

**PROSPECTS FOR THE PHILIPPINE TOBACCO INDUSTRY  
GIVEN THE WORLD SITUATION AND OUTLOOK**

**by**

**ALBERTO B. MANALO**

**B.S.A.B., University of the Philippines at Los Baños, 1976**

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**THIS BOOK  
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## INTRODUCTION

Tobacco is a commodity that has been increasingly popular worldwide. Nearly all countries of the world sell and/or buy tobacco so there is a general interest in the state of world trade of leaf tobacco. Current interest is heightened by recent developments such as shortages of certain types of leaf and rising prices, which also have led some to wonder about prospects for tobacco in the future. This paper reviews literature on international tobacco trade with special emphasis on trading relations of participants, supply and demand, and trends in world trade. Philippine participation in international tobacco trade is reviewed and prospects for further participation assessed.

This paper is in two parts. The first part discusses trends in international production, consumption, trade, and prices of tobacco, and investigates the outlook for the future. The second part describes the Philippine tobacco situation and presents the prospects for the tobacco industry in the Philippines given the trends and forecasts in the world market and the country's objectives and capabilities.

PART I

THE WORLD SITUATION AND OUTLOOK

## A. THE PAST

### CHAPTER 1

#### TRENDS IN PRODUCTION

World tobacco production has been following a generally increasing trend. Up to the mid-sixties it expanded at an annual rate of one to 2 percent, but from then until 1973 it fluctuated without increasing significantly. World leaf output registered dramatic increases in 1973 and 1974 when production rose by 5 and 7 percent respectively. In 1975 output further increased by 4 percent and the following year it again went up by one percent with the 1976 world tobacco crop reaching a record level of 5.4 million metric tons. The sizeable jumps in production, particularly in 1974, were the results of strong international demand which caused the USA to increase tobacco acreage and other countries to plant more.<sup>1</sup>

Tobacco is grown in almost every country of the world except the Northern European Countries; however, only a small number of countries produce tobacco in relatively great amounts. In 1976, the Peoples' Republic of China, the USA, India, the USSR, Turkey, and Brazil accounted for almost sixty percent of the world's leaf output. Table 1 contains the production of the twenty-six leading tobacco growing countries from 1970 to 1976. Some of the figures in that table were estimated by the United States Department of Agriculture (USDA) because statistics were not available for some

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<sup>1</sup>Andrew Shepherd, Prospects for Unmanufactured Tobacco to 1984 (London: The Economist Intelligence Unit Ltd., 1975), p. 2.

TABLE 1

## World Production of Tobacco, 1970-1976

(Thousand metric tons)

<u>Country</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
China	771.1	793.8	840.0	953.9	1009.2	959.8	980.0
USA	865.3	774.4	793.3	790.5	890.2	994.0	944.8
India	337.0	361.9	418.9	372.2	441.4	394.8	380.0
USSR	258.0	274.0	234.0	305.0	301.0	298.0	290.0
Turkey	149.8	168.2	182.0	151.3	175.2	208.6	260.2
Brazil	195.9	196.1	191.0	181.0	217.5	285.6	253.0
Japan	150.4	149.0	144.3	157.2	148.6	165.7	165.2
Bulgaria	122.0	128.0	133.0	140.0	140.0	151.0	145.0
Greece	90.7	84.4	85.1	91.7	80.8	118.2	126.6
Republic of Korea	56.3	63.3	115.9	110.8	104.7	104.2	108.4
Poland	85.7	70.3	75.0	78.0	78.3	102.3	100.2
Argentina	66.0	61.7	73.6	71.0	97.6	96.8	93.3
Canada	100.6	101.8	84.9	116.7	119.2	106.0	89.6
Philippines	98.8	70.5	48.5	76.1	78.5	66.3	89.0
Rhodesia	63.9	65.5	72.9	64.5	80.4	94.6	85.1
Yugoslavia	42.7	47.6	65.2	65.0	65.0	70.0	81.0
Indonesia	109.0	95.5	75.0	130.1	125.4	82.2	80.0
Burma	42.0	43.0	43.5	43.5	43.5	74.8	74.8
Thailand	43.1	44.6	49.1	54.0	54.0	69.5	72.9
Pakistan	163.5	158.1	86.9	69.8	69.8	78.0	71.0
Mexico	63.0	58.3	55.8	71.4	71.4	51.8	64.3
Italy	78.5	75.5	79.7	94.0	94.0	113.4	108.6

TABLE 1--Continued

<u>Country</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Malawi	22.2	26.4	30.5	27.3	27.3	35.1	38.1
Dominican Republic	22.5	23.3	28.4	38.5	38.5	15.1	34.5
Paraguay	17.9	19.0	19.0	28.0	28.0	24.0	33.1
Colombia	44.0	43.5	42.0	47.0	47.0	45.7	43.9
Others	485.5	476.6	538.6	532.2	543.0	563.5	591.7
World Total	4545.4	4474.6	4606.2	4839.7	5169.8	5369.2	5404.4

Source: U.S. Department of Agriculture Foreign Agricultural Service,  
Foreign Agriculture Circular, various issues, 1971-1977.

countries, for example China. Despite this lack of reported data, it is generally accepted that China is the number one producer of tobacco.<sup>2</sup>

The United States ranks behind China in tobacco production but in the past it was the world's largest producer. Output in the USA stagnated after 1965 until 1974 when a 14 percent increase was recorded. The next year, production increased by another 12 percent. This surge was due to the higher acreage allotments for tobacco, particularly for the flue-cured and burley types. However, production quotas were lowered in 1976 resulting in lower acreage which led to a 5 percent decrease in production for the year.<sup>3</sup>

Since the second world war, greater amounts of tobacco have been produced in countries outside the USA. Developing countries have steadily gained a larger share of world tobacco production. Up to 1976 developing countries expanded production while the output of major developed producers remained steady or declined. Governments play a big role in boosting output since in most countries tobacco industries are subject to a great degree of government control. In these areas, the state usually intervenes in leaf production and trade and the manufacture and distribution of tobacco products.<sup>4</sup>

The major commercial types of tobacco are flue-cured, burley, and oriental. These tobacco types are widely produced because of the increasing world wide popularity of blended cigarettes. Flue-cured is now produced in largest volume, accounting for 41 percent of all tobacco produced in 1976. Its popularity is due to its role as the basic leaf for most cigarettes

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<sup>2</sup>Ibid.

<sup>3</sup>U.S. Department of Agriculture Foreign Agricultural Service, Foreign Agriculture Circular FT7-76, December 1976, p. 1.

<sup>4</sup>Shepherd, p. 4.



produced by the major tobacco importing countries. In the 1970's world production of flue-cured tobacco increased through 1975 but declined slightly in 1976. The production increase in recent years is in response to rapidly expanding demand. The decrease in world flue-cured production in 1976 was caused by smaller harvests mainly in major producing countries. In 1974 there was a general feeling of shortage of flue-cured tobacco particularly the good quality leaf. The record level of harvests in the next year eased up the shortage somewhat but the lower 1976 crop was expected to continue the tight supply situation. However, it is felt that this would not drastically affect prices because supplies were adequate to meet the demand.<sup>5</sup>

The leading producers of flue-cured tobacco are China, the USA, Brazil, India, Japan, Canada, Rhodesia, and the Republic of Korea. These eight countries accounted for 81 percent of the world flue-cured crop in 1976. Traditionally, most of the mild and light tobaccos were produced in developed areas of the world, but the increased demand and the need for foreign exchange has prompted developing countries to grow flue-cured tobacco. The sanctions against Rhodesia in the middle sixties also helped spread the production of flue-cured leaf.<sup>6</sup> Now developing countries like India, South Korea, Pakistan, Brazil, Argentina, Malawi, Thailand, and the Philippines are major producers of flue-cured tobacco. At present developing countries are responsible for more than 30 percent of total flue-cured production. Three developing countries (Brazil, India, and the Republic of Korea) were included in the list of eight leading producing countries in 1976.

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<sup>5</sup>USDA, FAC FT7-76, December 1976, p. 1.

<sup>6</sup>Shepherd, p. 6.

In the past, levels of burley production have fluctuated but since 1973 production has exhibited a steadily increasing trend. The world burley crop reached a record level of 562.6 thousand metric tons in 1976. As with flue-cured, the production of burley has been rising because of the increased demand for light and blended cigarettes. Manufacturers are attracted to burley because of its lower tar and nicotine content, excellent filling characteristic, and absorbency.<sup>7</sup> It was also felt that there was a world-wide shortage of this type of leaf but it is expected that the high levels of production in 1975 and 1976 will help relieve the tight supply situation.<sup>8</sup>

The United States, accounting for 52 percent of total burley production, is the world's largest supplier but its share has declined in recent years. Substantial increase in production by the other major producing countries namely Italy, the Republic of Korea, Mexico, and Japan, caused the lessening US dominance in burley production.

The production of oriental leaf expanded very slowly from 1970 to 1974 but soared in 1975 and further increased the next year. The 1976 world output of Oriental tobacco was an all time high at 946 thousand tons. Five major producing countries supplied about 88 percent of the record crop. They are the USSR, Turkey, Bulgaria, Greece, and Yugoslavia. Furthermore, all Asian producers of this leaf except the Philippines had slight increases in output. The increase in Oriental production can slow down the rapid rise in world prices of these leaf types experienced in recent years. As with flue-cured and burley, there is a shortage of Oriental leaf.<sup>9</sup>

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<sup>7</sup> Ibid., p. 8.

<sup>8</sup> USDA, FAC FT7-76, December 1976, p. 1.

<sup>9</sup> Ibid.

Other types of tobacco such as dark air-cured, light sun-cured, dark sun-cured, and fire-cured are mainly consumed locally with only small amounts traded internationally.<sup>10</sup> In 1976 flue-cured tobaccos were 41.3 percent of world production; burley 10.5 percent; oriental 17.5 percent; and all others 30.7 percent. World production of tobacco by types, 1970 through 1976, is reported in Table 2.

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<sup>10</sup>Shepherd, p. 10.

