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TOBACCO IN AUSTRALIA



FAS M-242
March 1972

**Cover pictures: Clockwise, auction
in Melbourne; tobacco on new land;
bulk storage on farm;
irrigation; soil fumigation.**

PRE FACE

Tobacco production and consumption have been a part of the Australian economy since the country was first settled by Europeans in the late eighteenth century. Smoking was an established custom of the Western World and tobacco was listed as one of the first necessities of settlers, along with food and clothing. Australia's first settlers to grow tobacco included one who had lived in America and might well have become acquainted with the tobacco industries of Maryland and Virginia. His name was Phillip Schaeffer, and he was given one of the first grants of land in Australia. Efforts to grow tobacco were undertaken within 2 years after arrival of the first settlers and the Governor directed that it be planted at the government agricultural settlement in 1821. Throughout the history of cultivation, production volume has been erratic, with ups and downs reflecting difficulties and setbacks which have resulted in varying demands for U.S. leaf. Due to the use of unsuitable lands, the appearance of disease, and the inexperience of new growers, production faltered until more recent years.

The rainfall in Australia is inadequate during the growing season and the whole crop must be grown under irrigation. By shifting to alternative areas of best soils and seasonal conditions and encouraged by government and manufacturers' support, production has gradually expanded. By 1964 the domestic crop was a major source of supply for the Australian market. Changing tastes and rising demand for lighter varieties raised the demand for flue-cured varieties beginning in about the early 1930's. Currently the majority of the tobacco crop is the Virginia variety which is all flue-cured. A small quantity of air-cured burley variety is currently being produced.

Because prices and production fluctuated widely, the State and Federal Governments have taken considerable steps to assure the viability of the industry. In addition to a high tariff protection, a stabilization plan with exceptionally high price supports and production quotas for flue-cured tobacco has encouraged the growers. Moreover, considerable expenditures on research are financed by growers, manufacturers, and the governments.

As the local industry grew, its value to Australians appeared undeniable. The contention of many Australians has long been that local production could not only satisfy the increasing demand at home but might possibly find its way into the export markets of the world.

FOREWORD

Australia was at one time the third major market for U.S. tobacco. In recent years, however, the country has developed an intensive domestic tobacco producing industry and currently depends on imports for less than half its annual tobacco requirements. Encouraged by the Australian Government, domestic production of tobacco has expanded rapidly at the expense of imports. Imports have been limited by high import duties, increasing mixing requirements of manufacturers, and other restrictive measures. Tobacco production has increased to an average of more than 30 million pounds in the past 4 years as compared to less than 10 million pounds in the last half of the 1950's. Assuming no major setback, the outlook for the Australian tobacco industry is for a production goal of around 47 million pounds by 1980.

This study is based on a recent field trip by the author and traces developments in the Australian tobacco production and trade. It is designed to keep people in the tobacco industry and in government informed of developments in countries that produce and trade in the commodity. The cooperation of Australian Government officials, representatives of the Tobacco Boards, and members of the tobacco industry are gratefully acknowledged. Assistance from the U.S. Agricultural Attache and his staff, especially Cliff De Goede, during visits with government and industry officials was invaluable.

Hugh C. Kiger,
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TOBACCO IN AUSTRALIA

By B. G. Andrews

The Australian economy has always been agricultural, and improved cultural practices through expanded research and effective extension work have led to considerable success in productivity. As in most countries these have brought about surplus production causing major problems in domestic and export trade.

In the late 1950's Australia was the third largest export market for U.S. tobacco, which represented over three-fourths of the annual leaf requirements. But in recent years domestic tobacco production and use have been expanded by government assistance, mixing regulations, and import restrictions. Both the total imports and U.S. share have been declining for more than 10 years.

Current restrictions and government policies are designed to make Australia self-sufficient in tobacco

production at prices nearly double U.S. prices. Without some concessions in the government regulations and in the absence of effective production controls, tobacco production may be expected to pyramid. Tobacco production has recently increased to about 39 million pounds for the 1970 crop compared to less than 10 million pounds in the 1950's. This steadily rising production has so far been for the domestic market resulting in greatly reduced imports. Purchases from the United States have rapidly declined and it may be expected that in the years ahead with current government policies there will be a further decline. Assuming no change in these policies and no major setback, the outlook for the domestic tobacco industry is for a production goal of around 47 million pounds by 1980.

PRODUCTION FACTORS

Farm area And practices

Tobacco is grown in a wide area covering three eastern States of Australia. Growing areas are mainly located in northern and southern Queensland, north-eastern Victoria, and northern New South Wales. Queensland produces about half the annual crop. The next largest area is in Victoria and a smaller quantity (about 8 percent) in New South Wales. The crop is successfully grown in a wide range of climatic conditions from the subtropics of north Queensland to the temperate area of Victoria, in a frost-free period of about 4 months.

Transplanting periods range from August or September in the north to October in the southern area, with completion of harvest running from January through March or early April. Late harvest in the Myrtleford district of Victoria must

be completed before the first heavy frosts.

Tobacco production is concentrated on large farm units usually specializing in the one crop. There are about 1,200 tobacco growers in Australia who harvest a total of about 25,000 to

Table 1.—Number of registered growers in Australia by States, 1967-70

State	1967-68	1968-69	1969-70
New South Wales.....	151	135	156
Victoria.....	365	360	380
Queensland.....	839	786	809
South Australia.....	—	—	—
Western Australia.....	—	—	—
Total.....	1,355	1,281	1,345

30,000 acres of tobacco. The typical tobacco farm harvests 60 to 70 acres, though the range is wide—all the way from 20 to over 200 acres.

