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Philippines

Tobacco and Products

Annual

2000

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Report Highlights:

Philippines tobacco declined by 8 percent in 1999 to 67,045 MT. Increases for burley and dark air-cured tobaccos were more than offset by a 24 percent decline in the Virginia crop to 35,401 MT. Total leaf imports were up by 51 percent in 1999 to 26,509 MT. Imports from the United States were up 54 percent at 3,483 MT. To make up for domestic shortfalls, total imports in 2000 are set to increase to 31,000 MT with an increase to 4,000 MT from the United States.

Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

Manila [RP1], RP

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Executive Summary

After a substantial expansion in 1998, Philippine tobacco production in 1999 contracted again as more than 20 percent of the entire crop was damaged by heavy rains. After regaining some momentum in 1998 to rebuild inventories, this will again lead to substantial declines, primarily as a result of damage to Virginia flue-cured tobacco. Burley and dark air-cured cigar varieties increased slightly over last season but greater potential was offset by the rains.

However, in the latter half of 1999 farmers may be discouraged from planting more tobacco as a result of the low prices they were receiving for what buyers viewed as low-grade tobacco leaf from the rain damaged 1999/00 crop. Consequently, NTA is fearful that farmers will shift to other crops such as vegetables for 2000/01, leading to further erosion of tobacco's producing area.

Production Table								
		Area (ha.)				Production (MT)		
Product	1997	1998	1999	2000	1997	1998	1999	2000
Flue-Cured	20108	27835	24695	26350	41321	46046	35401	37000
Burley	3386	6602	6186	6600	9669	14406	19302	20000
Dark Air-Cured, Cigar	5903	10734	9426	10050	9909	12218	12342	12400
TOTAL	29397	45171	40300	43000	60899	72700	67045	69400

PSD Table						
Country	Philippines					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Planted	45171	45171	41011	40307	0	43000
Beginning Stocks	111929	112086	106695	105122	100092	101677
Farm Sales Weight Prod	72670	72670	58500	67045	0	69400
Dry Weight Production	61664	61664	51600	59137	0	58107
U.S. Leaf Imports	2262	2262	2700	3483	0	4000
Other Foreign Imports	15336	15328	20207	23026	0	27000
TOTAL Imports	17598	17590	22907	26509	0	31000
TOTAL SUPPLY	191191	191340	181202	190768	100092	190784
Exports	10806	11371	6500	14881	0	12500
Dom. Leaf Consumption	62500	62500	60640	60640	0	62500
U.S. Leaf Dom. Consum.	2543	2543	2130	2530	0	2400
Other Foreign Consump.	8647	9804	11840	11040	0	11220
TOTAL Dom. Consumption	73690	74847	74610	74210	0	76120
TOTAL Disappearance	84496	86218	81110	89091	0	88620
Ending Stocks	106695	105122	100092	101677	0	97264
TOTAL DISTRIBUTION	191191	191340	181202	190768	0	185884

PSD Table						
Country	Philippines					
Commodity	Tobacco, Unmfg., Burley				(HA)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Planted	6602	6602	6295	6186	0	6600
Beginning Stocks	67722	67722	67304	67296	70201	83077
Farm Sales Weight Prod	14406	14406	9300	19302	0	20000
Dry Weight Production	10146	10142	8800	18703	0	19200
U.S. Leaf Imports	1777	1777	2000	2822	0	3200
Other Foreign Imports	10904	10896	12207	17523	0	20000
TOTAL Imports	12681	12673	14207	20345	0	23200
TOTAL SUPPLY	90549	90537	90311	106344	70201	125477
Exports	4413	4413	2500	5257	0	4500
Dom. Leaf Consumption	11800	11800	9940	9940	0	11000
U.S. Leaf Dom. Consum.	1876	1876	1450	1850	0	1800
Other Foreign Consump.	5156	5152	6220	6220	0	6200
TOTAL Dom. Consumption	18832	18828	17610	18010	0	19000
TOTAL Disappearance	23245	23241	20110	23267	0	23500
Ending Stocks	67304	67296	70201	83077	0	101977
TOTAL DISTRIBUTION	90549	90537	90311	106344	0	125477

