The U.S. Tobacco Situation and Outlook

Thomas C. Capehart
Agricultural Economist, Economic Research Service, USDA

Prepared for
USDA Agricultural Outlook Forum
February 2000
The U.S. Tobacco Situation and Outlook

Agricultural Outlook Conference
2000
Arlington, Virginia
Cigarette Price Increases to Cover Cost of MSA and Farmers’ Trust

• The major cigarette manufacturers have agreed to pay 56 State and territorial governments about $245 billion over the next 25 years, subject to inflationary, volume and other adjustments.

• In addition, manufacturers have agreed to pay $5.15 billion over 12 years to the National Farmers’ Trust for distribution to tobacco farmers.

• These costs are the primary reason for record cigarette price increases since November 1998.
<table>
<thead>
<tr>
<th>Month</th>
<th>Price Increase</th>
<th>Total Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>January ’98</td>
<td>2.5 cents</td>
<td>$1.33</td>
</tr>
<tr>
<td>April ’98</td>
<td>5 cents</td>
<td>$1.38</td>
</tr>
<tr>
<td>May ’98</td>
<td>5 cents</td>
<td>$1.43</td>
</tr>
<tr>
<td>August ’98</td>
<td>6 cents</td>
<td>$1.49</td>
</tr>
<tr>
<td>November ’98</td>
<td>45 cents</td>
<td>$1.94</td>
</tr>
<tr>
<td>August ’99</td>
<td>18 cents</td>
<td>$2.12</td>
</tr>
<tr>
<td>January ’00</td>
<td>10 cents</td>
<td>$2.22 (Tax)</td>
</tr>
<tr>
<td>January ’00</td>
<td>13 cents</td>
<td>$2.35</td>
</tr>
</tbody>
</table>
Cigarette Wholesale Price 1990-2000 -- Including Federal Tax

$ per pack

90 92 94 96 98 00

$ per pack
Cigarette Price Indices 1998-2000

Dec 1997 = 100

Jan '00 - 179.4
Jan '00 - 151.6

Wholesale
CPI
U.S. Cigarette Consumption 1990-99

Billion Pieces

435
Monthly U.S. Cigarette Removals
1998-99

Billion Pieces


34.8  29.1
Cigarette Prices 1990-1999

$ per 1,000 Pieces

Wholesale Price Excluding Tax

$94.20

Export Price

$21.35
Grey Market Takes Off in 1998

• The large differential between the manufacturer price and export price of U.S. cigarettes, makes it profitable for independent traders to re-import U.S.-made cigarettes designated for sale outside the U.S. back into the domestic market.
• These traders pay applicable taxes and duties.
• Federal and state legislation now prohibits grey market sales.
U.S. Imports and the Grey Market

Billion Cigarettes

Grey Market
3-4.5 Billion

8.7

Estimated Size of Grey Market: Monthly Imports Less Selected Asian Countries and Base Imports

Mil. Pieces


Dec. '99 834
Black Market

- **Black market cigarettes** are defined as those that are illegally sold, whereby tariff duties and excise taxes (at either the Federal, State, or Local level) are not paid.

- Unlike grey market cigarettes, black market cigarettes do not appear in normally gathered trade or tax statistics.

- Estimates of black market imports range from 10 to 60 billion cigarettes.

- Within the U.S., smuggling of cigarettes occurs from low tax states to high tax states.
Percent of Generic and Export Cigarette Production and Foreign Leaf Content

Percent
Volume of Generic and Export Cigarette Production and Foreign Leaf Use

Bil Cigarettes | Mil. Lbs.
--- | ---

- **Foreign Leaf**
- **Export Cigarettes**
- **Generic Cigarettes**

Data points for years 88 to 98 are shown.
Tobacco Used for Cigarettes

Million Lbs.

- **Flue-cured**
- **Burley**
- **Maryland**
- **Imported**
U.S. Cigarette Leaf Imports--Declared Weight

Mil. Lbs.

Flue-cured & Burley Leaf

Oriental Stems
U.S. Cigarette Output

Billion Pieces

Output

Exports

Taxable Removals

Generics

U.S. Output of Generic Cigarettes

Percent

0  10  20  30  40  50

90 91 92 93 94 95 96 97 98 99
U.S. Cigarette Exports

Billions

Bil. Pieces

0 100 200 300

79 81 83 85 87 89 91 93 95 97 99
Flue-Cured Basic Quota Components

Mil. Lbs.

Secretary's discretion
Reserve stock adjustment
Exports (3-year avg.)
Purchase intentions
Burley Basic Quota Components

Mil. Lbs.

- Secretary's discretion
- Reserve stock adjustment
- Exports (3-year avg.)
- Purchase intentions
End