The suitable tobacco area is limited by the availability of water for irrigation. Rainfall is not adequate or is unevenly distributed during the growing season, and practically all of the crop is grown under irrigation. Thus, the industry growing centers have developed in the suitable areas of the river valleys where regular irrigation can be utilized. In recent years the industry has expanded readily with the construction of irrigation dams on the main river systems.

Production And Yield

With increased government protective policies, Australian production has gone up rapidly. It has increased from about 3 million pounds in 1947-49 to 35 million pounds in 1969 and an estimated 39 million for 1970. Ineffective marketing quotas, high price supports, and increased mixing regulations have given growers an assured market with comparatively high per-acre returns.

Production Costs

Production costs are high. Soil fumigants and plant herbicides are generously applied to control disease and weed growth during the life of the

crop. Considerable amounts of fertilizer are also required on most farms to produce a satisfactory crop. Sprays for blue-mold and insects are essential for maximum yield and quality. Mechanization in cultural and harvesting operations has advanced rapidly.

Due to the relatively large-size farm operations, capital costs for land, buildings, machinery, and equipment are considerable. With tobacco growing a high labor-consuming crop, a large number of share-farmers are employed. Many of these are immigrant families without the capital investment to enter farming and who contract as share-tenants with landholders to grow tobacco.

Table 2.—Australian area, yield, and production of tobacco, average 1955-64, annual 1964-65 through 1970-71

Crop year	Area	Yield	Pro- duction
	<i>1,000 acres</i>	<i>Pounds per acre</i>	<i>1,000 pounds</i>
Average:			
1955-59.....	12,299	785	9,651
1960-64.....	26,780	1,003	26,856
Annual:			
1964-65.....	26,308	955	25,111
1965-66.....	23,481	1,165	27,361
1966-67.....	22,383	1,247	27,905
1967-68.....	22,967	1,076	24,721
1968-69.....	25,754	1,323	34,072
1969-70.....	26,662	1,408	37,553
1970-71 ¹	27,050	1,444	39,050

¹ Preliminary.

MARKETING FACTORS

Organization

The marketing of tobacco in Australia is highly organized, with farm marketing quotas and a price stabilization plan.

The actual sale is by auction in three established markets located at Mareeba, Brisbane, and Melbourne. Each grower's tobacco is sold separately at prices determined by the grade of each bale or lot. Growers pack the bundles of leaf (tied hands) into bales of approximately 50-200 pounds each, which are covered with cloth. These bales are numbered by grower allotment and placed on the auction floor where 1,800 bales a day is a normal sales figure.

Loose leaf selling as done in the United States is

attracting increased attention as an alternative method to the present system. However, loose leaf selling has not as yet been approved by the marketing boards.

The Tobacco Stabilization Plan was set up in 1965 by the Commonwealth Tobacco Marketing Act which established the Australian Tobacco Board. The board represents the national industry by having members from all segments including growers, manufacturers, and a government representative from each of the States concerned. A representative from the Commonwealth Government is the chairman.

In addition, there are State marketing boards which regulate the marketing of all leaf. The

stabilization plan initially provided for an annual Australian marketing quota of 26 million pounds for the 4 years, 1965 through 1968. Individual State quotas for each of the first 4 years were as follows:

	<i>1,000 pounds</i>
New South Wales.....	2,338
Victoria.....	9,662
Queensland.....	14,000
	<hr/>
Total Australia.....	26,000

Legislation conferring appropriate powers over the marketing of all domestic tobacco leaf to the Australian Tobacco Board were enacted by each of the tobacco-producing States. These marketing powers read as follows:

“Powers of Board. For the purpose of giving effect to such policy with respect to the marketing of Australian tobacco leaf as is from time to time agreed upon between the Commonwealth, the State and any other States that are declared by the Commonwealth Minister to be tobacco-growing States, the Commonwealth Board, by instrument in writing, may give directions to the State Board with respect to the sale or other disposal by the State Board of Australian tobacco leaf and, in particular, without limiting the generality of the foregoing, may direct the State Board not to sell Australian tobacco leaf of a grade specified in the instrument at a price less than such price as is specified in the instrument in relation to that grade, and, while the instrument remains in force, the State Board shall comply with the directions contained in the instrument.”

Development and operation of the tobacco program is administered primarily through the stabilization plan. Current details of the stabilization plan as agreed to by all concerned, commencing with the 1969 selling season, include the following arrangements:

1. That the Australian Tobacco Board continue to administer the Tobacco Stabilization Plan.
2. That the Plan operate for a further period of five years commencing with the 1969 selling season.
3. That there be guaranteed initially a minimum marketing quota of 26 million pounds (green weight) for each of the five years concerned.
4. That the Australian marketing quota for the 1969 selling season be determined and announced by 31st March, 1968, on the basis of a recommendation by the Board submitted to the Governments concerned in conjunction with the Australian Agricultural Council after the Board has examined leaf

consumption statistics and the position of stocks of Australian leaf held by manufacturers as at 31st December, 1967. In fixing the basic annual marketing quota for the third year of each three year period at any level above the minimum basis of 26 million pounds (green weight) it would be an objective that such a new level should be based on factors which would support that level as being one from which regression could be avoided.

5. That, at the end of 1968 or in early 1969, the actual marketing quota for 1970 be reviewed and that this review would take into account, inter alia, the following:

- (a) Current consumption trends to that time;
- (b) Current stockholdings at that time; and
- (c) Possible shortfalls in supply of the Australian marketing quota in the preceding year's crop. This procedure would apply in each succeeding year during the currency of the plan.