TABLE 2

## World Production of Tobacco by Type, 1970-1976

(Thousand metric tons)

<u>Type</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Flue-Cured	1785.7	1777.4	1849.0	1997.6	2185.9	2313.4	2228.0
Burley	411.1	393.9	496.4	429.7	494.5	562.6	568.7
Oriental	738.2	768.4	764.2	784.6	801.6	889.2	945.8
Others	1610.4	1534.8	1496.6	1627.8	1687.7	1604.0	1661.0
Total	4545.4	4474.5	4606.2	4839.7	5169.7	5369.2	5403.5

Source: U.S. Department of Agriculture Foreign Agricultural Service,  
Foreign Agriculture Circular, various issues, 1971-1977.

## CHAPTER 2

### TRENDS IN CONSUMPTION

There is a lack of comprehensive world tobacco consumption data. Few countries publish data on both stocks of unmanufactured tobacco and tobacco products. Trends in consumption are deduced from long term trends in production and trade in tobacco and tobacco products. As indicators of consumption, production figures for tobacco products can be validly used because there is very little international trade in tobacco products, and only small changes in manufacturers' stock of finished products.<sup>11</sup>

In recent years the rate of growth of tobacco consumption has been increasing as evidenced by yearly rises in the world output of tobacco products. World output of cigarettes increased 16 percent from 1970 through 1975 with North and Central America, Western Europe, and Eastern Europe increasing 11, 12, and 16 percent, respectively and Oceania, Asia, Africa, and South America 22, 24, 41, and 40 percent, respectively (Table 3). The following reasons have been presented to explain this trend: 1) rising levels of personal income; 2) emancipation of women; and 3) greater availability of cigarettes.<sup>12</sup>

Tobacco consumption has been increasingly in the form of cigarettes and, considering world production and trade, cigarettes are the most important manufactured tobacco product at present. Cigarettes account for

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<sup>11</sup>Ibid., p. 18.

<sup>12</sup>Ibid., p. 12.

TABLE 3

Estimated Output of Cigarettes by Regions  
of the World, 1970-1975

(Billion pieces)\*

<u>Region</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
North and Central America	715	711	736	779	778	796
South America	149	157	169	177	191	209
Western Europe	603	604	626	647	671	678
Eastern Europe	572	616	632	640	663	666
Africa	86	92	96	107	113	121
Asia	1,021	1,089	1,141	1,200	1,238	1,267
Oceania	32	35	33	36	38	39
World Total	3,178	3,304	3,433	3,586	3,692	3,776

\*A piece is a single stick or column.

Source: U.S. Department of Agriculture Foreign Agricultural Service,  
Foreign Agriculture Circular, various issues, 1971-1976.

75 percent of leaf utilization. The consumption of cigars and pipe tobacco has been declining, and snuff and chewing tobacco have minimal utilization in developed countries. However, snuff and chewing tobacco are still relatively popular in some developing countries.<sup>13</sup>

Although world cigarette output is increasing, consumption of tobacco leaf does not increase proportionately with it. There is a larger rate of increase in cigarette production than in total tobacco use. The difference is caused by the decline in the average amount of raw leaf used per cigarette as a result of the introduction of filters and leaf-saving techniques in production.<sup>14</sup>

The estimated production of cigarettes with filter tips has been steadily increasing. In 1975 filter-tipped cigarettes accounted for 98 percent of output in Japan, 88 percent in the USA, and 87 percent in the United Kingdom, compared with 90, 79, and 78 percent respectively, in 1970. It is estimated that at present about 55 percent of all cigarettes have filters.

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<sup>13</sup>Ibid., p. 12.

<sup>14</sup>Ibid., p. 13.

## CHAPTER 3

### TRENDS IN INTERNATIONAL TRADE

World trade of tobacco leaf is "increasingly being concentrated in the hands of a comparatively small number of international leaf merchants and large tobacco manufacturers" which results in a diminishing number of ordinary traders. International merchants purchase tobacco in the different growing countries and sell to manufacturers in importing countries. These merchants either buy tobacco directly or through their subsidiaries but sometimes they get their tobacco through local traders or agents. They operate both in markets where output is small and in countries that grow a lot of tobacco. In major producing areas manufacturers have their own buying organizations but they may rely on the merchants to act as supplementary buyers, though the most common setup is for big manufacturers to buy tobacco directly in major producing countries and through merchants in small markets. Lately, certain manufacturers have entered the merchandising business as well. They buy tobacco not only to meet the demand in their own factories but also those of any non-competing manufacturer in need of a buying service.<sup>15</sup>

World tobacco trade expanded rapidly after the second world war, reflecting increasing demand for tobacco products. The peak for both tobacco exports and imports was reached in 1974 when trade was 61 percent above the 1960-1964 average. This record volume of trade was caused by the feeling among traders that there was an impending world-wide tobacco leaf

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<sup>15</sup>Ibid., p. 24.



shortage as reflected by declining stocks in many countries. The attitude of impending shortage eased in 1975 and manufacturers used much of the precautionary stocks built up the previous year, resulting in a decline in the level of trade in 1975. In 1976 both exports and imports returned to normal patterns as manufacturers rebuilt some of their stocks. Trade recovered but it was still below the 1974 level.<sup>16</sup>

About one-fourth of world production of tobacco is exported. World exports increased steadily in the sixties and early years of the seventies but a significant growth (18 percent) was recorded in 1972. However, the following year saw only a one percent gain in volume of world trade because of increasing prices and lower production and available supplies caused by bad weather. In 1974 exports reached an all-time high of almost 1.4 million metric tons (Table 4), up 13 percent over the previous year, as a result of increased demand all over the world.<sup>17</sup> The next year, sales to foreign countries dropped sharply for several reasons: first, the large harvests that year erased the fear of tobacco shortage so manufacturers relied on heavy stocks they had purchased in 1974; second, there were shipping delays in some exporting countries; and last, a small increase in world cigarette output discouraged manufacturers from buying more stocks until cigarette production improved.<sup>18</sup> In 1976, world exports of tobacco rose by 3.4 percent over the 1975 level and totalled 1.27 million metric tons.<sup>19</sup>

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<sup>16</sup>U.S. Department of Agriculture Foreign Agricultural Service, Foreign Agriculture Circular FT3-77, August 1977, p. 1.

<sup>17</sup>U.S. Department of Agriculture Foreign Agricultural Service, Foreign Agriculture Circular FT4-75, July 1975, p. 1.

<sup>18</sup>U.S. Department of Agriculture Foreign Agricultural Service, Foreign Agriculture Circular FT4-76, July 1976, p. 1.

<sup>19</sup>USDA, FAC FT3-77, August 1977, p. 1.

TABLE 4

## Leading Exporters of Unmanufactured Tobacco, 1970-1976

(Thousand metric tons)

<u>Country</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
United States	231.5	214.7	274.9	277.8	295.5	255.4	262.2
Brazil	54.5	61.0	64.6	64.8	93.0	101.2	106.6
Turkey	73.6	81.7	121.9	108.4	112.4	65.6	80.4
India	47.9	55.4	79.7	83.0	80.5	78.2	79.6
Bulgaria	58.3	59.0	59.0	68.9	69.3	68.0	68.0
Rhodesia	31.8	36.3	54.4	36.3	36.3	42.0	54.4
Greece	64.6	59.3	74.2	45.8	67.2	50.6	54.0
Italy	11.1	15.1	22.5	30.5	64.5	58.9	53.4
Republic of Korea	18.6	14.2	12.6	22.2	41.2	44.3	42.1
China	22.7	22.7	27.2	34.0	32.0	32.0	34.0
Dominican Republic	19.2	25.8	32.5	31.2	41.1	31.3	33.0
Malawi	17.4	20.9	24.6	26.8	26.8	30.9	31.8
Philippines	38.2	46.0	38.2	33.6	34.2	38.1	27.8
Argentina	15.3	16.0	19.7	10.4	7.2	32.9	27.4
Canada	29.3	23.5	24.0	28.3	33.7	26.5	25.8
Paraguay	19.3	16.0	21.5	17.5	24.0	25.0	25.0
Thailand	11.1	13.1	17.9	16.5	15.1	17.6	21.8
Colombia	12.7	15.6	12.0	16.4	21.9	14.7	20.8
Indonesia	9.2	17.7	25.3	33.2	27.2	19.6	20.3
Mexico	10.8	10.8	14.6	18.1	26.4	17.4	17.6
Yugoslavia	18.9	19.6	17.1	17.5	18.9	24.9	14.5
Others	113.7	144.4	127.0	158.3	168.1	156.6	173.1
World Total	929.9	988.8	1,165.7	1,179.8	1,336.5	1,231.6	1,273.7

Source: U.S. Department of Agriculture Foreign Agricultural Service,  
Foreign Agriculture Circular, various issues, 1971-1977.

The United States is the number one exporting country accounting for over 20 percent of the world total, however, its market share has declined in the last two years. Brazil, the second leading exporter, has increased its shipments by substantial amounts since 1974, allowing it to advance from its number five position in 1970. Rounding out the top five exporters are Turkey, India, and Bulgaria. Exports of these countries were highest in 1972-1974 but declined in 1975; however, the return to normal trade patterns in 1976 allowed them to increase their foreign sales again though by not very large amounts. Another major producer that has experienced fluctuating export levels due to erratic domestic production is Greece, the third largest exporter in 1970 but ranking only seventh in 1976.

In the past, manufacturers, and therefore buyers, relied only on traditional supply sources because they wanted to maintain the flavor of their blends. However, the shortage of certain types of leaf and the recent technological developments which have lessened the importance of leaf quality encouraged manufacturers to seek alternative sources of tobacco. This move has helped developing countries to export more. In the early 1960's the developing countries of Asia, Latin America, and Africa, except Rhodesia, accounted for about 17 percent of exports but this share has increased significantly in the 1970's. Countries such as Malawi, the Republic of Korea and Thailand which were minor exporters have become prominent suppliers to the world.<sup>20</sup> Table 4 shows the leading exporters and the volume of their shipments from 1970-1976. Although there are 76 exporting countries, the 21 exporters listed in Table 4 are responsible for 86 percent of the total.