PSD Table						
Country	Philippines					
Commodity	Unmfg.,Dark air-cured,Cigar				(HA)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Planted	9000	10734	9590	9426	0	10050
Beginning Stocks	7113	7113	5843	5308	5623	5019
Farm Sales Weight Prod	9500	12218	8100	12342	0	12400
Dry Weight Production	8740	9160	7500	11342	0	11160
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	15853	16273	13343	16650	5623	16179
Exports	4000	4250	2000	5911	0	5000
Dom. Leaf Consumption	6000	6700	5700	5700	0	6000
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	10	15	20	20	0	20
TOTAL Dom. Consumption	6010	6715	5720	5720	0	6020
TOTAL Disappearance	10010	10965	7720	11631	0	11020
Ending Stocks	5843	5308	5623	5019	0	5159
TOTAL DISTRIBUTION	15853	16273	13343	16650	0	16179

PSD Table						
Country	Philippines					
Commodity	Tobacco, Unmfg., Flue Cured				(HA)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Planted	27835	27835	25126	24695	0	26350
Beginning Stocks	37094	37251	32164	32518	22884	15606
Farm Sales Weight Prod	46046	46046	41100	35401	0	37000
Dry Weight Production	42362	42362	35300	31117	0	32190
U.S. Leaf Imports	485	485	700	661	0	800
Other Foreign Imports	4432	4432	8000	5503	0	7000
TOTAL Imports	4917	4917	8700	6164	0	7800
TOTAL SUPPLY	84373	84530	76164	69799	22884	55596
Exports	3062	2708	2000	3713	0	3000
Dom. Leaf Consumption	44000	44000	45000	45000	0	45500
U.S. Leaf Dom. Consum.	510	667	680	680	0	600
Other Foreign Consump.	4637	4637	5600	4800	0	5000
TOTAL Dom. Consumption	49147	49304	51280	50480	0	51100
TOTAL Disappearance	52209	52012	53280	54193	0	54100
Ending Stocks	32164	32518	22884	15606	0	1296
TOTAL DISTRIBUTION	84373	84530	76164	69799	0	55396

Export Trade Matrix			
Country	Philippines		
Commodity	Tobacco, Unmfg., Total		
Time period	CY	Units:	MT
Exports for:	1998		1999
U.S.	2339	U.S.	1911
Others		Others	
Germany	1065	Germany	4156
Spain	1129	Spain	1588
Egypt	802	Egypt	2197
Japan	490	Japan	592
Hong Kong	563	Malaysia	669
Tunisia	550	Mayanmar	538
Algeria	550	Algeria	898
Singapore	504	Singapore	145
France	499	France	300
Belgium	404	Belgium	551
Total for Others	6556		11634
Others not Listed	2468		1336
Grand Total	11363		14881

Import Trade Matrix			
Country	Philippines		
Commodity	Tobacco, Unmfg., Total		
Time period	CY	Units:	MT
Imports for:	1998		1999
U.S.	2262	U.S.	3483
Others		Others	
China	5512	China	10310
Brazil	4809	Brazil	3485
South Africa	1851	South Africa	1963
Zimbabwe	1415	Zimbabwe	4215
Uruguay	693	Malaysia	529
Indonesia	203	Indonesia	875
Thailand	128	Thailand	371
India	53	Japan	497
Argentina	51	Argentina	401
		Turkey	20
Total for Others	14715		22666
Others not Listed	613		360
Grand Total	17590		26509

Export Trade Matrix			
Country	Philippines		
Commodity	Tobacco, Unmfg., Burley		
Time period	CY	Units:	MT
Exports for:	1998		1999
U.S.	1441	U.S.	1168
Others		Others	
Spain	708	Spain	1588
Algeria	550	Algeria	700
France	499	France	300
Morocco	150	Morocco	100
Ireland	149	Ireland	55
Dominican R.	108	Germany	547
Tunisia	350	Puerto Rico	504
Total for Others	2514		3794
Others not Listed	458		295
Grand Total	4413		5257

Import Trade Matrix			
Country	Philippines		
Commodity	Tobacco, Unmfg., Burley		
Time period	CY	Units:	MT
Imports for:	1998		1999
U.S.	1777	U.S.	2822
Others		Others	
China	4093	China	7709
Brazil	2855	Brazil	3069
South Africa	1842	South Africa	973
Zimbabwe	449	Zimbabwe	3238
Indonesia	172	Indonesia	875
Thailand	128	Thailand	371
Argentina	51	Argentina	401
Uruguay	693	Malaysia	529
Total for Others	10283		17165
Others not Listed	613		358
Grand Total	12673		20345

