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Report Highlights:

The Russian tobacco industry continued to boom in 2000 as domestic production of cigarettes and related products rose 16 percent to reach 310 billion pieces. Russian raw tobacco imports in 2000 rose to 285,000 tons. This includes 17,000 tons from the United States, a decline from 9,500 tons in 1999. Cigarette imports fell by 13 percent from 1999. The United States moved from the 11th largest supplier in 1999 to the 6th largest supplier in 2000. Total volume rose from 9,670 tons in 1999 to 16,950 tons in 2000.

Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

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Executive Summary

The Russian tobacco industry continued to boom in 2000 as domestic cigarette and papirosa production rose 16 percent to reach 310 billion pieces. Russian tobacco products are almost exclusively made of imported raw tobacco. Domestic tobacco production in 2000 totaled only 1,500 tons, which was less than 0.5 percent of total tobacco consumption. Imports of raw tobacco increased by 7 percent, while cigarette imports fell by 13 percent from 1999. Tobacco imports increased from 264,670 tons in 1999 to 285,000 tons in 2000. At the same time, the list of tobacco suppliers to Russia continued to expand, with the role of CIS countries diminishing. The United States moved from the 11th largest supplier in 1999 to the 6th largest supplier in 2000. Total volume rose from 9,670 tons in 1999 to 16,950 tons in 2000.

For the first year on record, cigarette supplies exceeded consumption. Cigarette supplies reflect domestic production of 310 billion pieces plus 20 billion pieces of imports. This supply of tobacco products is higher than the maximum estimated domestic consumption potential of 270 billion pieces. The excess production of tobacco products was likely sold abroad to the CIS and other nearby countries. However, official data does not reflect this as this trade is not registered with the Customs Service. The ongoing modernization of tobacco plants with foreign capital, combined with local support of domestic tobacco factories, has created the base for further increases in manufactured tobacco production in 2001, which will likely intensify the search for export markets.

Production of filter cigarettes is concentrated at a few modern enterprises while the production of cheap papirosas is slowly being replaced by more expensive cigarettes, putting upward pressure on prices. Prices are also boosted by increased excise taxes and regional protectionist policies.

Production

Unmanufactured tobacco

Domestic production of unmanufactured tobacco covers less than 1 percent of consumption, making the Russian tobacco industry completely dependent on imported raw materials. Official State statistical data show that production of unmanufactured tobacco in Russia was stable at 1,500 tons, although area sown to tobacco in 2000 increased to 1,950 hectares from 1,100 hectares in 1999. Area sown to tobacco is expected to continue to expand slowly because of strong demand. The apparent sharp fall in yields could be the result of increasing vertical integration between tobacco farmers in Krasnodar Krai, Adygea and in the Volga Valley with tobacco manufacturing companies. These transactions occur internally within vertically integrated entities; they are often “off the record” and are not registered by the State statistical organizations. The vast majority of tobacco production (90 percent) is concentrated in Krasnodar Krai. All domestic production is Oriental-type tobacco, the same type that comprises most imports. This flavor is traditionally preferred by Russian smokers.

Table 1. Unmanufactured Tobacco Production, by Type

Production Table						
	Area Planted			Production		
	(HECTARE S)			Metric Tons		
	1999	2000	2001	1999	2000	2001
Burley	0	0	0	0	0	0
Dark Air Sun	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	0	0	0	0	0	0
Light Air Cured	0	0	0	0	0	0
Oriental	1100	1950	2000	1530	1600	2000
	1100	1950	2000	1530	1600	2000

Cigarettes

Production of papirosas and cigarettes in 2000 increased more than 16 percent to 310 billion pieces. Production estimates given by other sources vary from 320 billion to 360 billion pieces. However, these levels of production do not match official unmanufactured tobacco import data, making them questionable. In order for 2000 production to reach 340 billion pieces, it would require that a large amount of unmanufactured tobacco was smuggled into Russia or entered on a tolling basis without proper registration. Since there is no evidence that this is occurring, Post accepts the

official data.

More than 90 percent of Russian cigarettes and papirosas (a cheap type of cigarette with a hollow cardboard filter) are manufactured by 28 major factories. Most of these factories are either foreign-owned or work with foreign capital, with the largest factories being run by multinational and U.S. tobacco producers. In 2000, Philip Morris produced 17.7 percent of manufactured tobacco products, JTI made 15.8 percent and 13.4 percent were made by BAT. The share of LD was 11.2 percent. Russian owned firms have lower production. "Don-Tabak" produced 9.1 percent of tobacco products, "Balkanskaya Zvezda" - 6.8 percent, and "Nevo-Tabak" - 3.6 percent. Reemstma and Bulgar Tabak produced 1.5 percent and 1.2 percent of manufactured tobacco products, respectively. Other foreign producers manufactured 0.4 percent, while other Russian producers together comprise 19.4 percent. Russian-owned production remains more fragmented because regional administrations support small local factories with high expenses to boost local job creation and tax collection.

