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Croatia

Tobacco and Products

Annual

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Approved by:

Paul Spencer-MacGregor

U.S. Embassy Vienna

Prepared by:

Andreja Misir

Report Highlights: Croatian exports of cigarettes to ex Yugoslavia countries are increasing and foreign demand is supporting the recent growth in cigarette production. It is expected that production will stabilize at around 15 billion cigarettes per year. The United States supplies only eight percent of total cigarette imports and overall imports have decreased by almost 50 percent. The Croatian government protects domestic production and the major tobacco processing company, Tvrnica Duhana Rovinj (TDR). Government protection may diminish in coming years as Croatia vies for EU membership and because of pressure to liberalize brought by trade agreements such as the WTO, EFTA and CEFTA.

Includes PSD changes: Yes
Includes Trade Matrix: No
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TOBACCO

Production

Planted tobacco area is expected to increase by approximately 10 percent in the coming year with most of the production remaining concentrated in the Slavonija region. Two types of tobacco are grown, Virginia and Burley. Virginia accounts for 90 percent and Burley for 10 percent of acreage. Tobacco processing companies enter into production contracts with 2000 to 2500 farmers annually. The majority of farms are small (averaging four hectares (ha)) and only 15 percent are considered 'large' and have access to modern production methods. In the past few years, some production technology and expertise has been imported from Italy including the use of hydroponics for seedlings..

Three of the four firms that are active in tobacco cultivation and contracting ("Kutjevo" from Kutjevo, "Virzinija" from Virovitica, "Duhanprodukt" from Podravina) are owned by the Tobacco Factory (TDR) in Rovinj. The fourth tobacco producing company "Duhan" from Slatina is in theory independent but their only market at this time is TDR. Some industry observers believe that TDR will be a monopoly buyer/producer by the end of 2002. In 2000, British American Tobacco bought 500 MT of tobacco from Duhanprodukt but the Croatian Ministry of Agriculture withdrew BAT's 1999 license for cigarette production and has not renewed it.

Production Policy

In the beginning of 2002, the Ministry of Agriculture proposed decreasing state subsidies for several agricultural products including tobacco. The proposal did not pass the Croatian Sabor (Parliament) but future initiative to prop up farm income can be expected in 2002. Average producer 'floor' prices for leaf tobacco grades one to four will remain at 2001 levels (8kn/kg (0.94\$/kg)) and government production subsidies will remain (4.8kn/kg (0.56\$/kg)).

TDR is paying its suppliers an average price of 13.18kn/kg (1.55\$/kg). First grade of Virginia brings 19.05kn/kg (2.24\$/kg), second 18.09kn/kg (2.13\$/kg), third 13.44kn/kg (1.58\$/kg) and fourth is 10.39kn/kg (1.22\$/kg).

Trade

Imports of tobacco from the United States are decreasing because of third country competition and a strong U.S. dollar. Total imports will likely continue to decrease due to an increase in domestic production. Exports may increase in line with TDR's policy of expanding into foreign markets.

Trade policy

Trade policy in general has changed considerably in recent years because Croatia has joined the WTO, EFTA and CEFTA. Most importantly, tobacco product are no longer discriminated against in the tax code.

For tobacco and tobacco products there are no quantitative restrictions. However, several countries have preferential access. There are tariff rate quotas (TRQs) for Hungary of 240MT for tobacco and 240MT for cigarettes and the in-quota duty is 11.5 percent. There is a 2,500MT TRQ for Macedonia on tobacco and a 180 MT on cigarettes and the in-quota duty is 1 percent. Finally, the EU has 55 MT TRQ on cigars, cigarillos, and cigarettes and the in-quota duty is 0 percent. The EU quota will increase every year by 10 percent until 2006. Bosnia i Herzegovina has customs agreement that allows free trade in tobacco and tobacco products with Croatia.