6. That each year's Australian annual marketing quota be divided between the tobacco producing States according to a formula approved by the Australian Agricultural Council.

7. That, as at present, State quotas be translated into quotas for individual growers in each State by State Quota Committees.

8. That leaf which falls within the official grade and minimum price schedule up to the marketing quota will continue to be offered for sale by auction in Australia by the State Marketing Boards. This will be known as marketing quota leaf.

9. That the policies applying to the sale of non-quota (over-quota and out-of-quota) leaf will continue to be determined by the Australian Tobacco Board.

10. That all sales of leaf in Australia will take place under an official grade and minimum price schedule constructed by the Australian Tobacco Board and designed to yield a stipulated average minimum price (then 109.4 cents per pound) based on the fall-out of grades from a normal crop. Leaf cannot be sold below the minimum price for the grade into which it falls.

11. That, in the event that agreement cannot be reached amongst the parties on the grade of any leaf offered for sale, the Commonwealth Arbitrator will continue to determine the issue.

12. That arrangements be made for financial accommodation available to manufacturers to be adequate to ensure continuing competition by manufacturers in the auction sales for each full annual marketing quota of Australian tobacco leaf and to carry stocks at a reasonable cost of that finance to them.”

Marketing Quota Increases

Though marketing quotas are a part of the stabilization plan, they have been administered in

such a way in recent years as to encourage increased production.

After quotas have been established and announced at the beginning of the crop year, they can be adjusted upward during the year to cover increased production. The quotas for 1969 through 1973 were to be set annually after taking account of factors affecting them, such as consumption trends, stocks holdings, and supply relationships; but they were to be not less than 26 million pounds, which was the guaranteed minimum marketing quota agreed to for each of the 4 years commencing in 1965. Yet the original quota for 1969 which was set early in 1968 was for 28.5 million pounds. Near the conclusion of the season the board determined that production had exceeded the quota and, after evaluating the leaf usage and stocks holding situation, approved a supplementary quota of 3 million pounds. Because two States, New South Wales and Victoria, were unable to supply any of the supplementary quota, all of the shortfall was delivered by Queensland growers.

The marketing quota for 1970 was originally set at 32 million pounds, a little above the adjusted quota for 1969. Yet in October, about planting time, another special temporary adjustment of 2.7 million pounds was apportioned among the States. The adjusted quota was 34.7 million pounds. Adjusted quotas allotted by States and actual marketings for the 1970 season were as follows:

State	Adjusted quota	Marketings
	<i>1,000 pounds</i>	<i>1,000 pounds</i>
New South Wales.....	3,078	3,025
Victoria.....	12,492	12,652
Queensland.....	19,130	19,173
Total.....	34,700	34,850

“Non-Quota” Leaf

Tobacco in excess of allotted quotas may also be marketed. Though the marketing quota is determined to represent a quantity of tobacco eligible for marketing each year, the board authorizes the sale of additional tobacco when production is in excess of quota sales; such authorization

is given after respective quota sales have been fulfilled.

There are two designations for marketing of this excess tobacco, with separate market restrictions for each. They are (1) “over-quota” leaf and (2) “out-of-quota” leaf.

“Over-quota” leaf is that tobacco which meets the grade requirement for the official price support schedule but is in excess of the grower’s permissible poundage and over the marketing quota for the State concerned for that season.

“Out-of-quota” leaf is that tobacco of grades which do not qualify for the official price support schedule within the grower’s permissible official marketing quota. Varying limitations on the sale and disposal of this tobacco is set by the board under terms and conditions as follows:

“1. The Board supports the sale of this excess production on terms and conditions which do not prejudice the sale of succeeding annual marketing quotas and these shall include, until next reviewed by the Board, the following:

- (a) Any such leaf will be totally outside the then existing Australian Marketing Quota.
- (b) Any such leaf will not be considered in the calculation of usage percentages.
- (c) Any such leaf will not be taken into account in calculating manufacturers’ statutory stockholdings.

2. For the purpose of clearing “over-quota” leaf upon terms and subject to such conditions as may be agreed, manufacturers would be invited to declare annually at the close of Quota Sales the quantities of “over-quota” leaf they are prepared to purchase.

3. Any “over-quota” leaf so declared by the manufacturers for sale shall be allocated in exactly the same proportions as the State Basic Quotas between the States and within the States in the same proportions as growers’ individual quotas.

4. Such leaf shall be sold on exactly the same sale terms and conditions as Quota Leaf so that there will be no deviation from the existing Grade and Price Schedule and no cut off of any grades within the existing schedule.

5. There shall be no sale of “over-quota” leaf until a total clearance of all quota leaf within each State has been achieved.

6. In 1969 the Board’s policy was extended to include “out-of-quota” sales of leaf under similar conditions as for “over-quota” tobacco.”

Sales of Excess Quota

In addition to the marketing quota sales, some “out-of-quota” leaf was sold in each of the 1969

and 1970 marketing seasons. Since “out-of-quota” tobacco does not have a schedule price—not meeting the grade eligibility—buyers who purchase this leaf must pay a minimum price of 40 cents per pound and must use it in addition to the 50-percent mixing requirement. For the 1969 season, sales of this leaf amounted to 308,000 pounds, with most of the sales from the Queensland production area. In 1970 a total of 225,000 pounds “out-of-quota” leaf was marketed.

Both “out-of-quota” and “over-quota” leaf can be exported without restrictions, but only limited quantities have so far found an export outlet.

Any unsold leaf at the end of the marketing season remains as grower’s stock available against subsequent years’ quotas or may be processed by local marketing boards and held at grower’s risk for the subsequent year’s quota.