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<sup>20</sup>Shepherd, p. 25.

As in production, the most popular types of leaf exported are flue-cured, burley, and oriental. Free world flue-cured exports have been increasing and reached a record level of almost 518 thousand metric tons in 1976 (Table 5). Burley exports from free world countries also show an expanding trend, reaching a peak in 1974, declining in 1975, and recovering to a little bit below the record level in 1976 (Table 6). The high prices of this leaf type encouraged countries like Greece, Mexico, Italy, Brazil, Argentina, and Poland to produce and export burley. Exports of oriental leaf also have been rapidly expanding. Before the second world war, exports of this type of leaf were merely about 90.7 thousand metric tons but in 1975 it amounted to 272.2 thousand metric tons. In contrast, there has been a decline in exports of dark or cigar-type leaf in recent years, again proving the increasing popularity of light cigarettes and diminishing demand for cigars.

Table 7 gives an idea of how imports expanded in this decade, as well as the yearly purchases of the top twenty importing countries. It may be noted that import and export figures do not tally. This difference arises because imports are not officially recorded by the receiving countries until they are removed from bonded warehouses.<sup>21</sup>

In 1973, there was a great jump in imports as a result of rising prices precipitated by a growing shortage of tobacco.<sup>22</sup> Imports further soared in 1974 and 1975, registering 3 and 2 percent increases respectively. In 1976 there was only a one percent increase caused by the rising prices of tobacco products and the concern over the ill effects on health by smoking. The

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<sup>21</sup>USDA, FAC FT4-76, July 1976, p. 1.

<sup>22</sup>U.S. Department of Agriculture Foreign Agricultural Service, Foreign Agriculture Circular FT3-74, July 1974, p. 1.

TABLE 5

## Free World Exports of Flue-Cured Tobacco, 1970-1976\*

(Thousand metric tons)

<u>Country</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
United States	166.9	155.1	192.8	189.8	200.0	177.6	171.8
India	39.0	46.7	71.7	74.8	72.6	68.5	69.9
Brazil	4.5	17.2	18.1	27.7	46.7	56.7	68.0
Rhodesia	31.8	45.4	54.4	34.0	34.5	40.0	52.0
Republic of Korea	14.5	11.8	9.5	15.0	29.0	33.5	27.2
Canada	21.3	21.8	23.1	28.1	24.0	20.0	19.1
Thailand	a	12.2	17.2	15.0	12.7	14.5	18.1
Malawi	5.9	7.3	8.6	10.0	10.9	15.0	16.0
South Africa	a	9.5	8.6	7.7	7.3	5.4	7.0
Philippines	2.7	18.1	13.6	12.7	12.2	10.4	6.8
Zambia	3.2	2.7	2.7	2.7	2.7	5.0	5.0
Argentina	2.7	5.9	5.4	4.8	4.3	9.5	4.7
Italy	a	1.4	2.2	4.1	6.4	2.7	2.3
Others	74.8	49.9	45.3	45.0	52.0	52.0	50.0
Total	367.3	406.4	473.2	471.4	515.3	510.8	517.9

\* Exports of socialist and communist countries are not taken into account.

a - included under others

Source: U.S. Department of Agriculture Foreign Agricultural Service, Foreign Agriculture Circular, various issues, 1971-1977.

TABLE 6

## Free World Exports of Burley Tobacco, 1970-1976\*

(Thousand metric tons)

<u>Country</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
United States	18.8	16.6	24.4	26.7	27.6	28.1	30.8
Italy	7.3	11.5	15.0	18.0	26.7	25.0	25.4
Mexico	8.6	9.1	11.7	16.0	22.6	15.3	14.5
Republic of Korea	5.5	3.6	3.5	7.2	12.3	11.3	12.9
Greece	8.3	5.7	8.2	10.3	13.0	4.4	9.7
Brazil	1.3	1.0	3.0	2.3	3.9	4.5	6.8
Malawi	1.9	2.4	2.7	5.0	4.1	5.4	5.4
Rhodesia	---	2.0	2.3	2.0	1.8	1.8	2.0
Thailand	a	0.5	0.9	0.8	1.2	1.3	1.6
South Africa	a	1.6	1.5	1.1	1.0	1.0	1.0
Others	4.9	3.9	6.2	6.0	6.0	6.5	6.8
Total	56.6	57.9	79.4	95.4	120.2	104.6	116.9

\*Exports of socialist and communist countries are not taken into account.

a - included under others

Source: U.S. Department of Agriculture Foreign Agricultural Service, Foreign Agriculture Circular, various issues, 1971-1977.

TABLE 7

## Leading Importers of Unmanufactured Tobacco, 1970-1976

(Thousand metric tons)

Country	1970	1971	1972	1973	1974	1975	1976
United Kingdom	128.6	121.9	135.0	148.8	164.3	142.6	144.5
West Germany	122.6	154.6	145.9	145.5	86.5	132.1	143.7
United States	99.2	112.7	109.1	124.1	136.1	145.3	140.8
Japan	33.0	45.3	60.1	57.6	77.2	91.6	98.1
France	63.5	76.4	80.7	77.9	80.7	89.7	94.8
USSR	70.3	71.5	90.3	92.5	78.6	87.8	74.0
Netherlands	55.0	55.9	62.0	68.8	73.2	66.9	64.8
Spain	35.9	42.2	25.7	26.8	39.5	38.3	48.7
Belgium- Luxemburg	32.7	33.4	34.9	38.0	38.9	39.4	41.4
Italy	16.8	16.6	21.9	22.5	29.4	35.5	32.2
Canary Islands	17.7	27.7	29.6	25.4	31.3	20.4	33.0
Egypt	13.9	15.2	18.2	20.8	20.0	25.9	31.0
Switzerland	39.3	29.8	30.7	36.1	35.9	27.4	26.2
East Germany	15.7	19.0	22.7	18.5	19.5	19.5	21.0
Czechoslovakia	a	a	a	17.8	16.0	15.9	20.0
Algeria	3.6	3.6	3.6	9.7	17.9	18.0	18.5
South Africa	8.9	5.9	11.4	13.5	10.4	10.0	14.0
Australia	13.1	11.9	12.2	10.3	12.9	13.1	12.4
Sweden	13.8	9.8	15.2	12.8	9.6	12.4	11.9
Poland	a	a	a	6.9	4.1	10.1	10.8
Others	78.4	76.3	66.1	230.1	259.0	225.2	213.7
World Total	861.8	929.9	975.2	1,204.3	1,240.9	1,267.1	1,297.4

a - included under others

Source: U.S. Department of Agriculture Foreign Agricultural Service,  
Foreign Agriculture Circular, various issues, 1971-1977.

greater amount of taxes levied on tobacco products as governments attempted to raise revenue and discourage smoking, and a slow growth in the smoking population in developed countries also contributed in preventing a major rise in imports.<sup>23</sup>

The countries listed in Table 7 account for 84 percent of all imports. The European Economic Community is the leading importing area, being responsible for about 42 percent of world imports. Six of its nine members, the UK, West Germany, France, the Netherlands, Belgium, and Luxemburg are among the top ten buyers of tobacco, taking 37 percent of the total.<sup>24</sup>

The leading importing country is the United Kingdom but it has alternated with West Germany in that position in the past, except in 1975 when the United States made the largest purchase of leaf from abroad. The imports of the USA have been increasing because of the great demand for oriental leaf and scrap for use in American blended cigarettes. Japan is another country which has experienced an upward trend in tobacco imports as a result of declining domestic production and rapidly increasing consumption. Likewise, increased local consumption brought about by an increasing proportion of people who smoke caused the USSR to import more. Russian imports were predominantly of oriental tobacco, the most popular type of leaf in that country.<sup>25</sup>

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<sup>23</sup>USDA, FAC FT3-77, August 1977, p. 1.

<sup>24</sup>Ibid.

<sup>25</sup>Shepherd, p. 26.



## CHAPTER 4

### TRENDS IN PRICES

Up to now insufficient attention has been given to international tobacco price analysis in studies on world tobacco situation and outlook. This may be due to the fact that the analysis of international tobacco prices is a complex subject. This complexity of prices arises from the absence of established reference grades for tobacco in international leaf trade. Tobacco is bought and sold by sample or buyer/seller specification. There are several types of tobacco each having a number of sub-varieties which in turn have a number of specifications or grade marks. Each tobacco manufacturer and exporter has his own system of grading tobacco, thus making tobacco grade and quality subjective. Furthermore, the desirable quality factors may change over time, depending on the purpose for which the leaf is to be used.<sup>26</sup>

The stability of prices in most markets until recently is another reason that led to neglect of analysis of tobacco prices. Reported prices rose more slowly than was actually occurring until 1971 because export prices were expressed in dollars or other hard currencies which were strengthening in relation to the currencies of developing countries where tobacco is grown. So, although farmers in the growing countries were

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<sup>26</sup>U.S. Department of Agriculture Foreign Agricultural Service, Foreign Agriculture Circular FT6-76, December 1976, p. 1.

experiencing gently rising prices in terms of their own currency, world prices expressed in hard currencies were relatively stable.<sup>27</sup>

Recently prices have become more important to the analysis of the world tobacco situation. US Department of Agriculture sources cite several reasons why price behavior in international markets has been given decreasing attention by US tobacco exporters in evaluating world tobacco situations. Reported factors leading to greater attention to price are: 1) the quality and characteristics of leaf produced by other countries have greatly improved and are now comparable with American leaf; 2) technological advances have made possible the substitution of cheaper filler type leaf for higher priced tobacco; and 3) worldwide demand-supply relationships have caused a sudden increase in prices.<sup>28</sup> It appears that demand for American quality leaf has become more elastic because of the two sources of substitutes but, at the same time, world demand has increased at a faster rate than world supply causing price levels to rise.

