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Tobacco and Products

Annual

2002

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Report Highlights:

Local tobacco production is recuperating from an oversupply situation. Trade with the United States continues strong with U. S. tobacco exports to the Dominican Republic exceeded US\$85 million in CY 2001.

Includes PSD changes: Yes

Includes Trade Matrix: No

Annual Report

Santo Domingo [DR1], DR

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Executive Summary

Over ninety percent of the tobacco produced in the Dominican Republic is Dark Air and Sun Cured (DASC). Production serves mainly the international demand for good quality tobacco and cigars. In addition there are some small quantities of flue-cured and burley varieties produced for the domestic cigarette market. DASC production has experienced considerable growth in recent years as a result of the international demand for good quality cigars. With the cigar boom in the late nineties, production was insufficient to meet the increasing demand and prices for tobacco soared. As a result, dry weight production increased to a record high surpassing 30,000 MT in 1998. The year after expectations of high prices a large crop was planned. In CY 2000 the central government intervened and reduced planted area. With very high stocks, production decreased to a record low, which slowly increased to more traditional levels in CY 2001. A record high of 376 million cigars were produced in CY 1999, declining to 250 million units in CY 2001.

Blond tobacco for cigarettes, is only produced to service the local market. In recent years, production of flue-cured and burley has been relatively stable.

The Dominican Republic continues to be one of the most important trading partners with the United States in tobacco. Tobacco exports from the Dominican Republic to the United States decreased due to limit availability of tobacco totaling US\$21 million in 2001. The Dominican Republic imports tobacco from the U.S. to its Free Trade Zones, classifies, further processes and re-exports a value added product. U.S. exports to the Dominican Republic reached approximately US\$85 million, making the Dominican Republic one of the largest importers of U.S. tobacco. The United States supplies the vast majority of Dominican tobacco imports. In CY 2001, imports of dark tobacco from the

United States decreased by half. There is a continued demand for high quality tobacco and wrapper. Most of the imports are used as wrapper for classification, processing and cigar manufacture in the Free Trade Zones (FTZ) and re-exported to the United States as well as to other countries.

In CY 2001, the marketing channels for most of the DASC tobacco moved from the producer or producer associations to brokers and to independent packers, or to the exporters and the cigar factories in and outside Free Trade Zones. Exporters handled over half of the production. In the case of flue-cured and burley tobacco, the marketing channels are different. There are only two cigarette producers and generally they contract tobacco producers and finance the operation in order to guarantee the required product.

Production

According to preliminary information from the Dominican Tobacco Institute, INTABACO, most of the tobacco produced in the Dominican Republic in 2001 was the dark air and sun cured. Within this category there are three distinctive types produced: twenty one percent is "Piloto Cubano" which is used for blending and as a source of flavor and aroma, sixty five percent is "Amarillo Parado", used as filler and the rest of the dark type is "Chago Diaz", also used as a source of flavor and aroma (14.5%). In addition there are some small quantities of wrapper for cigars and flue-cured and burley for cigarette manufacture.

Dark air and sun cured production experienced considerable growth in recent years as a result of the international demand for good quality cigars. With the cigar boom in the late nineties, production was insufficient to meet the increasing demand and prices for tobacco soared. As a result, dry weight production increased establishing records surpassing 30,000 MT which created an oversupply situation (a record high of 376 million cigar units were produced in CY 1999 from the local manufacturers and the Free Trade Zone [FTZ]). This created major distortions at all levels of the tobacco distribution channels. Government intervention through INTABACO limited production areas to assure that the production levels returned to normal. As a consequence, production in CY 2000 decreased to an all time low of 4,500 MT. This small size crop increased to more traditional levels of 8,300 MT. Expectations for CY 2002 are anticipated to remain at similar levels, perhaps slightly higher.

Flue-cured and Burley tobacco are used exclusively for cigarette manufacture for local consumption. Prevailing tobacco prices have justified increased use of inputs (e.g., fertilizers, pesticides, fungicides, etc.) which have kept yields generally high, although some quantities are imported. CY 2001 data is not yet available but the yields fluctuate somewhat depending on the rainfall pattern and are presented in the following table:

Average Tobacco Yields by type (MT/HA)

Type	CY 1998	CY 1999	CY 2000	CY 2001	CY 2002 1/
Virginia	2.69	2.71	2.33	N/A	N/A
Burley	1.99	1.96	2.14	N/A	N/A
"Amarillo Parado"	1.45	1.43	1.91	1.65	1.73

"Chago Diaz"	1.65	1.57	1.75	1.64	1.70
"Piloto Cubano"	1.64	1.57	1.75	1.66	1.70

1/ Based on last year's INTABACO report results.