From the 1969 crop, an excess of 5 million pounds of “over-quota” leaf was held over. The 1971 production is currently expected to set a new record near 39 million pounds, providing an additional surplus of 4 million pounds above the established quota. Thus, surplus stocks at the end of the current marketing season are expected to be 9 million to 10 million pounds, or nearly one-third of normal usage of domestic leaf. Moreover, announcement of the 1971-72 crop marketing quota has been delayed until after marketing of the current crop. Yet all discussion of the new quota seems to indicate that the board may be reluctant to announce a marketing quota much, if any, below the current quota of 35 million pounds.

Sales procedures, Price support

Each year the National Tobacco Board issues a set of detailed directions to the State Tobacco Leaf Marketing Boards indicating the sales dates for each auction center and other sales procedures.

An arbitrator representing the national board operates on each auction floor to settle disputes on grades of leaf between State marketing boards appraisers and buying representatives. Decision of the arbitrator on all grading is final and binding on all parties. If the auction bid price is below the price support or in the event no bid is offered, the leaf is inspected by the arbitrator who makes the final decision on the grade of the leaf. During 1970 the arbitrator was required to decide on

about 40 percent of all bales offered. In these inspections, his decision confirmed the original grade on 29 percent of the bales and adjustments were made on 71 percent. Leaf is not permitted to be sold at less than official price for the eligible price support grades.

A pamphlet detailing these sales procedures and the schedule of grades with price support rates is distributed to all growers and others connected with the auction sales.

The official grade and minimum price schedule issued for the 1971 selling season is shown below. The schedule also lists the non-quota grades that are not eligible for price support. In these directives the board recommends that State marketing boards hold unsold “out-of-quota” leaf to prevent its being reoffered in the period of quota sales.

Market sales, Average prices

Quantities of leaf sold and average prices have increased with the stabilization plan. In the 1969-70 crop, leaf sold amounted to 34.8 million pounds for an average US\$1.28 per pound. Value of the sales reached a new record of \$44.5 million.

Increased price supports: In the beginning of price stabilization the original minimum price support schedule was designed to provide a high rate of return. Yet growers’ representatives have repeatedly asked for higher minimum prices to meet increased costs of production. In late 1968 the board reviewed the schedule but was not able to get an agreement on the need for an increase or the extent of any increase. Instead, a study on production and marketing costs was requested from the Department of Primary Industries.

Based on this report and recommendations of the Australian Agricultural Council, the average grade prices were increased for the 1971 crop from A109.4 cents per pound (US\$1.22) to A114.5 cents per pound (US\$1.28). In addition, the estimated grade distribution that had been used to represent a normal crop for price support was shifted to the average of the 1965-1969 crops. These policies provide Australian producers a price support substantially higher than comparable U.S. prices. For instance, for the 1971 flue-cured crop, U.S. price supports are an average 69.4 cents per pound with average sale prices of about 77 cents per pound.

Research And Development

Extensive research in tobacco production and marketing is being performed by all segments of the tobacco industry. Research into production covers such aspects as plant breeding, variety

testing, pest and disease control, and cultural practices. Extension services to growers are also effective.

The increasing scarcity of labor is prompting growers to reevaluate their harvesting and marketing techniques, and to consider mechanized harvesting and handling as special possibilities for labor savings on most farms. In mechanization

Table 3.—Australian tobacco official grade and minimum price schedule, 1971 selling season

Grade	Price	Grade	Price	Grade	Price	Grade	Price	Grade	Price	Out-of-quota grades
	<i>Cents per pound</i>		<i>Cents per pound</i>		<i>Cents per pound</i>		<i>Cents per pound</i>		<i>Cents per pound</i>	
X10	157	C10	162	L10	157	F10	157	T20	121	X5L
X20	151	C20	157	L20	151	F20	151	T30	108	X4K
X30	140	C30	143	L30	143	F30	140	T40	96	X5K
X40	128			L40	134	F40	128	T50	83	C4K
X50X	118	C1B	151	L50X	124	F50X	118			C5K
X50	104	C2B	143	L50	108	F50	104	T2B	113	L5L
X50TR	79	C3B	134			F50TR	79	T3B	104	L4K
		C4B	113	L1B	151			T4B	91	L5K
X1B	151			L2B	143	F1B	151	T5B	74	L4K
X2B	143	C1M	151	L3B	137	F2B	143			F4K
X3B	134	C2M	140	L4B	128	F3B	134	T2M	108	F5K
X4B	121	C3M	121	L5BX	121	F4B	121	T3M	96	T5L
X5BX	113			L5B	104	F5BX	113	T4M	87	T5CM
X5B	91	C3L	104			F5B	91	T5M	62	T4K
X5BTR	66	C4L	87	L1M	151	F5BTR	66			T5K
				L2M	140			T3L	79	X4G
X2M	134	C3K	74	L3MX	131	F1M	151	T4L	62	X5G
X3M	121			L3M	121	F2M	134			L4GM
X4MX	108			L4MX	113	F3M	121	T4CM	56	L5GM
X4M	104			L4M	104	F4MX	113			L4GR
X5M	79			L5M	83	F4M	104	L3GO	104	L5GR
X5MTR	62					F5M	83	L4GO	87	F5GR
				L3D	87	F5MTR	62	L5GO	70	T5GB
X3L	91			L4D	74			L3GB	83	T5GM
X4L	79			L5D	58	F4MR	83	L4GB	66	NDTR
						F5MR	56	L5GB	56	ND-D
X3K	70			L4CMX	70					ND-C
				L4CM	58	F3K	70	L3GM	79	ND-T
										ND-G
				L3K	74			SC1B	104	SC-ND
								SC2B	79	
				L3MR	100			SC1M	91	
				L4MR	83			SC2M	74	
				L5MR	56			SC3M	62	
				L2L	108					
				L3L	100					
				L4L	83					

Note: Discounts for green cast and slightly mixed leaf-3 cents per lb. Australian cents.

also, bulk curing and loose leaf marketing are interesting new concepts.

