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Tobacco and Products

Annual

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Report Highlights:

Pakistan's CY 2005 tobacco production is forecast to increase slightly to 101,780 metric tons. Cigarette companies have started programs introducing sunflower and hybrid maize as alternative crops for tobacco. Cigarette production and consumption continue to rise despite efforts of the Government of Pakistan to dissuade people from smoking. Imports of U.S. leaf tobacco are expected to remain strong due to demand for higher quality cigarettes among Pakistan consumers.

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TOBACCO

Production

MY 2005 tobacco production is estimated at 101,780 metric tons (MT), based on enhanced productivity from an equivalent acreage planted the previous year. One exception is an increase in the area planted in Flue Cured Virginia (FCV) in response to anticipated demand of Tobacco Companies at the start of the season. To preserve income flows, two Pakistani tobacco companies, in collaboration with multinational seed companies, have launched an extension effort to introduce alternative cash crops such as hybrid maize, sunflower and vegetables. Despite this branching into alternative crops, the MY 2005 tobacco production reflects a 6.46 percent increase over the record MY 2004 tobacco production of 95,600 MT and is in consonance with market requirements.

Tobacco is an important cash crop and is grown mainly in the North West Frontier Province (NWFP) and Punjab. It occupies only 0.27 percent of the total irrigated land in the country, but during 2003-04 over Rs. 23 billion (\$394 million) in Central Excise Duty and Sales tax was contributed to the Government. The transfer of advanced technology has maintained tobacco production as a profitable enterprise, but it also remains a labor-intensive crop: eighty thousand individuals are involved in its cultivation in Pakistan, an additional fifty thousand are employed in the six tobacco processing factories and another one million find indirect employment through trading tobacco products.

Flue-cured and burley tobaccos are used primarily in higher-quality cigarettes. Oriental varieties (known locally as White Patta) are used in lower quality cigarettes and in chewing tobacco. Other types are used mainly as filler and in the production of traditional Pakistani tobacco products. Yields in Pakistan are about twice those of neighboring countries, and are now among the highest in the world - in line with advanced tobacco growing nations. This achievement is due mainly to industry-supported extension services provided to farmers. Quality increases come slowly, however, due to constraints posed by climate, soil fertility and indigenous curing practices at the farm level.

Table 1. Tobacco Area and Production (Farm Weight)

Tobacco Type	AREA (Hectares)			PRODUCTION (Metric Tons)		
	2003	2004	2005	2003	2004	2005
Flue-cured	20,748	21,000	26,312	51,311	51,800	66,630
Dark Air-Cured	489	425	367	1,420	1,200	1,100
Oriental	5,469	9,250	4,292	10,830	18,400	9,900
Light Air-cured	19,800	20,000	20,000	20,700	22,000	22,000
Burley	933	925	943	2,150	2,200	2,150
Total	47,439	51,600	51,914	86,411	95,600	101,780

Source: Pakistan Tobacco Board

Table 2. Total Unmanufactured Tobacco PS&D

Commodity	Tobacco, Unmfg. Total				(HA)(MT)	
	2003 USDA[Old]	Revised Estimate 01/2002	2004 USDA[Old]	Revised Estimate 01/2003	2005 USDA[Old]	Forecast [New] 01/2004
Market Year Begin						
Area Planted	47439	47439	51600	51600	0	51914
Beginning Stocks	55250	55250	50936	50936	53356	53356
Farm Sales Weight Prod	86411	86411	95600	95600	0	101780
Dry Weight Production	78971	78971	87420	87420	0	93027
U.S. Leaf Imports	50	50	100	100	0	150
Other Foreign Imports	47	47	100	100	0	175
TOTAL Imports	97	97	200	200	0	325
TOTAL SUPPLY	134318	134318	138556	138556	53356	146708
Exports	7385	7385	6000	6000	0	8500
Dom. Leaf Consumption	75900	75900	79000	79000	0	83500
U.S. Leaf Dom. Consum.	50	50	100	100	0	150
Other Foreign Consump.	47	47	100	100	0	175
TOTAL Dom. Consumption	75997	75997	79200	79200	0	83825
TOTAL Disappearance	83382	83382	85200	85200	0	92325
Ending Stocks	50936	50936	53356	53356	0	54383
TOTAL DISTRIBUTION	134318	134318	138556	138556	0	146708

