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Introduction

Chart 1

- Thank you. Good afternoon.

- My presentation this afternoon is entitled the World Outlook for Leaf Tobacco.

- What I'd like to do is look at some of the trends were seeing on the supply side with respect to the world's top producers and exporters of leaf tobacco, and then look briefly at world tobacco demand and some of the trends we're seeing with respect to tobacco consumption and then assess how that may impact the market.

World Situation

Chart 2

- Just to set the stage here you can see that flue-cured is by far the leading tobacco type grown worldwide accounting for two-thirds of the world's leaf crop. When combined with burley, these types together account for about 80 percent of the world's leaf exports. Dark tobacco accounts for about 2 percent.

Chart 3

- We see a similar situation when looking at leaf exports. Flue-cured and burley account for over 70 percent of world leaf trade, with flue-cured again the main type exported at 52 percent. Oriental tobacco is also a significant type traded accounting for nearly 20 percent of trade.

Chart 4

- Looking at flue-cured, we see that China is by far the leading producer accounting for nearly 57 percent of the world's flue-cured crop. Other top producers include Brazil, the U.S. and Zimbabwe. Nearly 80 percent of world flue-cured output is concentrated in these four countries.

Chart 5

- When looking at the major exporters of flue-cured, we can see that the four top producers also account for nearly 70 percent of the world's flue-cured exports.

Chart 6 - STAGES

- Looking at export trends for the major traders, we can see that Brazil and Zimbabwe have shown substantial upward growth, while exports by the United States are trending lower. China has also come on and is now the world's third leading flue-cured exporter. India and Argentina have remained relatively steady although showing some decline over the last few years.

Chart 7

- Shifting to burley, we see that production is not as concentrated as with flue-cured although the top four producers here account for nearly two-thirds of the world's crop. China is again the leading producer accounting for nearly 26 percent of the world's burley crop. Other top producers include the United States, Malawi, Brazil and Italy.

Chart 8

- Looking at burley exports you can see that China drops out as a top exporter, but the other top producers account for almost 70 percent of trade

Chart 9 - STAGES

- The export trends for burley aren't as pronounced as with flue-cured, but Malawi has shown substantial export growth, while Brazil has come on over the last 7 years to become the worlds' second leading burley exporter. Italian trade has shown some growth as well. U.S. trade has dropped considerably over the last 10 years and after accounting for nearly a third of the world's leaf trade 20 years ago, the United States is now the fourth leading exporter of burley behind Italy. Argentine and Thai exports have shown some growth but generally have remained fairly level.

- What I would like to do now is focus a bit on the situation in some of these countries.

<u>Outlook by Country</u>

<u>United States</u>

Chart 10 - STAGES

- We've seen considerable change in U.S. production and trade levels over the years.

- But since 1997, U.S. leaf production has declined considerably. Production quotas for both flue-cured and burley dropped 44 and 53 percent, respectively, during this period.

- Production quotas for flue and burley, which combined account for nearly 95 percent of the leaf tobacco grown in the United States, are determined by formula and take into account stock levels, purchase intentions by domestic cigarette manufacturers, and leaf exports.

- Although U.S. exports of leaf tobacco have shown a declining trend, and stock levels have been higher than optimal, a key reason for the lower quotas in the U.S. is a declining U.S. cigarette consumption and lower cigarette exports.

Chart 11 - STAGES

- You can see here that the consumption of cigarettes in the U.S. has been declining for much of the last 20 years. On the average, cigarette use has been trending about 3 percent lower each year.

- However, up until about 4 years ago, U.S. cigarette exports were growing at a fairly impressive rate which helped keep cigarette output relatively stable. Then in 1997, cigarette exports began its current downward trend, which coupled with lower domestic consumption pushed cigarette output lower.

- The trends seen for U.S. domestic cigarette use are likely to continue, and although cigarette exports have stabilized somewhat, we're not likely to see the growth we once saw in U.S. cigarette trade.

Brazil

Chart 12 - STAGES

- Looking at Brazil's leaf output and trade over the last 40 years, we see a fairly impressive growth rate for production and exports.

Chart 13

- For 2001, we show that total output declined 8 percent from 2000 to about 540,000 tons. Area planted was higher, but normal yields kept production below 2000.

Chart 14

- Looking at Brazil's flue-cured sector, output in 2001 totaled about 410,000 tons, that's down 6 percent from 2000 on about 4 percent greater acreage.

- Despite the lower production for 2001, Brazil's flue-cured exports increased about 4 percent and totaled about 285,000 tons. One factor that helped Brazilian trade is the devaluation of the Real that essentially made Brazilian leaf more competitive on international markets.