Consumption

Unmanufactured Tobacco

Domestic consumption of tobacco increased from 265,700 tons in 1999 to 301,480 tons in 2000. Post forecasts about the same level of consumption in 2000 at 301,500 tons. The forecast is based on the stable level of monthly tobacco imports in the beginning of 2001 as well as estimates from industry sources. Post forecasts that official import data will be closer to real imports because of increasingly effective enforcement of customs regulations. As a result, reported imports are expected to increase in 2001.

Cigarettes

Russia's domestic demand for cigarettes and papirosas is estimated at 250-270 billion pieces a year, with no significant increases expected in the near future because of a slowly increasing awareness of smoking's health consequences. Stable consumption and rising production are expected to fuel the cigarette glut. Tobacco industry specialists believe that the 2000 gap between production and consumption doubled from anywhere between 60 and 80 billion pieces. The Post estimation of domestic consumption of cigarettes for 2000 is 328.6 billion pieces (based on official data for imported unmanufactured tobacco) which means that the gap between supply and the 270 million piece demand is about 60 billion pieces.

The Russian tobacco industry association, Tabakprom, has stated that the problem of overproduction in 2000 is significant. As a result of overproduction, a number of enterprises are facing problems with selling their output -- a problem likely to grow as production continues to expand. Tabakprom believes that future developments will depend on the demand for tobacco products, which will be determined by the purchasing power of smokers and export prospects.

According to estimates, some 65 percent of all males and more than 30 percent of all females smoke in Russia. Changes in purchasing power have not affected the quantity of smoked cigarettes, which is already at a very high level,

exceeding 2,000 pieces per capita. Consumption did not fall after the 1998 economic crisis in line with incomes and did not increase afterwards as people started making more money. Instead, incomes are correlated with the quality of cigarettes smoked. In the aftermath of the 1998 crisis, incomes rose as the share of cheap cigarettes such as Prima fell from 31 percent in 1999 to 26 percent of the market, while the share of the very cheap Belamorkanal non-filter papirosas fell from 7 percent to 4.5 percent. Consequently, exports will be critical to the well-being of the Russian tobacco industry.

Trade

Unmanufactured Tobacco

Tobacco exports continue to fall rapidly, totaling only 20 tons in 2000. Tobacco imports increased from 264,670 tons in 1999 to 285,000 tons in 2000. In 1999, the major supplier of tobacco to Russia was Kyrgyzstan, which exported 30,740 tons. Preliminary import data for 2000 indicate the leading exporter of tobacco to Russia will be India, followed by China. At the same time, the diversity of tobacco suppliers to Russia continued to grow -- with the role of CIS countries diminishing. The U.S. moved from the 11th largest supplier in 1999 to the 6th largest supplier in 2000. Total volumes rose from 9,670 tons in 1999 to 16,950 tons in 2000. Tobacco imports from the U.S. mostly went to U.S.-owned and other joint venture tobacco manufacturing plants. The price of imported tobacco continued to fall until the end of 2000 due to the ongoing shift to less expensive tobacco. However, during 2000, prices rose along with the shift to more expensive blends caused by consumers' shift to more expensive filter cigarettes.

Cigarettes

Imports of cigarettes fell from 22,450 million pieces to 19,500 million pieces as a result of domestic overproduction. The range of exporting countries widened, although the United States remains one of the largest suppliers of cigarettes with its niche of expensive brands. Russian cigarette exports have also been increasing. Official exports mainly went to Kazakhstan, the biggest importer, Germany (from joint ventures), Mongolia, and Central Asian CIS countries. However, according to sources, significant quantities of cigarettes were smuggled through mostly transparent borders into Kazakhstan, Ukraine and some other CIS countries. The CIS countries and Ukraine consumed about 60 billion cigarettes of Russian origin in 2000. Smuggling from Russia to other CIS countries continues, easing the ill-effects of Russian overproduction. However, smuggling is further fueled by high excise taxes on cigarettes in Ukraine and other CIS countries.