Export Trade Matrix			
Country	Philippines		
Commodity	Unmfg.,Dark air-cured,Cigar		
Time period	CY	Units:	MT
Imports for:	1998		1999
U.S.	898	U.S.	743
Others		Others	
Germany	570	Germany	1007
Egypt	802	Egypt	2197
Japan	362	Japan	458
Belgium	175	Belgium	419
Singapore	118	Singapore	38
Mayanmar	26	Mayanmar	538
Spain	429	Malaysia	369
Puerto Rico	360		
Tunisia	200		
Total for Others	3042		5026
Others not Listed	310		142
Grand Total	4250		5911

Import Trade Matrix			
Country	Philippines		
Commodity	Unmfg.,Dark air-cured,Cigar		
Time period	CY	Units:	MT
Imports for:	1998		1999
U.S.		U.S.	
Others		Others	
Total for Others	0		0
Others not Listed			
Grand Total	0		0

Export Trade Matrix			
Country	Philippines		
Commodity	Tobacco, Unmfg., Flue Cured		
Time period	CY	Units:	MT
Exports for:	1998		1999
U.S.	0	U.S.	0
Others		Others	
Germany	495	Germany	2602
Japan	128	Japan	134
Belgium	229	Belgium	132
Singapore	386	Singapore	107
Hong Kong	563	Malaysia	300
USR	356	Algeria	198
Slovak Rep.	139		
Austria	139		
Total for Others	2435		3473
Others not Listed	273		240
Grand Total	2708		3713

Import Trade Matrix			
Country	Philippines		
Commodity	Tobacco, Unmfg., Flue Cured		
Time period	CY	Units:	MT
Imports for:	1998		1999
U.S.	485	U.S.	661
Others		Others	
Brazil	1954	Brazil	416
China	1419	China	2601
Zimbabwe	966	Zimbabwe	977
South Africa	9	South Africa	990
India	53	Japan	497
Indonesia	31	Turkey	20
		Taiwan	2
Total for Others	4432		5503
Others not Listed	0		0
Grand Total	4917		6164

Farmgate Prices Table					
Product	1996	1997	1998	1999	
Virginia	34.6	37.07	41.72	37.70	
Burley	24.1	27.59	35.78	35.10	
Dark Air-Cured, Cigar	19.4	21.57	24.81	25.73	
Total					

Floor Prices by Grade - Burley							
	A	B	C	D	E	F	R
Burley							
1996	26.5	24.5	23	20.50	19.50	11.00	10.00
1997	28	26	24	21.50	20.50	11.50	10.00
1998	30	28	26	23.00	22.00	15.00	10.00
1999	31.5	29.5	27.5	24.50	23.50	16.50	11.50

Floor Prices by Grade - Dark Air-Cured, Cigar							
	HG	M-1	M-2	L-1	L-2		
Dark Air-Cured, Cigar							
1996	28	22	18	13.50	7.50		
1997	30	23.5	19	14.50	8.50		
1998	33	25.5	21.5	15.00	8.50		
1999	34	26.5	22.5	16.00	9.50		

Floor Prices by Grade - Virginia								
	AA	A	B	C	D	E	F1	F2
Virginia								
1996	38	37	35	33.00	30.50	29.50	26.50	23.50
1997	40	39	37	35.00	31.50	30.50	27.50	24.50
1998	43	42	40	38.00	34.00	33.00	30.00	27.00
1999	44.5	43.5	41.5	39.50	35.50	34.50	31.50	28.50

PSD Table								
Country			Philippines					
Commodity			Tobacco Mfg., Cigarettes					
(MILLION PIECES)		1997	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New	Old	New
Market Year Begin		01/97		01/98		01/99		01/00
Cigarette Production	68550	67116	75000	67102	0	68620	0	69802
Imports	1626	1626	1500	4350	0	4500	0	4750
Total Supply	70176	68742	76500	71452	0	73120	0	74552
Exports	975	975	1500	1240	0	2500	0	3000
Domestic Consumption	69201	67767	75000	70212	0	71620	0	73052
Total Distribution	70176	68742	76500	71452	0	74120	0	76052