Table 4.—Australian tobacco leaf sales, average price, and total value, 1951–52 through 1969–70

Year	Leaf sold	Average price	Total value
		<i>U.S. cents</i>	
	<i>1,000 pounds</i>	<i>per pound</i>	<i>U.S. \$1,000</i>
1951–52.....	6,492	76.7	4,980
1952–53.....	5,634	93.7	5,280
1953–54.....	6,480	121.1	7,844
1954–55.....	6,006	141.9	8,521
1955–56.....	5,480	125.6	6,879
1956–57.....	8,856	116.1	10,291
1957–58.....	12,010	115.8	13,910
1958–59.....	13,892	124.0	17,232
1959–60.....	19,778	128.4	25,370
1960–61.....	25,326	104.5	26,475
1961–62.....	20,548	130.7	26,855
1962–63.....	26,620	125.8	33,488
1963–64.....	31,516	114.9	36,201
1964–65.....	23,838	113.1	26,969
1965–66.....	26,023	130.3	33,885
1966–67.....	26,055	123.9	32,281
1967–68.....	24,758	128.2	31,728
1968–69.....	31,520	130.1	41,038
1969–70.....	34,851	127.7	44,503

Note: Statistics for 1964–65 and the following years refer to marketing quota leaf sold under the stabilization plan.

Improved marketing has advanced to the auction selling system which follows the general procedures of the wool auctions. With prior inspection of the leaf by buyers, the auction proceeds by catalog sales. The system has been perfected to the extent that a normal sales figure is now about 1,800 bales each day.

All these efforts are being expanded by research supported by government and the industry. Tobacco growers and manufacturers contribute to research and extension work through the Tobacco Industry Trust Account which was established in December 1955 under the Tobacco Industry Act. Growers are levied at the rate of 0.5 cent per pound of leaf sold and manufacturers pay 1 cent per pound of purchases. The Commonwealth Government also contributes an amount equal to one-half the approved expenditures. Governments of the three States producing tobacco make fixed annual contributions. These funds are used to finance the operation of the Australian Tobacco Board and the balance credited to the trust account.

Funds in the trust account may be used for the purpose of research or investigation in any connection with the tobacco industry including the training of personnel and the publication and distribution of information. In 1969-70 income to the account from all sources was \$919,000 and net payments were made of about \$670,000.

SUPPLY FACTORS

Supply And Distribution

The Australian tobacco purchasing and manufacturing industry is dominated by three large international groups: British American Tobacco, Philip Morris of Australia, and Rothmans. Market shares are now estimated at about 40 percent British American Tobacco, 35 percent Rothmans, and 25 percent Philip Morris. Each group produces a range of products for domestic use and they all manufacture for export. In addition, BAT and Rothmans each manufacture U.S. and English brands of cigarettes under licensing arrangements. Manufacture for the domestic market must include the statutory percentage of domestic leaf to qualify for a lower duty on imported leaf. However,

this is not required for manufacture of products going into export.

Stocks and supplies of tobacco available for manufacture and/or export have been rising. Although manufacturers' requirements have increased in the past decade, carryover stocks and available supplies of domestic tobacco have increased rapidly while imports have decreased substantially.

With significantly larger acquisitions from domestic production in recent years, total available supplies increased about 16 percent from 116.8 million pounds in 1968 to 135.0 million pounds in 1970. Stocks at the end of 1970 were 13 percent higher than a year earlier and about one-third above 2 years earlier. This was partly due to the high carryover of over-quota leaf from the

Table 5.—Australian tobacco supply and distribution, 1968–70

Item	1968	1969	1970 ¹
	<i>1,000 pounds</i>	<i>1,000 pounds</i>	<i>1,000 pounds</i>
<i>Supply:</i>			
Stocks, January 1:			
Domestic.....	45,732	39,385	43,063
Imports.....	19,572	21,061	28,378
Total stocks.....	65,304	60,446	71,441
Production (mfg. acquisitions).....			
	23,114	34,794	35,112
Imports:			
U.S.A.....	19,692	21,497	14,302
Other.....	8,691	12,434	14,174
Total.....	28,383	33,931	28,476
Total supply.....	116,801	129,171	135,029
<i>Distribution:</i>			
Usage:			
Domestic.....	28,263	29,618	30,177
Imported.....	23,175	24,125	25,458
Total.....	51,438	53,743	55,635
Loss.....	3,978	2,096	2,457
Exports:			
Domestic and reexports...	939	1,891	1,460
Disappearance.....	56,421	57,730	54,638
Stocks, December 31:			
Domestic.....	39,385	43,063	50,182
Imported.....	21,061	28,378	30,209
Total.....	60,446	71,441	80,391
Total distribution.....	116,801	129,399	135,029

¹ Preliminary.

Commonwealth Bureau of Census and Statistics, Department of Customs and Excise, Canberra.

1970 season. An even larger carryover is expected by the end of the 1971 season.

Total stocks at the end of 1970 were 80.3 million pounds, of which about 50 million pounds were domestic leaf and 30 million pounds imported. Two years earlier stocks were only 60.4 million pounds.