From 1972 onward, world tobacco prices have gone up rapidly due to general inflation, rising consumer demand, and intensified competition among manufacturers. The movement towards greater consumption of light cigarettes increased the demand for flue-cured, burley, and oriental tobaccos. The shortage of these leaf types compelled manufacturers to stock up more resulting in more competitive price levels than in the past. The tight supply situation and the resulting high prices also underscored a very important need: timely and reliable forecasts of supplies and prices.<sup>29</sup>

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<sup>27</sup>Ibid.

<sup>28</sup>Ibid.

<sup>29</sup>Ibid.

An idea of how grower prices increased for flue-cured, burley, and oriental leaf in certain countries may be obtained from Tables 8, 9, and 10. Table 11 shows the growth in export prices for 1970-1975 in selected countries. The United States' prices usually set the ceiling of international export prices because of the superior quality of American leaf. The shortage of some types of leaf diminished the importance of quality, thus raising prices of other exporters to near the US levels.<sup>30</sup>

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<sup>30</sup>Shepherd, p. 18.

TABLE 8

Estimated Average Grower Prices for Flue-Cured Tobacco  
in Selected Countries, 1970-1975

(US dollars per pound)

<u>Country</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
United States	.72	.77	.85	.88	1.05	1.00
Brazil	.16	.17	.17	.25	.30	.26
India	.33	.34	.18	.32	.40	.43
Japan	.76	.88	1.02	1.34	1.84	2.23
Canada	.64	.65	.78	.80	.91	.96
Rhodesia	.15	a	.28	.53	.78	.60
Republic of Korea	.46	.56	.67	.70	.87	.93
Philippines	.18	.18	.19	.33	.38	a
Thailand	.33	.33	.33	.35	.48	.49
Argentina	.18	.42	.62	1.82	1.95	.16

a - not available

Source: U.S. Department of Agriculture Foreign Agricultural Service,  
Foreign Agriculture Circular FT6-76, December 1976.

TABLE 9

Estimated Average Grower Prices for Burley Tobacco  
in Selected Countries, 1970-1975

(US dollars per pound)

<u>Country</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
United States	.72	.81	.79	.93	1.14	1.06
Italy	.48	.50	.56	.63	.70	.73
Republic of Korea	.27	.32	.42	.45	.56	.62
Mexico	.31	.31	.31	.36	.36	.40
Japan	.57	.89	1.02	1.30	1.81	1.97
Brazil	.15	.16	.17	.22	.28	.23

Source: U.S. Department of Agriculture Foreign Agricultural Service,  
Foreign Agriculture Circular FT6-76, December 1976.

TABLE 10

Estimated Average Grower Prices for Oriental Tobacco  
in Selected Countries, 1970-1975

(US dollars per pound)

<u>Country</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Turkey	.43	.34	.44	.74	.97	a
Greece	.60	.65	.87	1.04	1.52	a
Italy	.68	.70	.80	.82	1.12	1.32
Yugoslavia	1.55	1.25	1.38	1.73	1.73	2.14

a - not available

Source: U.S. Department of Agriculture Foreign Agricultural Service,  
Foreign Agriculture Circular FT6-76, December 1976.

TABLE 11Average Export Prices of Unmanufactured Tobacco  
in Selected Countries

(US dollars per pound)

<u>Country</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Canada	1.04	.99	1.01	.90	.97	1.13
United States	.96	.98	1.05	1.11	1.28	1.51
Argentina	.20	.21	.35	.69	.99	a
Brazil	.26	.27	.33	.41	.48	.65
Greece	.66	.66	.70	.77	1.15	1.45
Malawi	.52	.58	.55	.60	a	a
India	.40	.44	.44	.43	.58	.68
Korea	.33	.45	.45	.45	.51	.68
Philippines	.16	.15	.19	.36	.41	.43
Thailand	.39	.39	.36	.41	.66	.72
Turkey	.48	a	.49	.56	.83	1.27

a - not available

Source: U.S. Department of Agriculture Foreign Agricultural Service,  
Foreign Agriculture Circular FT6-76, December 1976.

## B. FUTURE DEVELOPMENTS

### CHAPTER 5

#### THE OUTLOOK FOR PRODUCTION

The production of tobacco depends on several factors including weather, prices, the cost of labor, adoption of modern technology, the supply of fertilizer, the price of oil, and the attraction of other crops. Weather has a strong influence on the volume of tobacco harvested worldwide. In some countries weather can cause variations in yield by as much as 20 percent. The Philippines, for example, has fluctuating output from year to year depending on the number and intensity of typhoons that cross it. The main reason why weather affects production in those areas so much is the ignorance of the farmers of the ways to protect their crops. Protective methods are available in developed countries but are still almost unknown in developing areas. It would take a great amount of resources before such practices are adopted in developing countries.<sup>31</sup>

The level of prices is another major influence on the production of leaf. Studies have shown that the total area planted to tobacco each year is affected by the prices paid to farmers the previous year. Usually, if prices are high farmers attempt to maximize their income by planting more.<sup>32</sup>

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<sup>31</sup> Ibid., p. 32.

<sup>32</sup> Robert H. Miller, "The Export Incentive Program and US Tobacco Exports," talk presented at the 23rd National Tobacco Workers Conference, Economics Section, College Park, Maryland, January 14, 1970.



The shortage and rising costs of labor world wide is increasingly affecting production of several traditional tobacco suppliers. Most areas of the world are experiencing and are likely to experience more rural depopulation which leaves a scarcity of labor needed to work on the farms. Modern living conditions, the opportunity for greater leisure and regular working hours serve as attractions for people, especially the young ones, to leave rural areas and move to the cities. Since tobacco is a very labor intensive crop it is not surprising to see farmers in countries that suffer from rural depopulation shifting to production of other crops requiring less labor. Greece and Turkey, the main exporters of oriental leaf, are examples of countries experiencing this problem.<sup>33</sup>

As mentioned above, traditional tobacco growing requires use of a lot of labor, with each leaf being picked and processed by hand. In order to avoid this, researchers in some developed countries have tried to devise means to mechanize tobacco production. Although in the short run mechanization will affect world production only to a small extent, in the long run mechanization is necessary to maintain production levels in countries where the cost of labor is very high. Most of the mechanization research is concentrated on the flue-cured types of tobacco and there is little work aimed at mechanizing production of oriental tobacco which is the most labor intensive of all tobacco types.<sup>34</sup>

Experience in the United States has shown that mechanization has improved harvesting methods and accelerated the marketing process. However, it has also been noted that mechanization reduced the quality of tobacco

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<sup>33</sup>Shepherd, p. 35.

<sup>34</sup>Ibid., p. 34.

marketed.<sup>35</sup> Another hindrance to mechanization, not only in the USA but in the rest of the world, is the small size of tobacco farms. Most production units are not big enough to justify the use of machines for production.<sup>36</sup>

The adoption of modern technology also affects world tobacco production. Advances in leaf technology have been made since the 1960's and enabled the farmers to increase the quality and quantity of their leaf. Among the advances in production are development of varieties which make possible easier mechanization, development of varieties which are high yielding and disease resistant, adoption of more efficient fertilization techniques and improvement of chemical weed control methods.<sup>37</sup>

Technological improvements are mainly available in developed countries. In many developing areas most farmers lack the knowledge of these innovations and though most governments aided by international agencies try to disseminate the modern methods, ignorance is still widespread. However, as developing countries increase adoption of these superior techniques, their production and hence, world output will also increase.<sup>38</sup>

The price of oil affects the costs of fuel needed in drying and curing flue-cured tobacco. Increases in oil prices can make mechanization of tobacco production more expensive. Furthermore, it will increase the prices of petroleum-based synthetic fibers and give a price edge to natural fibers. A great demand for natural fibers is the likely result and this will encourage tobacco farmers to switch, if possible, to alternative fiber crops, like cotton.<sup>39</sup>

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<sup>35</sup>"Knebel Surveys Problems in World Tobacco Market," Tobacco International, 7 July 1976, p. 18.

<sup>36</sup>Shepherd, p. 35.      <sup>37</sup>Ibid., p. 32.

<sup>38</sup>Ibid., p. 37.      <sup>39</sup>Ibid.

The rising costs of fertilizer pose a serious problem to tobacco producers all over the world. Since a large amount of nitrogen fertilizer is produced from natural gas, fertilizer prices have increased with the rise in prices of oil. The likely effect of rising fertilizer prices is the high price of tobacco leaf. Although without extensive use of fertilizer tobacco plants provide a fairly high yield, major producers continue to use great amounts even at higher prices in order to maximize output. Moreover, prohibitive prices limit the amounts of fertilizer financially poorer producing countries are able to purchase, thus preventing increases in productivity.<sup>40</sup>

The attractive returns on other crops, particularly food and fiber crops, is an obstacle to increased production of tobacco. In most areas, farmers are eager to shift away from tobacco because there are price guarantees with food and fiber crops and none for tobacco. For example, Indian farmers prefer growing cotton to tobacco because producing the former is more economical than growing leaf. Brazil, where soybeans provide a higher return on investment than tobacco, is another country which suffers from this dilemma.<sup>41</sup>

However, farmers may not be readily able to switch to other crops because they have invested highly in tobacco processing facilities. To produce crops other than tobacco will mean incurring a financial loss. The uncertainty in prices of foodstuffs is another barrier which may deter farmers in changing to other crops. Despite these factors the attraction of other crops remain a major influence on leaf production.<sup>42</sup>

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<sup>40</sup>Ibid., p. 38.

<sup>41</sup>Ibid., p. 36.

<sup>42</sup>Ibid.