Tobacco and tobacco products Duty Rates for 2002

Tariff item number	DESCRIPTION	Measure unit	Duty rate (%)
2401	Unmanufactured tobacco; tobacco refuse:		
240110	- t o b a c c o , n o t steamed/stripped:		
24011010	- - - hot air dried tobacco Virginia type	Kg	20
24011020	- - - light coloured tobacco, air dried Burley type (including Burley hybrids)	Kg	20
24011030	- - - light colored tobacco, air dried Maryland type	Kg	9
	- - - smoked tobacco:		
24011041	- - - - Kentucky type	Kg	9
24011049	- - - - the rest	Kg	9
	- - the rest:		
24011050	- - - light color, air dried tobacco	Kg	9
24011060	- - - sun dried tobacco, oriental type	Kg	9
24011070	- - - dark coloured, air dried tobacco	Kg	9
24011080	- - - air dried tobacco	Kg	9
24011090	- - - the rest tobacco	Kg	9
240120	- tobacco, partially or totally stripped:		
24012010	- - - Virginia type air dried tobacco	Kg	16,2
24012020	- - - Burley type, light coloured, air dried tobacco (including Burley hybrids)	Kg	16,2
24012030	- - - Maryland type, light colored, air dried	Kg	9
	- - - smoked tobacco:		
24012041	- - - - Kentucky type	Kg	9
24012049	- - - - the rest	Kg	9
	- - the rest:		
24012050	- - - air dried, light colored tobacco	Kg	9
24012060	- - - tobacco dried on sun, oriental type	Kg	9
24012070	- - - air dried, dark colored tobacco	Kg	9
24012080	- - - air dried tobacco	Kg	9
24012090	- - - the rest	Kg	9

24013000	- tobacco refuse	Kg	20
2402	Cigars, cigarillos and cigarette from tobacco and tobacco substitutes:		
24021000	- cigars and cigarillos with tobacco	1 000 kom	15
240220	- cigarette with tobacco:		
24022010	- - with content of condiments	1 000 kom	45,5
24022090	- - the rest	1 000 kom	45,5
24029000	- the rest	Kg	35

CIGARETTES

Production

Cigarette production is increasing and Tvornica Duhana Rovinj (TDR) is trying to reach a production level of 15 million cigarettes. All cigarettes are filter tipped and there are many brands in light and ultra light styles.

Croatia's only cigarette producing company is TDR. TDR owns cigarette plants in Rovinj and Zagreb. They tried to buy a plant in Zadar but British American Tobacco in 1999 bought 81 percent of the Zadar shares. In spite of that, TDR has a monopoly position because the Ministry of Agriculture has not issued a production licence for the Zadar factory and is not approving BAT's cigarette brands as being of high enough quality for release onto the market. After four years of struggling with Ministry and TDR, BAT is reportedly considering leaving the Croatian market. BAT currently imports cigarettes from Germany (Dunhill and Lucky Strike in regular and light version) and is paying salaries for 150 workers in Zadar. BAT is believed to have invested \$30 million in the Zadar factory and is willing to invest more if they can get a production license.

TDR recently bought greenfield sites Vojvodina (Yugoslavia) with intention of opening a cigarette factory there.

Consumption

Consumption is 9.3 billion cigarettes annually and Croatians spend three percent of their income on tobacco. Out of a total population of 4.5 million, Croatia has over one million smokers and only 2 percent of smokers quit smoking each year. Cigarettes account for 95 percent of all tobacco consumption and Light cigarettes are about half of the market. The overall cigarette market generates about \$15 million in annual profits.

Nearly 15 percent of consumption is believed to be served by the 'black market.' Illicit trade is high in part because Croatia has higher prices than surrounding countries, due in part to the structure of the excise tax.

Cigarette retail prices range from 8kn/pack (\$0.94/pack.) to 20kn/pack (\$2.35/pack.). Industry sources believe that VAT and excise taxes make up about 75 percent of the retail price of a pack of cigarets.

One third of sales are via specialized companies with their own wholesale and retail networks. The remaining retailers, representing approximately 12,000 stores, are serviced by 150 wholesalers.

Anti-Smoking Measures

In 2002, Croatian TV started with an antismoking campaign initiated by Ministry of health and

sponsored by Croatian TV and the Australian Embassy.

In November 1999, Croatia implement the “Law on restricted use of tobacco products” (Official Gazette 128/99).

