

Agricultural Outlook Forum

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FOREIGN TOBACCO OUTLOOK

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U.S. Leaf Exports:

Last year U.S. exports of unmanufactured tobacco totaled 221,510 tons and were valued at over \$1.5 billion. This reflects a slight decrease in export volume but a 12 percent increase in value.

Flue-cured shipments were up 3 percent in volume to over 116,000 tons, and up nearly 6 percent in value at \$832 million. Exports to the European Union, which is our leading export market for flue-cured, were lower in 1997, while shipments to Japan and Turkey were higher.

Burley exports in 1997 were up 9 percent to almost 57,000 tons, and were 20 percent higher in value at \$455 million. Markets which showed growth in 1997 include the EU, although relatively slight, Turkey, Thailand, Malaysia, and the Philippines. Burley markets which showed a decline in trade in 1997 included: Japan and Switzerland.

Looking at some of the other tobacco types. Dark fire-cured, Maryland, and shade leaf wrapper all showed an increase in exports in 1997. Stem exports were down about 27 percent.

U.S. Leaf Imports:

U.S. leaf imports for consumption climbed quite dramatically over the last several years. Imports rose from about 197,000 tons in 1988 to over 460,000 tons in 1993. However, in 1994 and 1995, they plunged by nearly half, but rebounded somewhat in 1996 to around 303,000 tons.

Imports in 1997 were down about 3 percent from 1996 totaling about 294,000 tons, but were up in value nearly 18 percent at \$1.1 billion.

Imports were higher for just about all leaf types in 1997 with the exception of Turkish imports and stems. Flue-cured imports were up 9 percent to nearly 65,000 tons, while burley was up 9 percent to over 61,000 tons.

Taking a quick look at the current status of the Tariff-Rate Quota. Through February 8th, about 29 percent of this year's quota of 151,200 tons has been filled. You can see that the

Argentina as well as the residual allocation are nearly full, while the Malawi allocation is about 67 percent full.

World Tobacco Situation:

Brazil:

Brazil's total leaf output is expected to reach about 536,000 tons this year, down 10 percent from last year's 597,000 ton level.

Much of this decline can be attributed to an expected reduction average yields. The 1998 crop has been negatively effected by excessive rains and lower than average temperatures. In addition, hail damage is being reported as being above the historical average.

Yields in the southern region are expected to be about 1,817 kg/ha (1,621 lb/ac), 10 percent lower than last year.

Area planted is forecast to decline slightly but is expected to remain nearly last year at around 324,000 hectares (800,604) acres.

Flue-cured output in 1998 is forecast to decline considerably to around 380,000 tons, down about 11 percent from 1997 when output reached 429,000 tons.

Weather related factors account for this drop as planted area stays near last year.

Brazil's flue-cured exports are expected to decline to near 230,000 tons, 6 percent lower than last year. Lower leaf availability is being given as the main reason for this decline.

Burley output is forecast to decline 10 percent, reaching about 90,000 tons. Burley exports are forecast to reach 40,000 tons, 9 percent lower than in 1997.

Argentina:

Argentina's leaf output is forecast to total slightly over 129,000 tons this year, up 5 percent from 1997.

We recently revised our forecast for 1998. Originally we had production climbing to nearly 143,000 tons, with flue-cured reaching 88,000 tons, and burley increase 24 percent to over 44,500 tons. However, extreme weather conditions due to El Nino have caused us to revise our production forecast.

Most of the revision is with burley tobacco, particularly in the state of Misiones. This is where the weather has caused the most problems. Heavy rains from October through December have caused considerable plant loss estimated at nearly 30 percent. The burley crop in Tucuman has not been impacted as much. However, some loss has been reported. Leaf quality, however, is reported to be good.

We are now estimating that the 1998 flue-cured crop will total about 87,000 tons, up about 15 percent, while burley output will come in at about 35,000 tons, down about 4 percent from last year.