Total utilization of leaf has increased about 2 percent annually in recent years. Leaf usage in

manufacture rose from 51.4 million pounds in 1968 to 55.6 million pounds in 1970, or an increase of about 8 percent. Imported leaf usage rose proportionately more than domestic leaf. This is apparently due to the mixing percentage for products manufactured for export; these products do not necessarily include domestic leaf and may be produced entirely from imported leaf.

Loss of leaf in manufacture has declined significantly in recent years as increased usage of stems and waste has permitted greater output of product per pound of leaf. Manufacturers are currently mixing a significant amount of dust and waste into their leaf blends and are planning facilities for manufacture of reconstituted tobacco sheet.

Consumption

Tobacco consumption has expanded rapidly in Australia. During the past two decades total tobacco used in manufacture has doubled. Aus-

Table 6.—Total tobacco used in Australian factories and usage of Australian and imported tobacco averages 1947–56 and annual 1957–70

Year ending June 30	Total tobacco used in manufacture ¹	Total Australian tobacco used	Total imported tobacco used	Australian tobacco as percent of total used
	<i>Million pounds</i>	<i>Million pounds</i>	<i>Million pounds</i>	<i>Percent</i>
Average:				
1947–51...	28.0	3.5	24.5	12.5
1952–56...	38.8	6.7	32.1	17.3
Average:				
1957.....	46.9	5.3	41.6	11.3
1958.....	47.8	7.2	40.6	15.1
1959.....	48.5	8.8	39.7	18.1
1960.....	49.3	11.5	37.8	23.3
1961.....	51.7	14.7	37.0	28.4
1962.....	49.4	18.0	31.4	36.4
1963.....	51.0	20.3	30.7	39.8
1964.....	50.8	20.2	30.6	39.8
1965.....	52.4	22.0	30.4	42.0
1966.....	49.3	23.1	26.2	46.9
1967.....	51.7	25.8	25.9	49.9
1968 ²	51.4	28.3	23.1	55.3
1969 ²	53.7	29.6	24.1	55.1
1970 ²	55.6	30.2	25.4	54.3

¹ Redried weight basis.

² Based on calendar year.

Table 7.—Australian supply and distribution of unmanufactured tobacco, 1954-67

Year	Beginning stocks Jan. 1	Pro- duction ¹ (dry weight)	Imports	Total supply	Mfrs' use	Industrial use & loss	Exports or re- exports	Ending stocks
	<i>1,000 pounds</i>	<i>1,000 pounds</i>	<i>1,000 pounds</i>	<i>1,000 pounds</i>	<i>1,000 pounds</i>	<i>1,000 pounds</i>	<i>1,000 pounds</i>	<i>1,000 pounds</i>
1954.....	36,279	7,171	38,758	82,208	45,301	-4,699	—	41,606
1955.....	41,606	6,379	51,709	99,694	44,927	-765	—	55,532
1956.....	55,532	5,709	36,516	97,757	44,860	-932	—	53,829
1957.....	53,829	8,143	45,474	107,446	48,874	-1,480	—	57,092
1958.....	57,092	10,815	42,826	110,733	50,619	-3,020	—	63,134
1959.....	63,134	13,062	37,482	113,678	48,892	-406	17	64,363
1960.....	64,363	18,099	31,144	113,606	51,476	+97	73	61,960
1961.....	61,960	27,921	31,489	121,370	50,860	+4,127	142	66,241
1962.....	66,241	21,110	27,783	115,134	50,612	+2,332	346	61,844
1963.....	61,844	25,383	27,472	114,699	51,957	+747	331	61,664
1964.....	61,664	32,110	28,476	122,250	50,680	+960	278	70,332
1965.....	70,332	23,479	24,649	118,460	51,470	-1,762	358	68,394
1966.....	68,394	25,583	22,793	116,770	48,360	+2,414	819	65,177
1967.....	65,177	26,091	23,278	114,546	49,011	-627	858	65,304

¹ Manufacturers' and dealers' acquisition in dry weight.

tralian leaf tobacco consumption increased during the 1950's and stabilized at around 50 million pounds. Since 1966, however, further increases have occurred and by 1970 total consumption had reached 55.6 million pounds.

Consumption of the various manufactured products has differed significantly. Cigarette consumption accounts for over 80 percent of tobacco usage and has been rising. Domestic consumption is virtually entirely straight Virginia types. By contrast the use of smoking tobacco has declined sharply, whereas cigars have shown more popularity though their consumption remains an insignificant part of the total.

Manufacture of cigarettes during calendar year 1970 totaled 26.8 billion pieces, an increase of 3.6 percent compared to the previous year. A decade ago, cigarette output was about 17 billion pieces. In comparison, consumption (sales) of cigarettes including imported brands rose one-third, from 41.8 billion pieces in 1960 to 55.6 billion pieces in 1970. Cigarette imports in 1970 at 1.1 million pounds (about 500,000 pieces) were about the same as exports.

Although cigarette output and consumption have been rising, the usage of leaf has not kept pace. As in the United States and several Euro-

Table 8.—Production of Australian cigarettes and smoking tobacco, 1958-59 through 1969-70

Year	Cigarettes	Smoking tobacco
	<i>Million pieces</i>	<i>Million pounds</i>
1958-59.....	15,622.2	16.9
1959-60.....	16,944.5	15.2
1960-61.....	18,513.0	15.2
1961-62.....	18,573.4	12.8
1962-63.....	19,656.8	11.5
1963-64.....	20,002.0	10.2
1964-65.....	21,767.7	9.1
1965-66.....	21,333.2	8.4
1966-67.....	22,585.7	7.6
1967-68.....	23,334.7	7.3
1968-69.....	25,188.0	7.3
1969-70.....	27,061.0	6.7

Commonwealth Bureau of Census and Statistics, Department of Customs and Excise, Canberra.

pean countries, there has been a trend toward a thinner or shorter cigarette and filter brands have increased. The percentage of filter cigarettes in Australia has risen rapidly, from less than 50 percent (47.7) in 1960 to over 93 percent by 1969. Also manufacturers' significantly expanded utilization of waste and stems has permitted

greater output at a constant leaf requirement.