Zimbabwe

Chart 15 - STAGES

- Looking at Zimbabwe over the last 40 years, we can see a definite upward trend in production and trade. Although some tailing off has occurred recently.

- For 2001, planted area totaled about 78,000 hectares, that's about 15,000 less than in 2000.

- With lower planted area, Zimbabwe's leaf output in 2001 totaled about 200,000 tons, that's down from 245,000 tons in 2000.

Chart 16

- Flue-cured output totaled 195,000 tons in 2001, down from 237,000 tons the year prior, although better growing conditions along with higher yielding varieties pushed yields in some areas up by much as 30 percent.

- Flue-cured exports in 2001 improved to around 180,000 tons, after falling off considerably in 2000. You can see that exports are vital to the wellbeing of Zimbabwe's tobacco sector, with over 95 percent of production going into the export market.

<u>China</u>

Chart 17 - STAGES

- I've already shown the significance of China as a producer, consumer and exporter.

- And we can see here that China's planted area has grown fairly steadily over the last 40 years.

- However, over production pushed stocks to more than 3.2 million tons at the end of 1998, but efforts to bring supply and demand more in balance have been successful and production and stock levels are returning to more optimal levels.

Chart 18

- As you can see here, production has remained relatively stable over the last few years.

- In 2001, output rose slightly to about 2.6 million tons, although area planted took a slight dip.

- Flue-cured accounts for about 90 percent of output and totaled 2.3 million tons in 2001, that's up slightly from 2000.

Chart 19

- On the export side, over the last few years China has begun to make an impact on the international market.

- For 2001, exports totaled almost 115,000 tons, that's up slightly from 2000, nearly it's nearly 4 times more than 10 years ago.

- Although exports account for only about 4 percent of China's total leaf output, China has realized the importance of exports and is pursuing a more aggressive export strategy.

- China has now become the world's third leading flue-cured exporter.

Malawi

Chart 20 - STAGES

- I want to touch briefly on Malawi.

- You can see here that Malawi is a significant producer and exporter of leaf tobacco, particularly burley, and has experienced significant growth in both production and exports.

Chart 21

- Our estimates show that Malawi's burley production in 2001 totaled about 120,000 tons, that's down from about 140,000 tons in 2000.

- The strength of the Kwacha has pushed exports down somewhat, so we're showing exports at about 90,000 tons in 2001. That's down from about 96,000 tons in 2000.

World Imports

Chart 22 - STAGES

- Now that I've touched on the supply side and have given you a look at who the major producers and traders are for flue and burley, I'd like to touch on the demand side and look at trends we're seeing with respect to tobacco use worldwide.

- The world's top leaf importing nations are currently the European Union, Russia, the United States, Japan, Egypt and Turkey.

- Of these, Russia and Turkey have shown considerable growth in imports over this period, while imports by the EU have remained relatively level, although Germany has shown some growth over the last 10 years.

- Looking at the U.S., we saw considerable leaf import growth until about 1993, and then changes occurred in domestic use and in our import policies which altered import flows. Since that period, U.S. imports have remained relatively stable.

Chart 23 - STAGES

- Represented here are the import markets that have shown the most significant increase in leaf imports over the last ten years. Turkey in particular has shown the most visible increase, while you can see China has shown a substantial increase particularly over the last two years.

Global Consumption

Chart 24

- I'd like to look at cigarette consumption trends worldwide which obviously have a direct impact on the level of imports we're seeing.

- We can see that world population continues to grow at an average rate of about 1.5 percent per year. When projecting this out we see that world population could reach almost 7 billion by the year 2010.

- Now, looking at per capita consumption of cigarettes worldwide, what we've been seeing is per capita consumption falling at about the same rate as population is rising

- Economic factors and variables related to global health initiatives are key factors that impact per-capita use. And while it is likely per-capita consumption will fluctuate, I think it's safe to say that the trend will likely be for lower consumption as we continue to see initiatives geared toward lower tobacco use.

Chart 25

- What this means is that with a falling per capita consumption level, and despite an expected continued rise in world population, world cigarette consumption will likely level off to about 5 trillion pieces yearly.

- And what this means is that while gains will still be seen in leaf trade, exporters will find that the increasingly competitive nature of the market will make it more difficult for them to maintain market share.

Closing Remarks

Chart 26 - STAGES

- I think I'm going to stop about there.

- I've tried to provide you with this afternoon is an overview of the leaf industry worldwide by identifying the major types being produced and traded. The trends seen on the supply side as countries that continue to grow good quality tobacco at attractive prices are showing growth in trade.

- However, ever strengthening health initiatives worldwide are likely to continue pushing per capita cigarette consumption lower. This means that the market place for leaf tobacco will become more competitive as exporters vie for a share of what appears to be a shrinking market for leaf tobacco.

- Thank you very much.