Flue-cured plantings are up about 13 percent, and burley is up about 14 percent on account of favorable grower returns in 1997. Grower prices are expected to be close to last year's level for burley, but prices for flue-cured are expected to be lower.

There still exist some uncertainty over the Special Tobacco Fund and how proposed changes in this fund will impact production. The STF continues to pay for about 30-40 percent of the grower price. However, there is quite a bit of pressure to change this program. We suspect that over the next several year STF assistance is likely to decline and result in lower Argentine grower prices and lower grower returns.

Total leaf exports this year are expected to reach 56,000 tons, down about 6 percent from 1997. We originally had exports reaching a record high in 1998, but with the weather problems we are now expecting exports to be down somewhat.

Flue-cured exports are forecast at 40,000 tons, about 2,000 tons less than in 1997, while burley is forecast at 14,000, down about 1,000 tons from last year.

China:

China's tobacco production is forecast to total over 2.7 million tons in 1998, about 22 percent lower than in 1997.

In past years we say planted area to tobacco grow fairly steadily since farmers were able to make more money with tobacco than many other crops. However, the tobacco monopoly is working to discourage the production of lower quality tobaccos.

In July, the Chinese Government passed new regulations to control total tobacco plantings. The State Tobacco Monopoly Administration reported that under the new regulations leaf production in 1998 will fall nearly 40 percent to 1.7 million tons.

In the past, however, it has been difficult for the Central Government to make sizable cuts in tobacco production since it's production is a major source for tax revenue for the provinces. That is why our estimate shows a 20 percent decline the first year.

The new regulation will give the Central Government better control of tobacco production through the issuance of permits to grow tobacco and by requiring plans for the amount of land planted to tobacco be approved by the Central Government.

Under the new regulations, planted area to tobacco in 1998 is expected to fall nearly 25 percent to 1.5 million hectares.

China has made advances in recent years as a significant leaf tobacco exporting nation. However, after rising to nearly 74,000 tons in 1994, exports have fallen off, but rose to 85,000 tons in 1997.

Exports are forecast to reach about 100,000 tons in 1998, and China has a goal of exports by the year 2000 of 150,000 to 200,000 tons.

Zimbabwe:

Zimbabwe's area planted to flue-cured has steadily increased over the last 5 years. And for 1998, planted area is again expected to rise reaching 97,000 hectares, about 4,000 hectares more than last year.

Zimbabwe's flue-cured production target for 1998 has been set at 220,000 tons, 18 percent more than last year. Production in 1997 reached slightly over 187,000 tons.

Losses last year were above average due to adverse weather conditions and some problems with mold.

These factors along with sufficient world flue-cured stocks pushed prices lower in 1997. Prices received last year averaged US\$2.33 per kilogram, down from US\$2.94 in 1996.

Given better weather conditions this year, yields, crop quality and prices are expected to improve in 1998.

Rainy conditions over the last two years have provided sufficient water reserves and should more than account for any dry weather conditions which occur on account of El Nino.

Flue-cured exports in 1998 are expected to increase to nearly 187,000 tons, an increase of 9 percent from 1997.

Malawi

Malawi's burley output is forecast to reach 146,000 metric tons in 1998, up 9 percent from last year when production reached almost 134,000 tons.

Increased output by smallholder growers has had a direct impact on Malawi's burley output over the last 3 years.

It is estimated that over 150,000 smallholders grow tobacco in Malawi with a combined total output of nearly 50,000 tons. The size of the smallholder operation generally averages about ½ an acre.

In addition to the smallholders, there are about 45,000 small and large estates involved in tobacco production in Malawi.

Improved export prospects are also expected to push output higher this year.

Exports are vital to Malawi's tobacco industry with nearly 95 percent of the tobacco crop going into the export market, and nearly 70 percent of the country's foreign exchange earnings being generated by tobacco trade.

Malawi's burley exports are expected to reach about 85,000 tons in 1998, up 6 percent from 1997. The leading export markets for Malawi's leaf include Europe, Asia and the United States.