WORLD TOBACCO OUTLOOK

Kenneth E. Howland, Deputy Director for Marketing

Tobacco, Cotton & Seeds Division, FAS/USDA

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The world outlook for tobacco in 1982 indicates continued steady growth in consumption, a moderate expansion in trade and a further reduction in stocks held by manufacturers in major consuming countries. In short, it appears reasonable to expect the long term trends to continue next year.

Output of cigarettes - the main product consumed - is expected to grow at an overall rate of about 2 percent, with the rate of increase in the more advanced developing countries of Asia and Latin America exceeding this pace. Cigarette consumption in many of the developed countries may show little growth; most of any increases in their output will be for export to developing countries.

Actual leaf usage is expected to increase by less than 2 percent, as cigarettes gain in popularity relative to other products and cigarette manufacturing efficiencies continue to improve worldwide.

World leaf supplies entering 1982 are expected to be in fairly close balance with anticipated requirements. Estimated beginning stocks of 5.7 million tons (dry weight) - the lowest level in several years - would equal about 110 percent of anticipated usings. Leaf production in 1982 will have to be maintained at least at the 1981 level if a sharper than expected drawdown in stocks is to be avoided.

Although the overall supply of tobacco of all types and qualities may be adequate, shortages of high quality cigarette leaf - especially of burley - may persist as blended cigarettes continue to gain in popularity relative to other types.

World exports of unmanufactured tobacco are expected to increase only slightly from the 1981 estimated level of about 1.3 million tons, as continuing high interest rates and cost pressures encourage manufacturers to draw down leaf inventories and reduce tobacco content per cigarette.

During the past 10 years world leaf production increased at an average rate of a little over 1 percent; consumption grew by nearly 2 percent and leaf exports expanded on average by about 3 percent per year. Within this framework of overall stable growth, developing countries have gained larger shares of production, exports, and consumption relative to the shares held by the developed and centrally-planned countries.

For example, developing countries which produced 40 percent of the world tobacco crop in 1970, produced 46 percent last year. Their share of consumption grew from 30 percent to 33 percent and their share of exports rose from 47 percent to 57 percent of the world total during the 1970 through 1980 period.

This shift in shares has been largely at the expense of the developed countries, whose leaf production and consumption have shown little growth and whose exports have grown at less than half of the rate of the developing countries.

The United States, the leading producer and exporter among the developed countries, has absorbed a large part of the adjustment in production and exports during the past decade. For example, the U.S. share of flue-cured production fell from 31 percent in 1970 to 23 pecent in 1980, while the US share of flue-cured exports dropped from 45 percent to 29 percent of the world total.

On the products side, world cigarette output increased at a rate of 3 percent per year during the 1970-80 period, but this rate has slipped to less than 2 percent in each of the past five years. Output in the developing countries has grown at twice the world rate.

Cigarette exports, on the other hand, have more than doubled since 1970 and because modern cigarette manufacturing is highly capital intensive, exports remain largely the domain of the developed countries. Six nations - the United States, West Germany, the United Kingdom, Netherlands, Switzerland and Bulgaria - together export over one-fifth of their production and consistently account for more than eight-tenths of world cigarette exports. This pattern should hold in 1982.

The outlook for US tobacco trade next year is for a gain in exports over 1981. The size and improved quality of this year's flue-cured and burley crops could boost leaf exports to around 270 thousand tons. Export prices could be up 8 to 10 percent, pushing export value to around $1.6 billion. However, the strength of the dollar, stagnating consumption in Western Europe and Japan and the high cost of holding inventories will continue to affect demand for U.S. leaf in these traditional markets. At the same time, competition from lower cost producers, such as Brazil and Zimbabwe, will continue to chip away at U.S. market shares.

Product exports - largely cigarettes - will continue to gain. Export value in 1982 could top $1.5 billion.

U.S. imports of leaf and scrap will edge upward as domestic leaf prices rise in line with the price support formula. Imports next year could be around 180 thousand tons. Imported leaf and products are rising in price at a rate of about 18 percent. The total value of imports in 1982 could be nearly $700 million.

In sum, tobacco's net contribution to the US balance of trade in 1982 may be about $2.4 billion.

Tobacco remains one of the more closely controlled commodities world-wide. There is a high degree of government involvement in production and pricing in most major producing countries and commercial contracting is followed in others. Cigarette manufacturing is in the hands of state monopolies and a few multi-national companies. However, no major changes in foreign production, marketing and trade policies are expected to be made next year. The European Community and Japan are trying to discourage production of surplus varieties by adjusting prices and paying diversion incentives and quality bonuses. Zimbabwe last year sharply reduced its production and stocks and is expected to continue to try to keep its supplies in line with anticipated demand. The Government of Turkey has been adjusting grower prices and providing export incentives in an effort to work-off surplus stocks of oriental tobacco which have persisted since the mid-1970's. Other countries, for example Malawi, are shifting production toward varieties in strongest demand.

Production shortfalls in centrally-planned countries the past two years have restricted supplies, particularly in the People's Republic of China and to some extent in the Soviet Union. The Soviet Union is normally a major importer of leaf and cigarettes. China entered the world market for substantial imports during the past two years. Presumably, planners in these countries will take steps to try to expand production and improve utilization, but shortages in the socialist countries could be a factor in the market again next year.