Most governments are interested in maintaining a tobacco industry and do not want to see a decrease in their domestic production. A government wants to maximize output of tobacco and tobacco products in order to collect the largest possible amount of tax revenue. Moreover, the tobacco industry, especially in developing countries, provides a source of much needed foreign exchange and uses large amounts of surplus labor. Therefore, it is unlikely that governments will restrict tobacco production in order to encourage the growing of other crops.<sup>43</sup>

World production until 1984 is forecast to increase by 3.25 percent a year in the future (assuming constant 1975 "real" producer prices). In developed countries the prospects for expansion of tobacco production are not good, unless total acreage is expanded, because in these places the yield per unit area is unlikely to increase much unless new plant strains are introduced. Hence, much of the increase in world tobacco production will come from developing countries where there is much room for increasing yields. However, adoption of practices which could increase productivity are not yet widespread in all parts of the world. Farmers in developing countries are usually suffering from lack of knowledge, conservatism, and lack of finances, and in order to expand production, these barriers must be overcome.<sup>44</sup>

The output of the most popular type of tobacco is likely to continue increasing. Flue-cured production will expand because it is very probable that the current high level of demand for this leaf will rise. There will

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<sup>43</sup>Donn A. Reimund and N. A. Wynn, "Tobacco Leaf Marketing," MTS, February 1972, p. 18.

<sup>44</sup>Shepherd, p. 33.

be an increase in US production and the same is expected of output from South America, Africa, and some parts of Asia.<sup>45</sup>

Future production of burley is forecast to expand, with the United States likely to produce more and remain the biggest grower. Other countries like Italy, Greece, Argentina, Brazil, Bulgaria, Malawi, Mexico, South Korea, Rhodesia, and Turkey can produce significant amounts of burley. The anticipated increase in output is due to the rapidly increasing worldwide demand and high prices of this type of tobacco.<sup>46</sup>

The production of oriental leaf will also expand, particularly if the high demand and prices of this leaf continue in the future. Although Greek production is forecast to decrease as a result of rural depopulation, greater output in Turkey, the Eastern European countries, and some parts of Asia will result in higher production of oriental tobacco. However, substantial increases may not be attained unless the current growing methods are improved through mechanization.<sup>47</sup>

The output of other types of tobacco like dark air-cured or cigar-type will also increase but at a very slow rate. Some countries which have switched to the lighter types of tobacco will surely decrease production while others will exhibit only marginal increases.<sup>48</sup>

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<sup>45</sup>Ibid., p. 39.

<sup>46</sup>Ibid.

<sup>47</sup>Ibid., p. 40.

<sup>48</sup>Ibid.

## CHAPTER 6

### THE OUTLOOK FOR CONSUMPTION

Several factors determine the level of world tobacco consumption. These include population, the prices of tobacco products, income, increases in taxes, anti-smoking movements, the stance of governments, advancements in leaf saving technology and the role of tobacco supplements. The rise in population has a direct effect on demand. In the past decade, the growth of population alone accounted for an annual increase in consumption by 2 percent. Another noticeable trend is that more and more women and young people are smoking. With population forecasted to rise 2.1 percent every year, consumption will go up.<sup>49</sup>

Studies conducted in developed countries in the early 70's concluded that the effect of price on the quantity demanded for cigarettes is small. It was determined that cigarettes are demand inelastic with the elasticity coefficient estimated to be -0.5. This is due to the fact that smokers view cigarettes as a necessity just like food and shelter, and they are unable to use cigarettes in a controlled non-dependent manner. Experiences in some countries show that price increases decrease consumption for a short time; in the long run smokers return to their previous levels.<sup>50</sup> However, an important consideration in determining the price elasticity of tobacco products is the stage of development of the industry and government. Price

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<sup>49</sup> Ibid., p. 47.

<sup>50</sup> Ibid., p. 17.

is a major consideration in consumption when the cigarette industry is growing rapidly and new smokers are being attracted.<sup>51</sup> In developing countries tobacco prices do affect consumption, at least of the lower income classes. For some in those places, to smoke or not to smoke is still an economic decision so higher cigarette prices may limit consumption. Nevertheless, looking at world-wide consumption in the long-run, it is unlikely to be affected much by increases in the prices of tobacco products.

As with prices, studies in developed countries on the effect of rising income levels on consumption showed that the demand for tobacco products is also income inelastic. The income elasticity coefficient of demand is between 0.6 and 0.75. Therefore, increases in income will result in less than proportional increases in the smoking rate. However, in some parts of the world consumption is responsive to changing income levels. Studies in developing countries indicated that as incomes rise from low levels there is a more than proportional increase in tobacco use. Therefore, the rising incomes in developing countries will bring about a greater demand for tobacco.<sup>52</sup>

Increases in tax rates for tobacco products is another factor which affects the demand for leaf. There is usually a high level of taxation on tobacco products. In developed countries, taxes account for about one-third to three-fourths of retail prices. It has been shown that tax increases employed as a part of the antismoking campaign, i.e., periodic tax increases to frequently raise prices, has been successful in decreasing consumption. The anti-smoking movement in Sweden had great success after they used this

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<sup>51</sup>Robert H. Miller, "Pricing Out Tobacco: Price as a Factor in Cigarette Consumption," talk presented at the Third World Conference on Smoking and Health, New York, New York, June 3, 1975.

<sup>52</sup>Shepherd, p. 48.



approach. However, drastic and frequent tax increases in many areas are unlikely for a number of reasons: 1) higher taxes would affect the poorer people in the economy; 2) taxes may encourage smuggling and black marketing of tobacco products, for example, in the USA there are cases of illegal movement of cigarettes from lower tax states to higher tax states; 3) increasing the level of taxation can make the government unpopular; 4) reduction in production can result and lead to unemployment; 5) manufacturers of tobacco products are powerful pressure groups and could sway the decision-making of the people in government, and; 6) in developing countries, increased tax rates may decrease revenue.<sup>53</sup>

The extent of anti-smoking activity has been increasing and at present this plays a major role in determining the volume of cigarettes consumed. The slow rise in world imports in 1976 has been attributed in part to the greater concern for the effects of smoking on health. Anti-smoking groups in developed countries have come up with many ways to drastically reduce smoking. The advertising of cigarettes often through the broadcast media has been banned in several countries including the USA, the UK, Canada, Japan, Italy, and West Germany. Other measures to limit smoking are inclusion of health warnings in cigarette packs and prohibiting smoking in public places. Anti-smoking movements have also been responsible in the production of cigarettes with lower tar and nicotine contents.<sup>54</sup>

At first, claims of the cancer-causing effects of smoking affected tobacco intake but declines were only temporary and smoking activity increased again after the publication of a report. Recent anti-smoking

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<sup>53</sup>Ibid., pp. 48-49.

<sup>54</sup>Ibid., pp. 51-53.



efforts have been less successful. It is believed that smokers have become accustomed to the hazards of smoking and they feel that the introduction of low tar and nicotine cigarettes have greatly reduced these dangers. Some also argue that the successful effort of anti-smoking groups to lower tar and nicotine contents may ironically result in greater consumption as smokers try to compensate for the milder cigarettes by smoking more.<sup>55</sup>

Anti-smoking publicity is not so widespread in developing and communist countries. Most countries have taken little or no action at all about the campaigns to limit use of tobacco products. They are reluctant to decrease consumption because they derive a great amount of revenue from tobacco. Furthermore, they are faced with more important health problems than the effects of smoking.<sup>56</sup>

The health factor will become a bigger barrier to increasing world consumption if developing countries pursue anti-smoking vigorously. How governments stand on the smoking and health issue will affect future demand. Currently governments, particularly in developed areas, maintain the contradictory position of encouraging anti-smoking campaigns while at the same time earning large revenues from sales of tobacco and tobacco products.<sup>57</sup> As discussed earlier, they are not expected to take drastic measures such as totally supporting the move to limit smoking.

Technical innovations in tobacco manufacturing have led to greater saving of leaf and permitted production of more cigarettes from the same amount of tobacco. Increase in the production of filter tipped cigarettes

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<sup>55</sup>Ibid.

<sup>56</sup>Ibid., p. 52.

<sup>57</sup>Ibid., p. 49.

was made partly due to the desire to save tobacco. So far, filters have been the most effective leaf saving method, but other techniques have already been developed. One is the reconstitution of tobacco scrap to form tobacco sheets. This development has enabled the use of tobacco leaf scrap and stem fragments which in the past were thrown away. Puffing is another method which reduces use of tobacco through increasing its filling capacity by restoring the moisture in the leaf that is lost in processing. Removing nicotine from nicotine-rich tobaccos also saves leaf. This innovation calls for the removal of the sharp taste in lower quality tobacco, which in the past could not be used at all. In addition to the existing technology, manufacturers can also save a great amount by merely increasing the efficiency of their operations.<sup>58</sup>

There is definitely a limit to the reduction in the tobacco content of cigarettes that can be made and the limit may soon be reached in developed countries. Therefore the greatest amount of leaf saving will come from developing countries where many manufacturers are still relatively unsophisticated.

The desire to produce a safer cigarette has also led to the development of tobacco supplements such as Cytrel, NSM, and Polystrep in the USA, UK, West Germany, and Switzerland. Cigarettes partly containing Cytrel are already being sold in West Germany. Manufacturers are attracted to supplements because they provide safer cigarettes which can lead to greater consumption. Tobacco supplements also have constant composition (most of the tobacco supplements are made from wood pulp cellulose), while the taste, color and tar and nicotine contents of tobacco vary from year to year.

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<sup>58</sup>Ibid., p. 58.

Moreover, manufacturers in developed importing countries believe that supplies of supplements will be more reliable and cheaper than those of tobacco.<sup>59</sup>

If found completely safe, the use of tobacco supplements will increase in the future. However, it is expected that they will be used as fillers for blending with tobacco and wider use of them will reduce only the demand and prices of filler tobacco. This development can be of benefit to farmers for they will be compelled to upgrade the quality of their crop. The demand for the other types of natural tobacco and leaf prices at the farm level will not be affected.<sup>60</sup>

Considering all the factors discussed above, and assuming constant 1975 "real" prices, world demand for tobacco leaf until 1984 is forecast to increase by about 3.5 to 4 percent every year in contrast to world production increases of 3.25 percent annually. World wide consumption of tobacco products will follow the trend towards cigarettes and light blends will become more popular. Filter tipped and low tar and nicotine cigarettes will also be used more widely. The greater popularity of filters can be attributed to a combination of the shortage of leaf and the realization that filtered cigarettes are safer.<sup>61</sup>

Consumption is likely to increase in the United States by 2.5 percent per year. Several reasons can be cited for this expectation. Among them are the introduction of more low tar and nicotine cigarettes, a gain in the population, a big increase in the number of people belonging to the 25-44 age group which exhibits the highest smoking rate, the increasing popularity

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<sup>59</sup>Ibid., p. 73.