The growth in consumption in the years ahead will be stimulated by the rise in population. Rising incomes and the promotion of cigarettes are also expected to influence the level of consumption.

Offsetting influences have been recent increases in excise duties and higher retail prices. The anti-tobacco groups have also been very active in recent months which is most likely to have some effect on future consumption rates.

INTERNATIONAL TRADE

Australia has long been a major market for U.S. tobacco. Over half of the tobacco requirements have traditionally been imports from overseas suppliers with the bulk of unmanufactured tobacco consisting of flue-cured leaf from the United States. Exports have not been significant and a high proportion of total shipments are re-exports of imported leaf and products. Imports of manufactured products, mostly cigarettes, remain a small part of total tobacco imports.

Imports

Imports of unmanufactured tobacco have fluctuated widely from a high level of nearly 46 million pounds in 1955–56 to a low of only 20.8 million pounds in 1967–68. Imports of unmanufactured leaf during calendar year 1969 were increased for stock building but were down again in 1970 to a total of 28.5 million pounds—a loss of 5.5 million pounds. The bulk of imports is flue-cured Virginia-type leaf although small quantities of oriental leaf and cigar tobaccos are also imported.

In recent years imports have declined, owing to

lower requirements for foreign leaf as a result of higher domestic leaf usage following the increase in mixing percentage. The increased usage of Australian leaf and changes in manufacturing processes have reduced the need for inclusion of high-quality U.S. leaf in the most popular cigarette brands. High U.S. leaf prices have also encouraged manufacturers to seek a larger proportion of price-reducing tobaccos from alternative overseas suppliers of cheaper leaf.

The United States supplied only 50 percent of Australia's imports of unmanufactured tobacco in 1970. This was a sharp decline compared to 64 percent in 1969 and nearly 70 percent at the high level in 1955–56. The major competition to U.S. leaf from alternative foreign sources in recent years has come from cheaper suppliers such as the Republic of South Africa, the Republic of Korea, Thailand, Malawi, and the Philippines. Smaller quantities have been supplied by Taiwan, India, Indonesia, Turkey, and Mozambique.

Imports of manufactured tobacco products have remained at a fairly steady level in recent years. Cigarettes totaled about 1.1 million pounds

Table 9.—Australian imports of unmanufactured tobacco from major suppliers, 1969 and 1970

Country of origin	1969		1970	
	Quantity	Value	Quantity	Value
	<i>Pounds</i>	<i>U.S. dollars</i>	<i>Pounds</i>	<i>U.S. dollars</i>
United States.....	21,497,149	21,229,564	14,301,960	14,963,258
South Africa, Republic of.....	3,029,740	2,404,808	3,275,541	2,642,013
Greece.....	3,027,248	2,051,650	2,084,664	1,650,056
Korea, Republic of.....	2,144,008	813,083	2,896,592	1,079,399
Malawi.....	863,512	346,363	1,312,928	548,036
Thailand.....	1,601,417	697,189	1,582,446	711,945
Philippines.....	91,489	38,171	993,553	284,007
Taiwan.....	370,200	142,284	109,835	42,719
Turkey.....	347,431	232,098	411,011	249,856
Other countries.....	958,653	443,066	1,506,997	642,875
Total.....	33,930,847	28,398,276	28,475,527	22,814,167

Table 10.—Exports of U.S. unmanufactured tobacco to Australia, average 1947–51, annual 1952–70

Year	Quantity	Value
	<i>Million pounds</i>	<i>Million dollars</i>
1947–51 average.....	20.3	13.5
1952.....	24.0	18.0
1953.....	26.7	21.2
1954.....	22.8	22.7
1955.....	31.6	24.2
1956.....	23.2	17.9
1957.....	38.2	30.7
1958.....	26.3	21.6
1959.....	20.4	19.9
1960.....	20.0	16.6
1961.....	11.8	9.9
1962.....	22.0	19.3
1963.....	18.1	16.1
1964.....	14.2	12.3
1965.....	19.7	17.3
1966.....	16.5	14.7
1967.....	13.3	11.7
1968.....	19.7	17.5
1969.....	20.2	19.0
1970.....	10.2	10.2

with the bulk of the supplies from the United States. Imports of pipe tobacco were about 2.5 million pounds, the bulk of which was supplied from the Netherlands. Cigars, cheroots, and cigarillos totaled about 500,000 pounds, also mostly from the Netherlands.

Exports

In 1970, U.S. exports to Australia were at a record low of 10.2 million pounds, compared to 38 million in 1957 and about 18 million in the recent 5-year average 1965-69.

Exports of Australian leaf have been insignificant. The guaranteed high price support for Australian production and the limited quantity of excess tobacco available for export until recent years have not been inducements to the export trade. However, the possibility of exporting excess leaf has been considered, but no major developments have as yet been made along those lines.

Leaf exports totaled about 1.5 million pounds in 1970, of which nearly 600,000 pounds were domestic leaf and the major part reexports of foreign leaf. The major destination for exports is the offshore areas of Papua, New Guinea, and the Pacific Islands. These shipments mostly represent

leaf as semi-processed tobacco for subsidiary manufacturing plants of Australian companies established in the Territories. One significant export of Australian leaf in recent years has been the shipment of about 35,000 pounds to the United States in 1970 for experimental purposes in connection with homogenized sheet production.