Tariffs

High dependence on imported tobacco has kept import barriers low. The interests of Russian tobacco producers are reflected in the differences on duties for imported unmanufactured tobacco and processed tobacco products. The only recent change in import tariffs came through Resolution #886 of November 27. The duty for chewing and snuff tobacco (codes 2403 91 000 0 and 2403 99 100 0) was lowered from 30 to 20 percent, the same as for other manufactured tobacco and tobacco substitutes (code 2403). However, the tobacco lobby managed to keep import tariffs for cigars, cigarillos and cigarettes (code 2402) at the high 30 percent level.

Present import tariffs for unmanufactured and manufactured tobacco products are given below:

HS CODE	COMMODITY	IMPORT TARIFF
2401	Unmanufactured tobacco, tobacco refuse	5 percent
2402	Cigars, cigarillos and cigarettes, of tobacco or of tobacco substitutes	30 percent, but not less than 3 Euro per 1,000 pieces
2403	Other manufactured tobacco and tobacco substitutes; homogenized or reconstituted tobacco; tobacco extracts and essences	20 percent

Another step to limit imports of manufactured tobacco products was State Customs Committee Order #1070 which became effective February 16, 2001. It limits the number of customs points available for alcohol and tobacco imports. The list covers tobacco products with the following HS numbers: 2402 - cigars and cigarettes, (except 2402 90 000 0) and 2403 10, smoking tobacco. However, movement of tobacco products by train will still be allowed through all customs stations, while transport by truck will only be allowed through specially designated points at the Russia-Ukraine and Russia-Kazakhstan borders.

Stocks

There is no official data on stocks of raw tobacco. Post decreased estimates of raw tobacco stocks for 2000 from 30 tons to 15 tons. Stocks of cigarettes are not registered by Post's PSDs. Given the overproduction of cigarettes, these stocks may be very high at the warehouses and are likely to grow in 2001.

Policy

While tobacco plays a significant role in some regional economies and is favored by local governments and Russia's tariff structure, it is also highly regulated. It is required that all tobacco products have marks of identity and all imported tobacco and tobacco products must carry specially designed excise stamps. There are also numerous licencing requirements on the production and wholesale trade of tobacco which remain unchanged, as described in the previous Post report (Gain Report RS0022, sent April 26, 2000).

Excise Taxes

Excise taxes for all but the least expensive cigarettes continue to increase -- in most cases doubling since 1998. The last increase was approved in the Second Part of the Tax Code, which became effective on January 1, 2001. The excise tax for unmanufactured tobacco is zero.

New and Old Excise Taxes for Tobacco Products, 1998-2000

Commodity	HS codes (customs)	Excises (1998), rubles	Excises (1999), rubles	Excises (2000), rubles	Excises (2001), rubles
Pipe tobacco (Russian GOST standard)		n.a.	16 R per 1 kg	32 R per 1 kg	
Smoking tobacco, except tobacco which is used as raw material for manufactured tobacco products	from 2403 10 100 0	60 R per 1 kg	72.0 R per 1 kg	144 R per 1 kg	166 R per 1 kg
Pipe tobacco (except pipe tobacco Russian GOST standard)*	from 2403 10 100 0 from 2403 10 900 0	140.0 R per 1 kg	168.0 R per 1 kg	336 R per 1 kg	405 R per 1 kg
Cigars (except Russian GOST standard cigars)	from 2402 10 000 0	3.0 R per piece	3.60 R per piece	7.2 R per piece	10.0 R per piece
Cigars (Russian GOST standard)		1.0 R per piece	1.20 R per piece	2.4 R per piece	
Cigarillos and filter cigarettes over 85 millimeters long	from 2402 10 000 0 from 2402 20	25.0 R per 1,000 pieces	30.0 R per 1,000 pieces	60.0 R per 1,000 pieces	75.0 R per 1,000 pieces

Filter cigarettes (except cigarettes over 85 mm long and GOST grade 1, 2, 3 and 4 cigarettes)	from 2402 20	17.0 R per 1,000 pieces	20.50 R per 1,000 pieces	41.0 R per 1,000 pieces	55.0 R 1,000 pieces
Filter cigarettes (GOST grades 1, 2, 3)		n.a.	14.50 R per 1,000 pieces	29 R per 1,000 pieces	35.0 R per 1,000 pieces
Filter cigarettes (GOST grade 4)		n.a.	9.50 R per 1,000 pieces	19 R per 1,000 pieces	35.0 R per 1,000 pieces
Cigarettes without filter	from 2402 20	6.0 R per 1,000 pieces	7 R per 1,000 pieces	7 R per 1,000 pieces	10.0 R per 1,000 pieces
Papirosas (grade 1)	from 2402 20	4.0 R per 1,000 pieces	4.80 R per 1,000-pieces	4.8 R per 1,000 pieces	10.0 R per 1,000 pieces

* Although most pipe tobacco is charged 166 R per kg (code 2403 10 900 0), the Russian government makes many distinctions between differing types (Economica I Zhyzn, #4, February 2001)

Source: Economica I Zhyzn, #13, March 1998, Economica I Zhyzn, #2, January, 1999; Economica I Zhyzn, #1, January, 2001, p10.