<sup>60</sup>Ibid., p. 72.

<sup>61</sup>Ibid., p. 55.

of longer cigarettes and the American smokers' tendency to throw away a large portion of the cigarette unsmoked.<sup>62</sup>

The European Economic Community's future consumption will also increase by about 2 to 2.2 percent per year. The factors that ensure higher leaf utilization in the USA are also applicable to the EEC. Japan, which has a very high rate of increase in demand, may register smaller increases in consumption. The Japanese government may restrict tobacco use because the country is becoming more dependent on imported tobacco. There is also an increasing awareness of the health aspect in that country. Eastern Europe is expected to consume 3.5 to 4 percent per year. Consumption will increase in the USSR as a result of industrialization, increasing disposable income, the rising number of female smokers, and the lowering of the acceptable age of starting smoking. Likewise, growth in real incomes, increases in population, and the large number of young people reaching the smoking age every year will lead to growing tobacco use in South America and the future demand is forecast to be at least 2 percent annually. Utilization of leaf will also expand in North Africa and the Middle East because of their greater wealth from oil revenues. Consumption is estimated to rise by 4.5 percent every year in the developing countries of Asia and Africa as a result of improved communications, growing sophistication of the population, the lack of effective anti-smoking campaigns and rising population.<sup>63</sup>

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<sup>62</sup>Ibid., p. 58.

<sup>63</sup>Ibid., pp. 59-60.

## CHAPTER 7

### THE OUTLOOK FOR INTERNATIONAL TRADE AND PRICES

International trade in tobacco is also subject to some factors which can act as barriers or restrictions. One import restriction is the high tariffs or duties imposed on tobacco. Although all countries levy an import duty on unmanufactured leaf, tariffs are generally lower in developed countries and developing importing countries than in developing exporting countries. An importing country may have either, or in some instances both, of two types of import duties: specific or ad valorem. Duties are specific if they are charged according to quantity or weight alone without regard to the value; conversely, ad valorem taxes are levied in proportion to the value of the leaf. Ad valorem taxation charges a larger duty on more expensive tobacco and thus favors cheaper tobaccos which come predominantly from developing countries. Cheaper tobacco includes dark air-cured or cigar type leaf and the lower grades of the popular types. On the other hand specific tax rates place a relatively higher burden on lower quality tobacco and provide a more favorable competitive position to more costly tobacco like the higher grades of flue-cured and burley.<sup>64</sup> Considering the current state of taxation world-wide, it is observed that price and tariff measures favor developing countries as sources of supply.<sup>65</sup>

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<sup>64</sup>Miller, "Pricing."

<sup>65</sup>USDA, FAC FT3-77, p. 1.

A factor which may affect future international tobacco marketing is the emergence of new political alignments which can expand further the already widespread practice of preferential treatment of leaf. Exporting countries which are members of economic groups of nations or which have bilateral trade agreements with others usually enjoy a ready market for their produce at special terms like reduced duty rates.<sup>66</sup> The exports of these countries have an advantage as they compete with leaf from non-member nations. The policy of certain countries to require import licenses usually coupled with advance deposits also restrict trade. Generally, importers prefer to buy from countries where exports are exempt from licensing. Other measures which serve as barriers to world trade are import quotas and foreign exchange regulations.<sup>67</sup> Some countries want as much hard currency as possible to stay in its reserves and to achieve this they limit imports of non-essential items including tobacco.

The avid promotion of tobacco exports by some countries is a factor which encourages greater volume of trade. Export promotion is done through various means including the manipulation of the internal tax system and the regulation of domestic use to increase the amount of tobacco for exports. Subsidies to farmers is another way of encouraging foreign sales. These may be in the form of input subsidies, favorable investment loans, and tax reductions, all of which are designed to help growers to produce more, thereby increasing the base for exports.<sup>68</sup>

It is expected that future world trade patterns will be similar to the past, and the proportion of tobacco production that is traded internationally

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<sup>66</sup>Reimund and Wynn, p. 18.

<sup>67</sup>Miller, Export Incentives.

<sup>68</sup>Shepherd, p. 29.

will not change significantly. Increases in exports will come from predominantly non-traditional sources as current trends indicate that they are the ones who will meet the increasing world use of tobacco. If the tight situation of the most popular leaf types continues in the future then the "new" exporters will assume even greater importance. In the event of a shortage, resulting in traditional suppliers' inability to meet the demand, manufacturers everywhere will compete for leaf, particularly the high-quality types, and they will be forced to look for as many sources as possible. As manufacturers buy tobacco from non-traditional suppliers, they may incur increased purchasing and shipping costs and they may try to recover these increases by raising the price of tobacco products.<sup>69</sup>

China may become a major exporter in the future and considering reports that the quality of its tobacco is good, it will not have any trouble finding customers. Some countries like India and Brazil may not be able to maintain their current share in the world market because of increasing domestic demand which leaves less leaf for sale abroad. Several countries, namely the Republic of Korea, Argentina, Malawi, Zambia, Tanzania, and Pakistan have the potential to increase exports.<sup>70</sup>

Import patterns are not expected to change much in the future. The rise in import demand of developing countries will be limited because most of them are also leaf producers. North African and Middle Eastern countries are likely to import more as domestic standards of living increase. Imports of the European Economic Community may increase slightly as membership expands and tariff regulations become more agreeable.<sup>71</sup>

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<sup>69</sup>Ibid., p. 61.

<sup>70</sup>Ibid., p. 62.

<sup>71</sup>Ibid.

There will be an overall increase in prices paid to farmers and exporters of flue-cured, burley, oriental, and dark air-cured or cigar tobacco leaf. It is forecast that by 1984 prices of leaf will be 25 percent of current levels. The prices of oriental tobacco will increase the most because supplies of this type are bound to be scarce. Flue-cured and burley prices will also increase but not as much as oriental because there is a better chance of growing these types. Dark air-cured will exhibit the lowest increase in prices due to the slow rate of increase in the output of cigars.<sup>72</sup>

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<sup>72</sup>Ibid., pp. 67-68.



PART II

THE PHILIPPINE SITUATION AND OUTLOOK

## CHAPTER 8

### PAST AND FUTURE PRODUCTION AND CONSUMPTION

Tobacco has been an important crop in the Philippines as early as the times of Spanish colonization of the country. Tobacco was introduced 400 years ago by Augustinian friars who brought the seeds all the way from Mexico and since then the cultivation of this plant has widely spread. In the 1780's the Spaniards established a government monopoly on Philippine tobacco and this turned out to be quite profitable, enabling the colonial government to finance its own existence there and stop relying for support on financial aid from Mexico. Today the tobacco industry is, as in the past, a good source of revenue for the government as well as for a great number of farmers, workers, and families connected with it. Through exportation, this industry is also fast becoming one of the major sources of foreign exchange for the Philippines. Due to its important role as an employer of labor and earner of both domestic and foreign currency, the tobacco industry has become an area of increasing concern and opportunity in recent years.

The trend of past tobacco production in the Philippines has been very erratic as can be observed from Table 12. The great variations in the year to year output are attributed to the effects of weather and to changing tobacco hectarage. In 1971, Philippine production dropped by 29 percent from the previous year's level and in 1972 it again decreased by 31 percent. Tobacco output recovered in 1973 and 1974 registering 57 and 3 percent increases, respectively. However the 1975 cigar leaf crop was a disaster causing total production to decline by 16 percent. The 1976 harvest was

TABLE 12

Philippine Production of Tobacco by  
Leaf Types, 1970-1976

(Thousand metric tons)

<u>Year</u>	<u>Flue-Cured</u>	<u>Burley</u>	<u>Oriental</u>	<u>Cigar-Type</u>	<u>Total</u>
1970	42.0	1.8	---	55.0	98.8
1971	30.0	2.5	---	38.0	70.5
1972	25.3	2.8	---	20.4	48.5
1973	25.6	5.0	---	45.5	76.1
1974	29.8	11.5	0.9	36.3	78.5
1975	33.9	13.0	1.0	18.6	66.3
1976	47.9	7.0	0.5	33.6	89.0

Source: U.S. Department of Agriculture Foreign Agricultural Service,  
Foreign Agriculture Circular, various issues, 1971-1977.

bigger than the previous year's by 3.4 percent despite the setbacks in burley and oriental leaf production as a result of floods that hit the areas growing these types of leaf.<sup>73</sup>

Flue-cured, locally known as Virginia, and the native cigar or dark air-cured type are the most popular types of leaf produced in the Philippines. Traditionally, the native cigar type accounted for a larger proportion of total hectarage and output but recent years have seen the wider cultivation of flue-cured tobacco. Output of flue-cured leaf declined from 1970 to 1972 but has been increasing since 1973 until 1976. On the other hand, the levels of production of the cigar type in this decade exhibit severe inconsistencies. There was decreasing output from 1970-1972, then a 123 percent increase in 1973, a 20 percent decline in 1974, and a further decrease of 21 percent the next year. In 1976, the cigar type crop rose by 81 percent. Burley tobacco is also produced in increasing amounts, however, floods destroyed much of the 1976 crop resulting in a sharp decline in output. Oriental tobacco production was started in 1974 and farmers are being encouraged to grow more.

Despite the efforts of the government to boost production through higher support prices, the USDA forecasted that flue-cured output in the Philippines will decrease by 17 percent in 1977. Such expectation is due to the implementation of a change in the grading system of leaf which is anticipated to reduce production. It is also forecasted that the 1977 production of the native cigar leaf will return to production levels near the 1970-1974 average of 44 thousand tons. Burley production is also expected to approach the 1975 level of 13,000 tons. Overall, it is predicted that Philippine

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<sup>73</sup>USDA, FAC FT7-76, p. 3.

production in 1977 will decline by 8 percent, but will steadily increase thereafter until 1980.<sup>74</sup>

Like several other countries the Philippines does not have statistics on tobacco consumption but looking at the trends in cigarette production and imports, it can be safely deduced that domestic consumption also follows a generally increasing trend. The USDA shares the same view as it forecasted that cigarette output will increase by 4 percent per year until 1980.<sup>75</sup> Philippine cigarette production data from 1970 to 1976 are presented in Table 13.