Source: derived from INTABACO and industry.

For many years, the Government of the Dominican Republic (GODR) applied import restrictions which forced cigarette producers to grow their own flue-cured and burley tobacco requirements. These trade barriers have been eliminated and, although tariffs remain relatively high, flue-cured/burley tobacco users now have the option of sourcing their needs locally or through imports at competitive costs. The United States supplies over 85% of the total imports (mostly wrapper to Free Trade Zone and national cigar production), with occasional quantities of burley, flue cured and oriental tobacco supplied from South America and Africa. Both the area planted and the

production of flue-cured/burley tobacco decreased in CY 2001 as a result of tax increases the year before which reduced the demand for cigarettes. Demand for CY 2002 is expected to increase.

Pest problems in dark and blond tobaccos are generally limited to blue mold and aphids. These problems have not had a major adverse impact on overall output, except on "Amarillo Parado". Weather conditions have been on the dry side early in the current year and is expected to continue.

Prices

Producers of flue-cured/burley tobacco and of the dark "Piloto Cubano" and "Chago Diaz" receive good prices for their products as a result of the steady demand for cigarettes and for good quality cigars. However, prices in general have dropped as a result of the oversupply situation. In the case of "Amarillo Parado," because of its lower quality, its price continues to be considerably lower than the other types. Average on-farm prices for the last three years are presented below:

Average On-Farm Price for Tobacco (RD\$)

Type	CY 1998	CY 1999	CY 2000	CY 2001	CY 2002 4/
"Amarillo Parado" 1/	400.00	375.00	400.00	400.00	450.00
"Chago Diaz" 2/	2,243.00	2,300.00	1,350.00	1,350.00	1,500.00
"Piloto Cubano" 2/	2,481.00	2,500.00	2,000.00	2,000.00	2,200.00
Virginia 3/	2,348.00	2,400.00	N/A	N/A	N/A
Burley 3/	1,715.00	1,750.00	N/A	N/A	N/A
Exchange rate RD\$ per US\$	16.20	16.25	16.80	17.20	17.50

1/ 60 Kg. bags

2/ 55 Kg. bags

3/ 50 Kg. bags

4/ Preliminary.

Source: INTABACO and Industry.

Prices have traditionally been determined by exporters or processors who account for the majority of consumption or contract farmers to supply their production needs. Because of current stock levels, prices are expected to remain low. The growers of flue-cured/burley tobacco receive a contract price from the cigarette manufacturing companies. These prices move according to international prices.

Consumption

Consumption estimates for DASC, derived from INTABACO data, excludes plug tobacco (Andullos) and on-farm consumption which are considered pre-harvest losses. Dark air and sun dried tobacco apparent consumption increased above prior estimates as a result of high stocks and low prices. According to industry sources and after the cigar boom, the number of hand made cigar companies has decreased to less than one hundred in 2001, down more than a third from the number of factories registered five years ago.

Cigarette production has averaged about 4 billion units over the last five years. Although production numbers remained flat in CY 2001, cigarette consumption increased over fifteen percent over the five year average partly because of the privatization process of the Compania Anonima Tabacalera, a state owned company. LA TABACALERA, a Spanish/Dominican tobacco company, is now a majority share holder. The two cigarette producers anticipate some growth in 2002 as a result of new marketing strategies to increase market size. There is no anticipation of additional taxes applied to tobacco products other than what was applied early in CY 2001 that drove retail prices of cigarettes up and consumption down.

INTABACO does not maintain official statistics on consumption. However, indicative consumption estimates are presented below reflecting the dip in cigarettes and a modest increase in consumption of black tobacco for cigar production. CY 2001 data is not available.

Derived Consumption of Tobacco (MT dry)

Type	CY 1998	CY 1999	CY 2000	CY 2001
Black: Andullos 1/	1,364	1,186	1,250	N/A
Black: On-Farm 1/	27	10	24	N/A
Cigars and Cigarettes	4,409	9,700 2/	7,000	N/A
Virginia 2/	2,250	N/A	N/A	N/A
Burley 2/	1,710	N/A	N/A	N/A
TOTAL	9,760	N/A	N/A	N/A

- 1/ These are factored into pre-harvest losses. For that reason, they are not included in the PS&D table.
 2/ Contracted price by the private sector.
 Source: INTABACO and Industry.