Production Policy

The Government of Pakistan supports tobacco production via a support price mechanism to safeguard farmers interests. Generally, the Price and Grade Revision Committee of the Pakistan Tobacco Board (PTB) sets the support price well below market-clearing levels, effectively setting a floor or minimum guaranteed price. Under the current system the tobacco manufacturing companies in the country are required to annually pay a weighted average price for each grade - which cannot be lower than the price at which that grade prevailed during the previous year. The government generally does not procure tobacco and the support program has not, to date, required government expenditure. For the MY 2005 crop, the support price for all tobacco varieties was increased up to 8 percent to help offset rising producer input costs.

Table 3. Tobacco Support Prices for Major Varieties (Rupees/Kilogram)

Tobacco Type	2003	2004	2005
Flue-cured	21.95 to 49.37	23.04 to 51.83	24.00 to 49.00
Dark Air-cured	14.52 to 15.52	15.24 to 16.29	15.07 to 17.50
Oriental	10.60 to 24.52	11.13 to 25.74	11.68 to 27.03
Burley	25.34 to 40.53	26.60 to 42.55	26.55 to 43.50
Avg Exchange Rate (\$1 = Pak. Rupee)	57.75	57.80	59.60

Source: Pakistan Tobacco Board

The Pakistan Tobacco Board (PTB) attempts to coordinate production using a price support mechanism based on the anticipated demand of tobacco companies. Traditionally, tobacco companies contract directly with growers prior to planting. However, the PTB price support program is generating over-production, creating greater price competition among farmer suppliers, and giving more opportunity to the buying companies to obtain deals at below market prices. Support based on inaccurate projections of supply requirements by the industry is also playing a role in distorting the market, and industry activity may be under-reported to the PTB. MY 2004 contract intentions of major cigarette companies shows a continuation of the trend to lock in prices as buyers realize they can obtain better returns from a market characterized by overproduction and poor market information.

Table 4. Tobacco Requirements of Major Cigarette Companies (MT)

Tobacco Type	2003	2004	2005
Flue-cured	37,182	34,836	59,842
Dark Air-cured	1,030	855	1,425
Oriental	1,655	1,050	2,315
Burley	2,055	2,165	1,765
TOTAL	41,922	38,906	65,347

MY 2005 farm gate prices are expected to increase up to 10 percent over last year, driven mostly by higher production costs and higher support price. MY 2004 farm gate prices averaged about 15-30 percent above the PTB published price support level.

Table 5. Average Farm Gate Prices (Rupees/kilogram)

Tobacco Type	2002	2003	2004
Flue-cured	46.19	47.53	48.56
Dark Air-cured	21.08	21.19	20.31
Oriental	25.48	25.50	25.60
Burley	41.85	44.21	46.28

Source: Pakistan Tobacco Board

Consumption

MY 2005 tobacco consumption is forecast to increase by 5 percent on higher demand for tobacco-based products. Two-thirds of production is utilized for cigarettes; the remainder is used in other tobacco products.

Trade

MY 2005 tobacco imports are expected to increase. The bulk of imports should remain flue-cured leaf tobacco from the U.S. and Brazil, which is used to finish higher-quality cigarettes. The U.S. share of the import market is increasing gradually in response to growing consumer demand for higher-quality cigarettes. MY 2005 tobacco exports are forecast at 8,500 MT, mainly to Belgium, Dubai, Malaysia, Paraguay, Switzerland Bangladesh, Egypt, Germany, Singapore, and Yemen etc.

Export of tobacco and tobacco products is not restricted.

Stocks

No official data is available. Estimates are that cigarette manufacturers maintain supplies to cover 8-10 months' production requirements.