Quality, Safety and Health

No changes were made in official quality, safety and health requirements (see RS8023, sent May 5, 1998). The Russian anti-smoking movement remains weak, although advertising of tobacco products on TV is prohibited. A complete ban on tobacco advertising was proposed in the State Duma in the beginning of 2001, but met strong resistance from the tobacco lobby on the pretext that it would mainly hurt the Russian manufacturers who have been expanding without foreign capital and do not produce world-famous brands. The lobby also insisted that the ban would also hurt local budgets.

Tobacco and tobacco manufactured products are subject to the mandatory state registration of new products in accordance with Government decree #988 of December 21, 2001. The registration requirement covers un-manufactured tobacco, cigars, cigarettes, cigarillos, papirosas, other manufactured tobacco products, along with supply materials for manufactured tobacco products, such as flavorings, paper, foil, cigarette folders, filters, and pipes. The term "new products" refers to products that were introduced into production or imported for the first time into Russia. This process occurs as products are being prepared for introduction or on imported products before their importation. The registration process is led by the Sanepidnadzor department at the Ministry of Health. These rules became effective starting April 1, 2001. After the registration process is complete, the new product is given a certificate of registration, and included in the state register. This procedure is not expected to slow down the growth of large producers but will likely pose a significant obstacle for smaller competitors with new products.

Marketing

According to industry sources, 2001 will be another difficult year for manufacturers of tobacco products because of the overproduction of cigarettes and intensifying competition. In 2000, the distribution system shifted from independent distributors to the creation of wholesale marketing and distribution chains affiliated with either the big manufacturers or local tobacco factories connected with local authorities.

PSD and Trade Tables

PSD, Tobacco, Unmanufactured, Total, Hectares, Metric Tons

PSD Table						
Country:	Russian Federation					
Commodity:	Tobacco, Unmfg.					
		1999		2000		2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Area Planted	1100	1100	1200	1950	0	2000
Beginning Stocks	30000	30000	30000	30000	0	15000
Farm Sales Weight Prod	1530	1530	1700	1600	0	1800
Dry Weight Production	1450	1450	1600	1500	0	1700
U.S. Leaf Imports	9670	9670	12000	16950	0	17000
Other Foreign Imports	255000	255000	263000	268050	0	282800
TOTAL Imports	264670	264670	275000	285000	0	299800
TOTAL SUPPLY	296120	296120	306600	316500	0	316500
Exports	420	420	0	20	0	0
Dom. Leaf Consumption	1400	1400	1500	1500	0	1500
U.S. Leaf Dom. Consum.	9000	9000	10000	12000	0	10000
Other Foreign Consump.	255300	255300	265100	287980	0	290000
TOTAL Dom. Consumption	265700	265700	276600	301480	0	301500
TOTAL Disappearance	266120	266120	276600	301500	0	301500
Ending Stocks	30000	30000	30000	15000	0	15000
TOTAL DISTRIBUTION	296120	296120	306600	316500	0	316500

Export Matrix: Unmanufactured Tobacco, Metric tons

Export Trade Matrix			
Country:		Units:	
Commodity:			
Time period:			
Exports for	1999		2000
U.S.	2	U.S.	0
Others		Others	
Bulgaria	201	Ukraine	10
Ukraine	103		
Kyrgyzstan	50		
Moldova	32		
Poland	12		
Latvia	9		
Total for Others	407		10
Others not listed	11		10
Grand Total	420		20

Import Matrix: Unmanufactured Tobacco, Metric Tons

Import Trade Matrix			
Country:		Units:	
Commodity:			
Time period:			
Imports for	1999		2000
U.S.	9670	U.S.	16950
Others		Others	
Kyrgyzstan	30740	India	34860
India	27570	China	22310
Moldova	20130	Kyrgyzstan	22165
China	18188	Brazil	21195
Uzbekistan	17753	Moldova	19270
Greece	16435	Greece	13320
Azerbaijan	16317	Uzbekistan	13120
Indonesia	11790	Turkey	11985
Italy	11762	Azerbaijan	9580
Turkey	9845	Zimbabwe	8640
Total for Others	180530		176445
Others not listed	74470		91605
Grand Total	264670		285000