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<sup>74</sup>Ibid.

<sup>75</sup>USDA, FAC FT3-76, p. 8.

TABLE 13

## Philippine Cigarette Output from 1970-1975

(Billion pieces)\*

<u>Year</u>	<u>Cigarette Output</u>
1970	39.7
1971	42.0
1972	45.8
1973	51.2
1974	41.5
1975	47.0
1976	51.6 (projected)

\* A piece is a single stick or column.

Source: U.S. Department of Agriculture Foreign Agricultural Source,  
Foreign Agriculture Circular, various issues, 1971-1976.

## CHAPTER 9

### PAST AND FUTURE PERFORMANCE IN EXPORTS AND IMPORTS

The Philippines is one of the major tobacco exporting countries. In 1976 it was the 13th leading exporter of unmanufactured leaf. However, the trend in exports is characterized by fluctuations reflecting the ups and downs in the levels of production and thus available supplies for sale abroad. Table 14 presents the exports of the Philippines from 1970-1976 and gives an indication of the year to year fluctuation. The low level of foreign sales in 1976 is attributed to the small harvests in 1975 caused by very poor weather. Despite such past performance, the USDA predicts an increase in Philippine tobacco exports in the future.<sup>76</sup>

The native cigar type and flue-cured Virginia are the two types of leaf exported by the Philippines. In the past the native cigar type comprised all of the tobacco sold abroad but since the 1960's the country has become a prominent supplier of flue-cured leaf to other countries. The amounts of cigar leaf exported have shown marked variability in the 1970's. In contrast, exports of flue-cured from 1970-1976 have followed a steady trend, but one of decline, which may be attributed to the increasing domestic use of this type of leaf. Although the cigar type leaf is exported in greater quantity, the revenue earned from sales of each type of leaf do not show as wide a disparity because flue-cured tobacco has a higher price in the export market. Table 15 presents the export prices of flue-cured and cigar leaf

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<sup>76</sup>USDA, FAC FT3-77, p. 4.

TABLE 14

## Quantity and Value of Philippine Exports of Tobacco by Leaf Type, 1970-1976

Year	CIGAR TYPE		FLUE-CURED		TOTAL	
	Quantity (Thousand metric tons)	Value (Million US dollars)	Quantity (Thousand metric tons)	Value (Million US dollars)	Quantity (Thousand metric tons)	Value (Million US dollars)
1970	20.1	a	18.1	a	38.2	a
1971	28.1	12.7	17.9	2.5	46.0	15.2
1972	24.0	12.6	14.2	3.4	38.2	16.0
1973	20.8	18.5	12.8	7.8	33.6	26.3
1974	21.9	17.6	12.3	12.2	34.2	29.8
1975	27.7	20.6	10.4	13.2	38.1	33.8
1976	20.9	16.1	6.9	11.4	27.8	27.5

a - not available

Source: U.S. Department of Agriculture Foreign Agricultural Service, Foreign Agriculture Circular, various issues, 1971-1977.



TABLE 15Export Prices of Cigar Type and Flue-Cured Tobacco,  
1972-1976

(FOB US dollars/pesos per kilogram)

<u>Year</u>	<u>Cigar Tobacco</u>		<u>Flue-Cured</u>	
	<u>US Dollars</u>	<u>Pesos</u>	<u>US Dollars</u>	<u>Pesos</u>
1972	0.52	3.49	0.24	1.61
1973	0.89	6.01	0.61	4.11
1974	0.80	5.47	0.99	6.68
1975	0.75	5.44	1.27	9.21
1976	0.77	5.75	1.64	12.19

Source: Republic of the Philippines Department of Agriculture, Bureau of Ag. Economics.

from 1972-1976. The major buyers of Philippine tobacco are the United States, Spain, Japan, West Germany, and France. The Philippines also supplies great amounts of leaf to the Netherlands, Belgium and Luxemburg, Puerto Rico, Afars and Issas, and Singapore. Several other countries also buy tobacco from the Philippines but they purchase in relatively small volumes.

The Philippines also import tobacco particularly the flue-cured, burley, and oriental types necessary for the manufacture of cigarette blends popular in the country. Compared to exports, the quantity of leaf imports is small; the average imports in the 1970's are a mere 16 percent of the average exports for the same period. Imports have been generally increasing and this indicates the rising consumption of leaf in the Philippines. An idea of how Philippine imports increased in the 1970's may be obtained from Table 16. As demand increases in the coming years, the amount of leaf that manufacturers will have to buy from foreign suppliers will also increase, unless the domestic production of the cigarette types of tobacco is intensified. The bulk of Philippine imports comes from the USA, Taiwan, and Cyprus.

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<sup>76</sup>USDA, FAC FT3-77, p. 4.

TABLE 16

## Quantity and Value of Philippine Imports of Tobacco by Leaf Type, 1970-1976

Year	FLUE-CURED		OTHER CIGARETTE TYPES		TOTAL	
	Quantity (Thousand metric tons)	Value (Million US dollars)	Quantity (Thousand metric tons)	Value (Million US dollars)	Quantity (Thousand metric tons)	Value (Million US dollars)
1970	a	a	a	a	4.4	a
1971	a	a	a	a	2.7	a
1972	3.3	5.4	1.3	2.6	4.6	8.0
1973	4.4	4.8	1.6	3.3	6.0	8.1
1974	6.6	11.7	1.2	3.2	7.8	14.9
1975	4.0	10.6	2.1	7.2	6.1	17.8
1976	7.7	22.0	1.6	6.8	9.3	28.8

a - not available

Source: U.S. Department of Agriculture Foreign Agricultural Service, Foreign Agriculture Circular, various issues, 1971-1977.

## CHAPTER 10

### THE ROLE OF GOVERNMENT

The Philippine government participates actively in the affairs of the tobacco industry. The Department of Agriculture through its Bureau of Plant Industry Tobacco Division supervises the government efforts to improve production in the country. Two other agencies supervise the industry: the Philippine Tobacco Administration (PTA) for cigar tobacco and the Philippine Virginia Tobacco Administration (PVTa) for cigarette types.<sup>77</sup> Both these agencies have geared their activities toward attaining several objectives including expansion of the total area planted to tobacco, increasing productivity, upgrading the quality of Philippine grown leaf, improvement of tobacco marketing, and increasing the total export earnings from tobacco. These agencies have research departments, the Philippine Tobacco Board for the PTA and the Philippine Virginia Tobacco Board for PVTa, to undertake tobacco research, development, and promotion. They encourage greater production by providing sufficient financing, under the supervised credit scheme, to the farmers. Moreover, knowledge of the proper and scientific culture of tobacco, use of inputs like fertilizer, and the proper marketing methods are also extended to them. One of the priorities in the Philippines today is the production of more oriental tobacco because this will decrease

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<sup>77</sup> Adolfo C. Necesito, "The Status, Problems and Prospects of the Philippine Tobacco Industry," paper presented at the Workshop on National Priorities in Philippine Agriculture, UPLB Campus, September 24-29, 1973.

Philippine dependence on foreign sources and enable the country to supply the export market as well.<sup>78</sup>

To improve the marketing of tobacco, particularly of the native cigar type which fetches a lower price in the market than flue-cured tobacco, the PTA has established a tobacco auction floor. This is designed to facilitate the flow of tobacco from the growers to the traders and eliminate the middlemen who have taken advantage of farmers in the past through such practices as short charging, underweighing, and downgrading.<sup>79</sup> The Philippine Tobacco Board was also reorganized and given powers to fix floor prices for Philippine cigar leaf. The PTA and the PVTB encourage the production of higher quality leaf by offering a premium to farmers if they produce the better grade of tobacco. Both agencies have agricultural research programs designed to come up with improved strains of leaf. They have also sought to lower pesticide residues in plants to enhance quality. They also fund researches on tobacco conducted in several universities and experiment stations in the country. For example, the Philippine Virginia Tobacco Board is currently undertaking a joint research and training program with the college of agriculture of the University of Philippines at Los Banos.<sup>80</sup>

These agencies also develop and recommend policies and strategies about the development of the export trade for Philippine tobacco. In coordination with other government agencies and the private sector, they have promoted trade to other countries. Lately, the Philippines has been eyeing the socialist countries in Eastern Europe and Peoples' Republic of China as

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<sup>78</sup>Bernardo C. Vargas, "The Philippine Cigar Leaf Tobacco Industry," Industrial Philippines, September 1976, pp. 15-21.

<sup>79</sup>Ibid.

<sup>80</sup>Necesito.

buyers of Philippine leaf. They also regulate the importation of leaf; Filipino manufacturers may import only upon the approval of the PVTA and at a ratio of one kilogram to four kilograms of local flue-cured leaf they purchase.<sup>81</sup> This regulation is aimed to strengthen the flue-cured tobacco production and limit imports and loss of foreign exchange.

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<sup>81</sup>Presidential Decree No. 62.

## CHAPTER 11

### DIRECTIONS FOR THE PHILIPPINE TOBACCO INDUSTRY

The future looks promising for the Philippines as an international supplier of leaf with world consumption and imports expected to increase. The prospects may even be better if the tight supply situation for the cigarette types continues. However, even if a leaf surplus occurs, exports may not suffer substantial decline because the Philippines' clientele are mostly the traditional importers of leaf. Nevertheless, attempts must still be made to increase exports to these countries and spread sales to other importing nations as well.