Production

Overall, the total production estimate for 1999 is adjusted upwards from 58,500 MT to 67,045 MT. This represents an 8-percent decline from the 1998 production level of 72,670 MT. Previous projections for 1999 are changed as a result of adjustments for burley and dark air-cured cigar tobaccos. For burley, production is adjusted from 9,300 MT to 19,302 MT and for dark air-cured cigar the adjustment is from 8,100 MT to 12,342 MT. The figure for Virginia tobacco is reduced from 41,100 MT to 35,401 MT. For the Virginia crop this is a 24 percent decline over last year's production level. It is clear that 1999 production could have exceeded the previous season were it not for severe rain damage to the Virginia crop in the beginning of this year. During this time of the year, while the Virginia crop has already been completely sold, approximately 50 percent of the burley crop may still be coming in for sale and, dark air-cured, cigar tobacco is still in the fields until around June or July.

Average buying prices for flue-cured tobacco in 1999 fell to P37.70/kg compared to P41.72/kg in 1998, reflecting the toll on crop quality values due to heavy rain. Nevertheless, farmers claim that despite the rains, the Virginia crop brought to market was of better quality than that indicated by prices offered by cigarette manufacturers and traders. Average prices for 1999 were down slightly for burley at P35.10 compared to P36.78 in 1998 and up slightly for dark air-cured at P25.73 in 1999 compared with P24.81 in 1998. The 2000/2001 crop can rebound, barring similar rain damage, since once again funds were approved for release to the tobacco growing areas from the excise taxes collected on cigarettes. Tobacco farmers will continue to be encouraged to some degree by increases in floor prices although disappointed at prices paid for the Virginia tobacco in 1999. With the release of excise tax funds, the National Tobacco Administration (NTA) will be able to offer technical and credit assistance through its - Tobacco Contract Growing Program (TCGP) which has been applied to the tobacco growing regions.

Tobacco is planted during October and November. Virginia flue-cured tobacco is produced primarily in the provinces of Ilocos Sur and La Union and also including Abra and Ilocos Norte. Although rain damage was evident for burley and native dark air-cured cigar tobacco, increases were still recorded. Burley is grown in the provinces of Pangasinan, Tarlac, Nueva Ecija and Occidental Mindoro. Dark air-cured cigar tobacco is grown in the provinces of Cagayan, Isabela, Nueva Vizcaya, Quirino, Ifugao, Iloilo, Cebu, Leyte, Negros Oriental, Misamis Oriental, Zamboanga del Sur and North and South Cotabato.

Consumption

The economic problems stemming from both the peso adjustment and financial market failure in Asia that started in 1997 and continued in 1998 resulted in a shift to the cheaper domestic brands of cigarettes which use a higher percentage of domestic leaf. This led to an increase in demand for domestic leaf. With the economy beginning to turn around in CY 1999 and 2000, led by the agricultural sector, combined with the production shortfalls in the last several years, there will also be some increased demand for foreign leaf and foreign brands. The cost of importing foreign leaf to make up for shortfalls will place pressure on margins for local manufacturers especially since there was a scheduled excise tax increase during this season. Consequently, local manufacturers had to pass on the tax increase to consumers as evidenced in announcements by San Miguel Corporation and La Suerte Cigar and The Cigarette Factory.

The shortfalls of locally produced tobacco will fuel continued incidence of smuggled cigarettes for the rest of this season and 2000/2001. Estimates still range at around 20 percent of all cigarettes sold. Meanwhile, foreign leaf will continue to be used in blending with the bland local tobacco leaf. For 2000/2001 consumption patterns will begin to show increased demand for cigarettes containing the fuller-flavored foreign leaf, as there is continued general recovery of the economy, particularly in the real estate and construction sectors. Despite sporadic declines in the peso in CY 2000, consumption should at least keep pace with population growth into 2000/2001. This pattern will not be altered despite current efforts in the Philippine Senate to pass both anti-smoking legislation and a ban on manufacturing of tobacco products. The previous Senate did not pass the last version of a 'no smoking' bill for the Philippines.

Trade

After dipping in 1998, total leaf imports were up by 51 percent in 1999 to 26,509 MT, led primarily by burley with a 61 percent increase to 20,345 MT. Total leaf exports also increased in 1999 by 23 percent over 1998 to 14,881 MT. Total tobacco exports to the United States, however were down by 8 percent at 1,911 MT while imports from the United States were up 54 percent at 3,483 MT. Imports in 2000 are set to increase to 31,000 MT with an increase to 4,000 MT from the U.S. to make up for domestic shortfalls. Export prospects are generally limited since the Virginia-type domestic leaf from the Philippines is primarily a low-quality product used for filler.