3/ Preliminary estimates.

Wholesale Cigarette Prices

Cigarette prices are presented for reference purposes:

Wholesale Cigarette Prices (Cartons [CT]-10 Packs, 20 Cigarettes Each)

Manufacturer/ Brand Name	Type	Price (RD\$)/CT			
		April 1999	April 2000	April 2001	April 2002
E. Leon Jimenez					
Marlboro, reg. & light	flue-cured/burley filter	116.33	116.33	184.41	184.41
Nacional, reg. & menthol	flue-cured/burley filter	102.74	102.74	172.86	172.86
La Tabacalera					
Montecarlo & Vermont	flue-cured/burley filter	99.72	99.72	170.00	170.00
Constanza (menthol)	flue-cured/burley filter	99.72	99.72	170.00	170.00
Hilton	flue-cured/burley filter	81.77	81.77	121.99	120.99
Palace	flue-cured/burley filter	-	-	121.99	120.99
Casino & Cremas	Dark filter & dark non-filter	61.32	61.32	89.00	89.00

Source: Industry

Trade

The Dominican Republic continues to be one of the most important trading partners with the United States in tobacco. In CY 2001, tobacco exports from the Dominican Republic to the United States decreased due to the limited availability. Dominican cigar exports decreased in total value but increased in unit price. A similar situation occurred with unmanufactured tobacco. The Dominican Republic imports tobacco from the U.S. to its Free Trade Zones, classifies, further processes and re-exports a value added product. U.S. exports to the Dominican Republic surpassed US\$85 million in CY 2001, positioning the Dominican Republic among the top five largest importers of U.S. tobacco.

The United States supplies the vast majority of Dominican tobacco imports. Imports of dark tobacco from the United

States continued to decrease during CY 2001 as a result of the surplus production in CY 1999 and the decreased demand for cigars. In spite of this, there is a continued demand for processing high quality tobacco and wrapper. Most of the imports are used as wrapper for classification, processing and cigar manufacture in the Free Trade Zones (FTZ) and re-exported to the United States as well as to other countries. In CY 2001, the Dominican Republic imported almost 2,700 MT of dark tobacco wrappers from the United States. Detailed agricultural trade data for the last four years are included in the following table:

Tobacco Imports from the United States 1/

	CY 1998		CY 1999		CY 2000		CY 2001	
	Quantity (MY)	Value (US\$M)	Quantity (MT)	Value (US\$M)	Quantity (MT)	Value (US\$M)	Quantity (MT)	Value (US\$M)
Wrapper	1,648	89.66	2,304	110.98	1,710	80.54	1,426	66.10
Other Wrapper	1,732	26.59	1,437	24.21	1,696	18.50	1,211	19.00
Binder & Stems	234	0.34	1,108	1.10	1,900	1.76	8	0.02
TOTAL	3,614	116.59	4,849	136.29	5,306	100.80	2,645	85.12

1/ Mostly free-zone trade.

Source: U.S. Dept. of Commerce.

The Dominican Export Promotion Center (CEDOPEX) statistics indicate that about eighty percent of the national quantity exported moved to the United States, while only ten percent of the tobacco exported by the Free Trade Zone returned to the United States. A summary of the local trade data for the last four years follows:

Dominican Tobacco / Cigar Exports

	CY 1998		CY 1999		CY 2000		CY 2001	
	Quantity (MT)	Value (US\$M)	Quantity (MT)	Value (US\$M)	Quantity (MT)	Value (US\$M)	Quantity (MT)	Value (US\$M)
Cigars 1/	192.4 2/	80.3	376.7	243.8	204.4	83.8	256.3	67.5
Tobacco (FTZ)	2,301	40.6	4,903	76.8	2,332	30.0	1,086	14.2
Tobacco (national)	10,682	41.4	14,435	40.4	7,304	11.2	3,436	6.7
TOTAL	12,983	162.3	19,338	361.0	9,636	125.0	4,522	88.4

1/ Million units. Approximately 80 percent is Free Trade Zone production.