Manufactured tobacco product exports are limited mostly to cigarettes and cut tobacco going to the Australian Trust Territories and nearby islands. The 1970 exports of cigarettes reached 1.4 million pounds with Hong Kong and Singapore the major outlets.

Tariffs, Trade Barriers

Import duties.—Import duties on tobacco and manufactured products are at a high level. The current rate on unmanufactured tobacco is the preferential rate bound by the General Agreement on Tariffs and Trade at US\$0.80 per pound for tobacco imported to be used in compliance with the mixing regulations and US\$0.96 for tobacco to be used not in compliance with the regulations. Preferential rates were applicable to Rhodesian leaf prior to the United Nations sanctions against that country.

The import duty rates on manufactured products were increased in 1971 effective with an increase in excise tax. The current rates for these products are now US\$7.07 per pound for cigarettes, US\$6.81 per pound for cigars, and US\$3.96 per pound for cut tobacco. Snuff remains at US\$0.73 per pound.

Mixing regulations: *The statutory percentage of Australian leaf required to be used by manufacturers in domestic tobacco products as a condition for lower import duties on imported leaf blended in such products has increased rapidly—from 3 percent in 1947 to 50 percent in 1966. Although manufacturers currently are required to use 50 percent, they are actually utilizing a higher percentage of domestic leaf apparently on a voluntary basis to meet other restrictions on imported leaf. The statutory percentage mixing requirement, which indicates the increasing importance of the domestic crop, was raised according to the following scale:*

Australian leaf percentage		
Item	For cut tobacco	For cigarettes
15 Nov. 1946.....	5	0.3
1 Jan. 1953.....	7.5	4.5
1 Mar. 1953.....	10	6
1 July 1954.....	12.5	6
1 July 1955.....	17.5	7.5
1 July 1957.....	21	12.5
1 July 1958.....	16.5	15.5
1 July 1959.....	23.5	22
1 July 1960.....	24.5	28.5
1 July 1961.....	32	35
1 July 1962.....	40	43
12 Sept. 1962.....	37	40
1 July 1963.....	40	40
1 July 1964.....	41.5	41.5
1 April 1965.....	43	43
1 July 1965.....	45	45
1 Oct. 1965.....	47	47
1 Jan. 1966.....	50	50

Beginning in 1962 the government issued a policy strengthening the requirements for manufacturers to be eligible to import tobacco at the lower duty rate. The provision was that any manufacturer must purchase and hold in stocks a quantity of Australian tobacco sufficient to meet the mixing requirements for a year. Also the manufacturer was required to use at least the minimum mixing percentage for all manufactured products whereas he could previously qualify for lower duty on a particular type of imported tobacco for use in a product on which the mixing requirement was met.

Prior to 1964 the rapid increase in the mixing percentage of domestic produced leaf was the major factor used in restricting tobacco imports. Since then the mixing regulations supplemented by increased marketing quotas have been an effective trade barrier. Since 1965 marketing quotas have been almost meaningless as a restraint in domestic sales as each year supplemental quotas, resulting from effective producer pressures, have been issued to take up actual production. Also in 1965 the Australian manufacturers were informed that subsequently they must purchase all of the marketing quota tobacco determined by the National Tobacco Board before import certificates could be renewed.

The statutory stock-holding requirements to

maintain the mixing policy have been increased and currently an estimated 18-month requirement is in force. With surplus production continuing to rise, it may be possible to assure the purchase of larger quotas and further increase the use of domestic leaf by increasing the stocks holdings requirements beyond the current 18 months.

Protectionism

Australia, traditionally a major market for U.S. unmanufactured tobacco, has an objective of becoming more self-sufficient in production. The recent history of the tobacco industry could continue and easily expand domestic supplies in response to good grower returns. Increasing self-sufficiency may even demand further protectionist policies.

Ever increasing marketing quotas coupled with the constantly rising mixing regulation upon the industry are designed to make Australia self-sufficient in tobacco production at prices considerably above U.S. and other export prices. Complete self-sufficiency may be some years away, but government policies and active promotion have made the crop more attractive to growers and tremendous expansion is taking place. The high rigid internal prices under the price stabilization plan stimulates costly and uneconomic production. Such prices protected by mixing regulations, required domestic leaf stocks levels, guaranteed markets, tariffs, import certificates, and other devices deprive outside exporters of any comparative advantage and thereby reduce imports.

Although current domestic production is costly and inefficient and quality is not as good as available foreign leaf, Australian manufacturers must increasingly rely on domestic stocks for their requirements. Present production programs are designed to give farmers a high level of income without resorting to competitive prices in a market-oriented trading world.

In 1947 the tariff agreement was negotiated between Australia and the United States which included concessions of mutual interest to the agricultural trade of each country. These concessions included a tariff binding on unmanufactured tobacco. Australia bound the regular duty on unmanufactured tobacco and the bylaw rate. However, the concession contains a provision that the

Government of Australia has the right to make, amend, or revoke the bylaws relating to the admission of any goods under the special rate. Since all imports come under bylaw and the Government of Australia has the authority under GATT to change the bylaw at any time, the concession is of little value. In addition, by con-

tinually raising production quotas and the mixing requirements and by increasing the size of the current stocks manufacturers must hold. There has been a substantial cutting back of imported tobacco. Thus government policies through increased protectionist measures have effectively restricted U.S. tobacco exports to this important market.

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