PSD, Tobacco, Unmanufactured, Oriental, Hectares, Metric Tons

Production Table						
Country:						
Commodity:	Oriental					
		1999		2000		2001
	Old	New	Old	New	Old	New
Market Year Begin						
Area Planted	1100	1100	1200	1950	0	2000
Beginning Stocks	20000	20000	20000	20000	20000	10000
Farm Sales Weight Prod	1530	1530	1700	1600	0	2000
Dry Weight Production	1450	1450	1600	1500	0	1900
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	190000	190000	195000	200000	0	200000
TOTAL Imports	190000	190000	195000	200000	0	200000
TOTAL SUPPLY	211450	211450	216600	221500	20000	211900
Exports	420	420	0	0	0	0
Dom. Leaf Consumption	1030	1030	1600	1500	0	1900
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	190000	190000	195000	210000	0	200000
TOTAL Dom. Consumption	191030	191030	196600	211500	0	201900
TOTAL Disappearance	191450	191450	196600	211500	0	201900
Ending Stocks	20000	20000	20000	10000	20000	10000
TOTAL DISTRIBUTION	211450	211450	216600	221500	20000	211900

PSD, Tobacco, Manufactured, Cigarettes, 1,000,000 pieces

PSD Table						
Country:	Russian Federation					
Commodity:	Tobacco, Mfg., Cigarettes					
		1999		2000		2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Filter Production	168000	170000	177000	210000	0	215000
Non-Filter Production	95000	96000	96000	100000	0	100000
TOTAL Production	263000	266000	273000	310000	0	315000
Imports	22450	22450	15000	19500	0	15000
TOTAL SUPPLY	285450	288450	288000	329500	0	330000
Exports	450	150	1000	900	0	1000
Domestic Consumption	285000	288300	287000	328600	0	329000
TOTAL DISTRIBUTION	285450	288450	288000	329500	0	330000

Export Matrix: Cigarettes, Exports, Million of Pieces

Export Trade Matrix			
Country:		Units:	MLN PCS
Commodity:			
Time period:			
Exports for	1999		2000
U.S.	0	U.S.	0
Others		Others	
Turkey	45	Kazakhstan	380
Cyprus	40	Germany	250
Azerbaijan	35	Mongolia	100
Kazakhstan	10	Uzbekistan	50
Kyrgyzstan	4	Kyrgyzstan	25
Latvia	3	Turkmenistan	15
		Tajikistan	10
		Armenia	5
Total for Others	137		835
Others not listed	13		65
Grand Total	150		900

Import Matrix: Cigarettes, Imports, Million of Pieces

Import Trade Matrix			
Country:		Units:	MIL PCS
Commodity:			
Time period:			
Imports for	1999		2000
U.S.	6000	U.S.	5500
Others		Others	
Brazil	5100	Ukraine	6000
Ukraine	3300	U.K.	4300
Germany	2900	Germany	1750
Netherlands	1500	Finland	500
U.K.	1500	Poland	440
Czech Republic	500	Belgium	380
		Denmark	150
		Armenia	90
Total for Others	14800		13610
Others not listed	1650		390
Grand Total	22450		19500

Price Tables

Unmanufactured Tobacco

Prices Table					
Country:					
Commodity:					
Year:	2000				
Prices in (currency)	US dollars	per (uom)	Metric ton		
Year	1999	2000	% Change		
Jan	1885	1580	-16.2%		
Feb	2005	1869	-6.8%		
Mar	2101	1719	-18.2%		
Apr	2010	1741	-13.4%		
May	1772	1638	-7.6%		
Jun	1915	1819	-5.0%		
Jul	1922	1868	-2.8%		
Aug	1878	1769	-5.8%		
Sep	2059	1968	-4.4%		
Oct	2031	1985	-2.3%		
Nov	1846	2214	19.9%		
Dec	1895	2050	8.2%		

Price Table for Manufactured Tobacco

Prices Table					
Country:					
Commodity:					
Year:	2000				
Prices in (currency)	US dollars	per (uom)	1,000 pieces		
Year	1999	2000	% Change		
Jan	11.98	10.82	-9.7%		
Feb	12.39	12.64	2.0%		
Mar	11.09	11.69	5.4%		
Apr	10.53	13.48	28.0%		
May	10.85	13.7	26.3%		
Jun	11.37	10.26	-9.8%		
Jul	10.61	13.6	28.2%		
Aug	11.04	13.66	23.7%		
Sep	12.08	13.13	8.7%		
Oct	10.62	12.48	17.5%		
Nov	12.41	13.26	6.8%		
Dec	11.92	13.19	10.7%		