2/ Independent report indicated this value did not include about 100 million machine manufactured.

Source: INTABACO & independent report.

According to INTABACO, in CY 2001 raw tobacco exports decreased while its average unit price returned to higher levels. With a small CY 2002 harvest to come, export volumes of raw, processed and manufactured tobacco are expected to increase slightly but remain overall low.

The two cigarette manufacturing companies in the Dominican Republic are E. Leon Jimenez, S.A. and La Tabacalera, formerly Compania Anonima Tabacalera. The first is a private company associated with Phillip Morris, Inc. and is the leading cigarette manufacturing company, accounting for about 85 percent of total production. The LaTabacalera, owned partly by the GODR and now with a new Spanish/Dominican partner (privatized), produced the balance. Changes in the market place are expected to take place as the new company consolidates its position in the market. Both companies import most of their inputs including filter tow, cigarette paper and packing materials from the United States. As part of the special arrangements with their U. S. partners, the brands they produce under license are manufactured exclusively for local consumption. Very small quantities of other cigarettes are exported. GODR sources indicate that about 3 MT of non-FTZ cigarettes (dark tobacco) were exported last year, the majority of which went to the EU.

Stocks

Industry contacts indicate that stocks of dark tobacco are quite high, mostly because of the aging process required to produce high quality cigars and the overproduction in 1999. These high levels of tobacco stocks were carried over into 2000 and 2001.

At times the central government in an effort to support subsistence farmers through the Agricultural Credit Bank, will invest in stocks. These stocks are generally of very poor quality and not suitable for the export market and remain in warehouses for long periods. The GODR purchased some quantities of stored tobacco from farmers and through the Agricultural Bank in order to assist farmers and to reduced low quality stock during CY 2000 and in CY 2001.

Policy

The Secretariat of Agriculture, through INTABACO, sells certified seed to small tobacco farmers, germinated planting material for re-planting and some inputs. It also issues phytosanitary certificates for exports and keeps track of the sectors statistics. Inputs are no longer subsidized. According to the Agriculture Secretariat Operating Plan, about one percent of the Agricultural Credit Bank's budget (US\$52 million) was allocated to the tobacco sector.

Tariffs

The selective tax on locally produced cigarettes is set at twenty three percent. In addition, there is a 12 percent VAT, which brings the total tax to thirty five percent. Tobacco and tobacco products imports are subject to the following tariffs:

Description	Tariff Rate
Basic Tariff:	
For raw tobacco	15 percent of C+F value
For semi-processed tobacco	20 percent of C+F value
For tobacco wastes	15 percent of C+F value
For cigars and cigarettes	30 percent of C+F value
For all other types	30 percent of C+F value
Other applicable taxes:	
Selective surcharge	30 percent of C+F value
Value Added Tax	12 percent of C+F value

Law 346 assesses a 5 percent ad valorem tax on all material used for re-export.

Under the World Trade Organization (WTO) agreement, the Dominican Republic bound its maximum tariff for most agricultural commodities at 40 percent.

Marketing

In CY 2001, the marketing channels for most of the dark air and sun cured tobacco are as follows: out of total production, producers or producer associations sold about 25% to brokers, 15% to independent packers, 25% to the exporters and 25% to the Cigar Factories in and outside Free Trade Zones. The brokers in turn sold about 10% to the cigar factories and the rest to the exporters. Exporters handled about 65% of the production. Some companies involved in the cigar manufacture contract producers at set prices. The buyer finances the whole operation charging no interest for the advances made to the producer during the four-five month period.

In the case of flue-cured/burley tobacco, the marketing channels are different. There are only two cigarette producers. The manufacturers contract tobacco producers for desired quantities. The manufacturers generally finance the whole operation in order to guarantee the required product. As an alternative, and depending on local and international prices, the manufacturers source additional requirements from foreign markets.

Homogenized sheets are neither manufactured nor used in the Dominican cigarette or cigar manufacture. The growth of the cigar manufacturing industry in the free zone areas and the specialized personnel available at acceptable costs have been important elements in the expansion of U.S. tobacco exports to the Dominican Republic. However, future market opportunities for U.S. exporters of dark tobacco will hinge on the success or failure of maintaining good quality tobacco

production, processing and specialized labor at acceptable wage levels.