While imports are expected to increase for the 2000/2001 crop in order to rebuild stocks, these imports are expected to be of the lowest price/quality possible in order to cover domestic consumption needs for cheap brands after this year's reduced harvest. Otherwise, imports are regularly required to blend with the locally produced leaf. U.S. flue-cured leaf is known to be used in local cigarettes but it is transhipped through other trading centers and does not always appear in Philippine statistics. Meanwhile, Philippine exports of Virginia-type cigarettes appears to moving back near the level of 1996 which was 2,279 MT. In reaction to the financial crisis and the peso devaluation, in 1997 exports fell to 975 MT. However, in 1998 and 1999, exports have increased to 1,240 MT and 2,500 MT, respectively. Exports are estimated at 3000 MT for 2000.

Stocks

Despite the increase in production for 1998, stocks declined slightly. Of course there is no way to definitely estimate the impact of smuggled cigarettes on inventories. Stocks fell again slightly in 1999 and are expected to do so in 2000. For each of the last several years, the NTA has been able to offer small increases in floor prices to farmers for the second season in a row. If this continues, farmers may be encouraged to plant more tobacco for 2000. Cigarette manufacturers cannot allow stocks of the low-grade domestic leaf to fall too far since the bulk of the Philippine consumers demand the cheap domestic brands. Consequently, NTA and the two major manufacturers will probably seek to provide incentives for farmers to plant tobacco for next season's crop.

Policy

The tripartite system for negotiating floor prices has been able to encourage farmers to increase planting in the last 3 years with across the board increases of 2 to 3 pesos/kg. However, going into 1999, floor prices were increased by only 1.5 pesos/kg. It is planned that floor prices will be increased by 1 peso for 2000. Farmgate prices offered by manufacturers and traders were increasing through 1998 but declined in 1999 for Virginia tobacco. The tripartite

system involves active participation from tobacco farmers, industry buyers, primarily Fortune Tobacco and the NTA. A continuation of this policy along with a strong TCGP's technical assistance program will be necessary to prevent farmers from shifting to competing crops.

On the other hand, one of the NTA's programs is designed to raise tobacco farmer incomes by providing assistance to diversify their farm operations with rice, corn, vegetable and fruit-bearing trees. Possibilities for technical assistance also include poultry, fish culture and livestock. The average farm size is one-half hectare.

Farmer incentives to produce are also supported by efforts to attract foreign investment in Ilocos Sur Province where 50 percent of the country's acreage of Virginia-type tobacco is located. Plans started last year to set up computerized flue-curing barns and engage in a joint venture with Swiss investors for re-drying facilities in Ilocos Sur. The local government in Ilocos Sur is able to acquire funds to attract these projects using its share of the proceeds from the excise tax collected on cigarettes by the Bureau of Internal Revenue. This 'bulk curing project' will allow the tobacco producing regions to move away from flue-curing and preserve forests. The NTA also sees a substantial cost reduction to the tobacco farmer.

The Bureau of Internal Revenue's 'specific' product excise tax program places the same levy on the same specific product, whether domestic or imported. Consequently, imported cigarettes are burdened with this excise tax on top of the 10 percent VAT and the import duty of 15 percent. The import duty will drop to 10 percent on January 1, 2000. A recent increase in the excise taxes have led local cigarette manufacturers to pass on the cost to consumers due to tight margins. As a result, prices may increase by 1 to 2 pesos per pack.

Under the Department of Agriculture's Agrikulturang MakaMASA program (an action plan for agricultural modernization), a new credit facility being initiated should offer tobacco farmers and traders easier access to credit. Under the program, while NTA screens potential borrowers, QUEDANCOR (Quedan and Rural Credit Guarantee Corporation), the GOP's credit guarantor, will choose participating banks. This is an attempt to address past problems with these arrangements, primarily the reluctance of local banks to lend to farmers because of perceived high credit risk.

Marketing

Cigarettes in duty-free stores are free of both tariffs and excise taxes. Consequently, duty-free stores have become the primary legal entry point for cigarette imports. However, the duty-free outlets, which number around 30 stores, were severely impacted by the peso devaluation in 1997. A recent visit to Clark found that these outlets have not yet recovered and several are expected to close.