The current export performance can be greatly improved by producing more in order to have a larger amount of supplies for sale abroad. Greater governmental efforts to entice farmers to grow more tobacco through financing and improved marketing programs may facilitate the attainment of the greater production goal. The minimization of the ill effects of weather on yield is one area which merits a closer look both by the government and research institutions in the country. It is imperative that methods to control the effects of weather be determined and disseminated as soon as possible to the farmers. Considering that the Philippines is one of the favorite pathways of Pacific typhoons this is indeed a formidable task but absolutely necessary if future levels of output must follow an increasing trend. The stabilization of harvests may give the importing countries the indication that the Philippines is a reliable supplier of leaf.

The Philippines is likely to earn more foreign exchange if it exports more of flue-cured than native cigar tobacco, since the former is priced higher in the international market than the latter. This calls for greater production of flue-cured leaf through increased provision of incentives such as financing and support prices if necessary. However, increasing the acreage of flue-cured tobacco must not be done at the expense of the native cigar type. The Philippine cigar tobacco is known all over the world and it has a regular market in the United States and Europe. Future demand for dark air-cured cigar leaf is expected to increase though slowly, but this can have a favorable effect on Philippine sales since Philippine leaf is one of the "name" cigar tobaccos in the market. Therefore, production of the cigar types must also be increased or at least maintained. The Philippines should also grow more of burley and oriental not only to supply the increasing need of domestic manufacturers but so that it can become a net exporter and take advantage of the forecasted increase in world demand for these types of leaf. Greater production and exportation of burley and oriental tobacco mean greater reserves of foreign exchange in the Philippines. The Philippines should continue seeking other importers of tobacco aside from its current buyers. The country should look into the viability of exporting to North Africa and the Middle East where importation is expected to expand significantly.

The quality of Philippine leaf must be high if it should be popular with importers. Although the country produces some leaf comparable in quality with the best tobacco coming from the rest of the world, there is still much room for improvement particularly with the flue-cured, burley, and oriental types. Specifically, the tar and nicotine contents must be reduced without sacrificing the taste, and the DDT and other pesticide



residues in the leaf must be minimized to internationally acceptable levels.

Philippine performance, domestically and internationally, can also be improved by closely studying the global tobacco situation and making timely and accurate forecasts of future world supply and demand conditions. It is not improbable that unforeseen circumstances in the future can result in unfavorable deviations from the current trends of tobacco production and consumption. Such events should be properly anticipated so that the appropriate adjustments, especially in production, can be done accordingly. If the outlook for world supply, demand and trade holds, and the Philippines attains these domestic and export objectives, then the country may have one of its greatest income earners in the tobacco industry.

## CHAPTER 12

### PRIORITY AREAS FOR RESEARCH

The successful implementation of the directions for the Philippine tobacco industry that was presented in Chapter 10 requires research on both tobacco production and marketing. It has been noted that studies on tobacco marketing in the country have lagged behind research on production because past government efforts had been directed toward solving the problem of low productivity. Now that productivity is increasing, research on tobacco marketing becomes equally important.

In 1973 Deomampo noted that studies on tobacco marketing in the Philippines up to that time had all been conducted at the farm level and that no study had been made on the functions related to the performance of marketing activities. He also listed the following areas for research on tobacco marketing: market structure, marketing channels, marketing costs and margins, marketing facilities and organization, foreign trade and government policies. He classified foreign trade into exports and imports and he pointed out that under exports researchers should look into the world demand for tobacco, the share of the Philippines in the world market, ways by which the Philippines can improve the quality of its tobacco, the country's competitive position in the world market, the possibility of diversifying the Philippine export market, ways of stabilizing the foreign exchange from tobacco, and the consequences of foreign trade policies of the importing countries to Philippine exports of tobacco. Under imports he suggested analyzing the feasibility of

substituting domestically grown tobacco for leaf imports which are used for blending cigarettes.<sup>82</sup>

Although it has been five years since the above areas for research were presented, they are still relevant and important, and research must still be done on them. However, it is necessary to assess first how far research, if any, on tobacco marketing, particularly on foreign trade, in the Philippines has progressed since 1973 and then concentrate future work on aspects which are more important and/or where very little or no study has been done at all.

From the preceding discussion of world production, consumption, trade and prices and Philippine objectives, performance and capabilities, it appears that currently there are five priority areas for research on the foreign trade aspect of tobacco marketing in the Philippines. These areas and the specific objectives for conducting studies under each may be summarized as follows:

Areas:

- A. Pricing in the international market.
- B. The effects of tariff policy in importing countries on Philippine export performance.
- C. Identifying market areas where the Philippines have a comparative advantage.
- D. Opportunities for developing a differentiated market for Philippine tobacco, especially cigar-type leaf.
- E. Probable effects of changes in US production or export policy on the Philippine tobacco industry.

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<sup>82</sup>Narciso R. Deomampo, "Priority Areas for Tobacco Marketing Research," paper presented at the Workshop on National Priorities in Philippine Agriculture, UPLB campus, September 24-29, 1973.

Objectives:

## Area A

1. To identify the parties that set international tobacco prices.
2. To identify the factors that determine the level of world tobacco prices.
3. To determine how the different factors influence tobacco prices.
4. To determine specific pricing policies or patterns, e.g., price leadership in the international market.
5. To determine and analyze the implications of the world pricing system to the Philippine tobacco industry.

## Area B

1. To determine the tariff policy in every country that imports or may import Philippine tobacco.
2. To analyze how these different tariff regulations affect the volume of Philippine exports to the different buying countries.
3. To devise ways by which the Philippines can solve the problem of restrictive tariff policies in importing countries.

## Area C

1. To identify areas where the Philippines can promote or increase exports.
2. To determine the viability of promoting or increasing exportation to these countries.
3. To gather relevant and detailed information on the countries where the Philippines have a comparative advantage.
4. To develop strategies for tapping these promising markets.

#### Area D

1. To identify the market for Philippine cigar tobacco.
2. To determine the degree of differentiation in favor of the Philippines in these markets.
3. To determine what factors determine buyers' preference for Philippine cigar tobacco.
4. To determine ways by which the market can be differentiated or the degree of differentiation strengthened.
5. To assess the possibility of expanding the differentiated market.

#### Area E

1. To determine historical and current US production and export policy.
2. To anticipate all possible directions of future US production and export policy.
3. To determine and analyze the implications of all possible US policy changes to Philippine export performance.
4. To determine ways by which unfavorable effects of future US policy changes to the Philippines can be avoided or minimized.

Research on these priority areas is necessary in order to increase Philippine exports of tobacco and enable the country to gain a larger share of the international market and stabilize or increase its foreign exchange earnings from sales of unmanufactured leaf abroad.

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PROSPECTS FOR THE PHILIPPINE TOBACCO INDUSTRY  
GIVEN THE WORLD SITUATION AND OUTLOOK

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AN ABSTRACT OF A MASTER'S REPORT

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Nearly all countries of the world sell and/or buy tobacco so there is a general interest in the state of international trade of unmanufactured tobacco. Recent developments such as shortage of certain types of leaf and increase in prices heightened current interest and led some to speculate about prospects for tobacco in the future.

This report has two objectives: first, to review literature on international tobacco trade with special emphasis on trading relations of participants, supply and demand, and trends in world trade. Second, to review Philippine participation in international tobacco trade and assess prospects for the country's further participation.

World tobacco production has been following a generally increasing trend. In 1976 the leading producers of leaf were the People's Republic of China, the USA, India, the USSR, Turkey, and Brazil.

Flue-cured, burley, and oriental are the major commercial types of tobacco due to the world-wide popularity of blended cigarettes. In recent years increases in production of these types of leaf were less than the increases in demand, thus generating an upward pressure in prices.

There is a lack of world consumption data so trends in consumption are deduced from long-term trends in production and trade in tobacco and tobacco products. World output of tobacco products has been increasing indicating a similar pattern for tobacco use. Tobacco consumption is increasingly in the form of cigarettes.

International trade in tobacco expanded significantly after World War II. About one-fourth of world tobacco production is exported. The leading exporting countries in 1976 were the USA, Brazil, Turkey, India, and Bulgaria. At present, developing countries account for a large share of the export market.

In 1976 the leading importing area was the European Economic Community. The major importing countries were the United Kingdom, West Germany, the USA, Japan, and France.

Insufficient attention has been given to international price analysis in studies in world tobacco situation and outlook. Since 1972 world tobacco prices have gone up rapidly due to general inflation, rising consumer demand, changing consumer taste and preferences and intensified competition among manufacturers.

The production of tobacco depends on several factors which include weather, prices, the cost of labor, adoption of modern technology, the supply of fertilizer, the price of oil, and the attraction of other crops. World tobacco production until 1984 is forecast to increase by 3.25 percent a year in the future (assuming constant 1975 "real", i.e., inflation adjusted, producer prices).

Factors that determine the level of tobacco consumption include population, the price of tobacco products, income, increases in taxes, anti-smoking movements, the stance of governments, advancements in leaf-saving technology and the role of tobacco supplements. World demand for tobacco leaf until 1984 is forecast to increase by 3.5 to 4 percent every year (assuming constant 1975 "real" prices).

The volume of international trade in tobacco is affected by tariff levels, political alignments, import licenses, foreign exchange regulations, and promotion of exports by governments. World trade patterns are not expected to change much in the future.

Prices paid to growers and exporters of flue-cured, burley, oriental, and dark air-cured are forecast to increase and are anticipated to be 25 percent above current levels by 1984.

Philippine tobacco production exhibits an erratic trend. Consumption of tobacco in the Philippines is consistently expanding as reflected by the steadily increasing trend of cigarette production in the country.

The export performance of the Philippines is characterized by fluctuations. Flue-cured and cigar-type tobacco are the types of leaf exported by the country. The major buyers of Philippine tobacco are the USA, Spain, Japan, West Germany, and France.

Tobacco imports by the Philippines are generally increasing. The country imports mainly flue-cured, burley, and oriental leaf. The bulk of Philippine imports comes from the USA, Taiwan, and Cyprus.

Philippine earnings from tobacco exports can be improved by producing more leaf, particularly the flue-cured type, improving tobacco quality, promoting exports to other countries, and monitoring the developments in the international tobacco market. In order to achieve such measures, research must be undertaken specifically on the foreign trade aspect of tobacco marketing in the Philippines.