Statistical Data

Tobacco Unmanufactured, Dark air & sun cured tobacco

PSD Table						
Country	Dominican Republic					
Commodity	Unmfg., Dark Air & Sun Cured				(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	22500	3227	0	6000	0	6500
Beginning Stocks	8217	8217	9067	1229	9067	2043
Farm Sales Weight Prod	27000	5583	0	10380	0	11245
Dry Weight Production	21600	4466	0	8300	0	9000
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	29817	12683	9067	9529	9067	11043
Exports	16000	7304	0	3436	0	4800
Dom. Leaf Consumption	4750	4150	0	4050	0	4050
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	0	0	0	0	0	0
TOTAL Dom. Consumption	4750	4150	0	4050	0	4050
TOTAL Disappearance	20750	11454	0	7486	0	8850
Ending Stocks	9067	1229	9067	2043	0	2193
TOTAL DISTRIBUTION	29817	12683	9067	9529	0	11043

Tobacco Unmanufactured, Flue cured (Virginia)

PSD Table						
Country	Dominican Republic					
Commodity	Tobacco, Unmfg., Flue Cured				(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	600	560	0	376	0	462
Beginning Stocks	196	196	196	196	196	100
Farm Sales Weight Prod	2025	1900	0	1126	0	1300
Dry Weight Production	1620	1520	0	900	0	1040
U.S. Leaf Imports	20	20	0	0	0	0

Other Foreign Imports	250	250	0	305	0	300
TOTAL Imports	270	270	0	305	0	300
TOTAL SUPPLY	2086	1986	196	1401	196	1440
Exports	0	0	0	0	0	0
Dom. Leaf Consumption	1620	1520	0	1301	0	1350
U.S. Leaf Dom. Consum.	20	20	0	0	0	0
Other Foreign Consump.	250	250	0	0	0	0
TOTAL Dom. Consumption	1890	1790	0	1301	0	1350
TOTAL Disappearance	1890	1790	0	1301	0	1350
Ending Stocks	196	196	196	100	0	90
TOTAL DISTRIBUTION	2086	1986	196	1401	0	1440

Tobacco Unmanufactured, Burley

PSD Table						
Country	Dominican Republic					
Commodity	Tobacco, Unmfg., Burley				(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	500	400	0	326	0	400
Beginning Stocks	308	308	268	268	268	231

Farm Sales Weight Prod	1225	975	0	810	0	996
Dry Weight Production	980	780	0	648	0	796
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	0	200	0	165	0	150
TOTAL Imports	0	200	0	165	0	150
TOTAL SUPPLY	1288	1288	268	1081	268	1177
Exports	0	0	0	0	0	0
Dom. Leaf Consumption	1000	1000	0	850	0	975
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	20	20	0	0	0	0
TOTAL Dom. Consumption	1020	1020	0	850	0	975
TOTAL Disappearance	1020	1020	0	850	0	975
Ending Stocks	268	268	268	231	0	202
TOTAL DISTRIBUTION	1288	1288	268	1081	0	1177

Tobacco Unmanufactured, Burley

PSD Table						
Country	Dominican Republic					
Commodity	Tobacco, Unmfg., Burley				(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	500	400	0	326	0	400
Beginning Stocks	308	308	268	268	268	231
Farm Sales Weight Prod	1225	975	0	810	0	996
Dry Weight Production	980	780	0	648	0	796
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	0	200	0	165	0	150
TOTAL Imports	0	200	0	165	0	150
TOTAL SUPPLY	1288	1288	268	1081	268	1177
Exports	0	0	0	0	0	0
Dom. Leaf Consumption	1000	1000	0	850	0	975
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	20	20	0	0	0	0
TOTAL Dom. Consumption	1020	1020	0	850	0	975
TOTAL Disappearance	1020	1020	0	850	0	975
Ending Stocks	268	268	268	231	0	202
TOTAL DISTRIBUTION	1288	1288	268	1081	0	1177

Cigarettes

PSD Table						
Country	Dominican Republic					
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	4000	3926	4000	3356	0	3517
Non-Filter Production	35	31	35	32	0	33
TOTAL Production	4035	3957	4035	3388	0	3550
Imports	0	0	0	0	0	0
TOTAL SUPPLY	4035	3957	4035	3388	0	3550
Exports	40	0	40	0	0	0
Domestic Consumption	3995	3957	3995	3388	0	3550
TOTAL DISTRIBUTION	4035	3957	4035	3388	0	3550