The Law:

- Prohibits smoking at indoor meetings and other working areas except in those which have sign that smoking is allowed
- Prohibition on selling of cigarettes to persons younger than 18 years
- Prohibition on selling from automatic machines
- Prohibition on advertising tobacco and tobacco products
- Prohibition on smoking in health and education institutions
- Requirement that all cigarette packs have the health warning: “Smoking is harmful to health” and one of the following warnings:
 - “Smoking causes cancer”
 - “Smoking during pregnancy is dangerous for children”
 - “Smoking causes heart attacks and strokes”
 - “Smoking shortens life”
- Nicotine and tar contents per cigarette are also required

Trade

Consumers are willing to pay higher prices from 18 – 20kn/pack. (\$2.11 to \$2.35 /pack) for foreign brands, especially U.S. brands. Foreign brands are 15 percent of the legal cigarette supply and the majority of imports are handled by TDR. The cigarette industry pays an estimated six to seven percent of total taxes in Croatia or about 3.2 billion kuna (\$376 million) per year.

Trade Policy

See trade policy of Tobacco.

Policy

Two main laws cover tobacco products. The “Tobacco law” (Governmental Gazette 69/99) and the “Law on excise taxes for tobacco products” (Governmental Gazette 51/94, 56/95, 67/99, 105/99, 55/2000).

According to these two laws, cigarettes are divided into three groups:

- A** popular group
- B** standard group
- C** extra group

- **A** includes cigarette based on a mixture with at least 60 percent non aromatic, large leaf tobacco (types of Virginia hot air dried, Burly dried in shade) of which at least 25 percent is from lower purchased classes or from their substitutes (tobacco foil or manufactured leaf veins). Cigarettes can be with or without filter and they are packed in soft packs, and are intended primary for the Croatian market.
- **B** includes cigarettes based on a mixture with at least 60 percent non-aromatic large leaf tobacco (types Virginia, Burley etc.) or their substitutes (tobacco foil or technologically manufactured leaf veins). They are filter tipped and packed in hard packs and are intended primary for the Croatian market.
- **C** includes all others.

Excise taxes for different groups:

Group A.....5.00 kuna

Group B.....5.40 kuna

Group C.....8.90 kuna

Excise taxes are also paid for:

Tobacco.....38.00 kuna

Cigars.....1.10 kuna

Cigarillos.....4.40 kuna

The above laws also include regulations about the registration of tobacco products, tobacco farmers, tobacco product producers, exporters, importers and the classification and registration of tobacco products.

For the registration of tobacco product, samples are examined and tested (touched, smoked, etc...) by a special commission. It is a subjective procedure.

Labeling Requirement

Cigarette box labels must include:

- product name
- nicotine contents
- tar contents
- producer's name and address
- name and address of importer (for imported cigarettes)
- number of pieces in box, written in Croatian language

Production, Supply, and Demand (PSD) - All Tobacco

PSD Table						
Country	Croatia					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Area Planted	7200	5726	0	5850	0	6700
Beginning Stocks	18890	17207	19077	16230	0	14705
Farm Sales Weight Prod	12528	13300	0	13455	0	14961
Dry Weight Production	10800	11438	0	11575	0	12870
U.S. Leaf Imports	0	401	0	600	0	300
Other Foreign Imports	3500	3861	0	4200	0	3100
TOTAL Imports	3500	4262	0	4800	0	3400
TOTAL SUPPLY	33190	32907	19077	32605	0	30975
Exports	5500	4776	0	4500	0	5400
Dom. Leaf Consumption	6074	7000	0	8100	0	7470
U.S. Leaf Dom. Consum.	0	401	0	600	0	300
Other Foreign Consump.	2539	4500	0	4700	0	3100
TOTAL Dom. Consumption	8613	11901	0	13400	0	10870
TOTAL Disappearance	14113	16677	0	17900	0	16270
Ending Stocks	19077	16230	0	14705	0	14705
TOTAL DISTRIBUTION	33190	32907	0	32605	0	30975

Production, Supply, and Demand (PSD) - Manufactured Tobacco

PSD Table						
Country	Croatia					
Commodity	Tobacco, Mfg., Cigarettes				(MIL PCS)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Filter Production	13000	13692	0	14000	0	14750
Non-Filter Production	0	0	0	0	0	0
TOTAL Production	13000	13692	0	14000	0	14750
Imports	20	15	0	16	0	20

TOTAL SUPPLY	13020	13707	0	14016	0	14770
Exports	4000	5545	0	5650	0	8000
Domestic Consumption	9020	8162	0	8366	0	6770
TOTAL DISTRIBUTION	13020	13707	0	14016	0	14770