugoslavia	258
Switzerland	183	Ukraine	252
Greece	159	Italy	165
Djibuty	148	Greece	153
Italy	146	Somalia	131
Yugoslavia	123	Hungary	74
Total for Others	7055		8170
Others not Listed	727		646
Grand Total	7843		8859

Cigarette exports rose substantially in 1998 (+13%). A significant increase was noted for deliveries to Germany (+32%) which received more than half of total exports. In addition, exports to Guinea, Yugoslavia, Italy, Greece, and particularly Ukraine increased considerably. A sharp decline was noted for shipments to the United Kingdom, Hungary, Slovenia, and Djibouti.

In general, in the first three quarters of 1998, exports to eastern Europe were satisfactory, but due to the economic crisis, exports to CIS dropped sharply in the fourth quarter. Sales to west and east Africa increased; more than 1.4 billion Memphis and Ronson were sold in these markets.

In 1999, exports should rise again significantly. Deliveries to Germany will probably rise most. In Germany, AT is primarily present with generic brands which are gaining significance on this market. In addition, AT partners supply from Germany other European countries. AT is expected to maintain its leading position on the generic sector in Germany.

In addition to Germany, exports to France, Japan and China should rise considerably in 1999.

Imports

Import Trade Matrix			
Country	Austria		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	1997	Units:	1998
Imports for:		Million Pieces	1
U.S.	10	U.S.	3
Others		Others	
Germany	579	Germany	742
France	275	France	413
Netherlands	100	Netherlands	116
United Kingdom	79	United Kingdom	85
Ukraine	28	Italy	20
Belgium	2	Denmark	8
		Belgium	2
		Sweden	2
Total for Others	1063		1388
Others not Listed	29		
Grand Total	1102		1391

Since EU accession, cigarette imports have been perennially rising. In 1998, deliveries from abroad rose by 21% and accounted for 15.7% of the exports (the 1997 share was 14%). Except for 10 million U.S. cigarettes intended for the UN commissary, all supplies came from EU countries. The trend to increasing cigarette imports from EU countries should continue in 1999 and the short term future. The number of imported brands, which was in December 1998 about 63, is expected to fluctuate considerably.

Policy

Since July 1, 1997, the permitted private imports of cigarettes from third countries has been reduced from 200 pieces to 25 pieces.

For several years, the government had intended to sell most shares of the government owned AT. The Austrian Industry Share Holding (a government organization which is responsible for the privatization of state owned companies) will probably reduce the current government share of 41.4% to 31% in 1999. The final level of government share holding will be 25% plus one share.

Retro-active March 31, 1999, AT's wholesale company tobaccoland Hungaria and the wholesale company Hungarotabak belonging to German companies, merged. According to AT, the new company is the most efficient wholesaler for tobacco products in Hungary. It has 835 employees and an annual turnover of AS 4.6 billion.

Marketing

Since sales can only be made through AT, which is interested in promoting its own brands, there are no market development opportunities for cigarettes imported from the U.S. AT is the only importer of tobacco and cigarettes, and the only producer of tobacco products. Despite the fall of the wholesale monopoly, AT still controls practically the whole tobacco/products market. Legally tobacco trade is liberalized but practically AT has still a monopoly position.