Industry & Trade Summary

Cigarettes

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COMMISSIONERS

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PREFACE

In 1991 the United States International Trade Commission initiated its current *Industry and Trade Summary* series of informational reports on the thousands of products imported into and exported from the United States. Each summary addresses a different commodity/industry area and contains information on product uses, U.S. and foreign producers, and customs treatment. Also included is an analysis of the basic factors affecting trends in consumption, production, and trade of the commodity, as well as those bearing on the competitiveness of U.S. industries in domestic and foreign markets.[1]

This report on cigarettes covers the period 1986 through 1990 and represents one of approximately 250 to 300 individual reports to be produced in this series during the first half of the 1990s. Listed below are the individual summary reports published to date on the agricultural, animal, and vegetable products sector.

USITC publication number	*Publication date*	*Title*
2459 (AG-1)	November 1991	Live Sheep and Meat of Sheep
2462 (AG-2)	November 1991	Cigarettes

[1] The information and analysis provided in this report are for the purpose of this report only. Nothing in this report should be construed to indicate how the Commission would find in an investigation conducted under statutory authority covering the same or similar subject matter.

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Introduction

This summary presents information on the structure of the U.S. cigarette manufacturing industry and the industries of major foreign producers, domestic and foreign tariffs and nontariff measures, and the competitiveness of U.S. producers in both domestic and foreign markets. The report covers the period 1986 through 1990.

During this period, the United States became the ading cigarette exporting country in the world. U.S. cigarette production, which amounts to about 12 percent of the total quantity produced worldwide, is the second-largest production in the world following China.

Most cigarettes produced in the United States are made of a blend of flue-cured, burley, Maryland, and oriental-type tobaccos, modified by special flavoring compounds. Various brands of American-blend cigarettes differ in the proportion of their blended tobacco components. During 1987-89, flue-cured tobacco accounted for about 35 percent of the tobacco used in American-blend cigarettes; burley, for about 30 percent; oriental-type tobaccos, for 15 percent; Maryland-type tobacco, for 2 percent; and other imported tobacco, for around 20 percent.[1]

The American-type cigarette differs materially from the types most often consumed in other countries. The principal foreign types of cigarettes are the following:

- English cigarettes, composed entirely of flue-cured tobacco, favored in Canada and Great Britain;
- Dark cigarettes, made of dark, air-cured, cigar-type leaf, including many cigarettes manufactured in Spain, France, and some other European and Latin American countries;
- Turkish cigarettes, containing oriental and semioriental leaf, sold principally in Balkan and Near East countries; and
- Maryland cigarettes, the type favored in Switzerland, which are composed almost entirely of Maryland-type tobacco.

U.S. consumers have a strong preference for American-blend cigarettes. Consumers in foreign countries have shown a growing preference for lighter cigarettes in recent years, particularly American-blend brands. This trend has played a major role in the competitiveness of U.S. manufacturers in export markets.

The issue of smoking and health has affected the characteristics of cigarettes manufactured in the United States and, in some markets, has affected demand for U.S. cigarettes overseas. The use of filters is in response to a health concern. Nearly all cigarettes produced are filter-tipped; use of the filter reduces the amount of tobacco in the end product. Another health-related concern is the tar and nicotine content of cigarettes. The desire of manufacturers to advertise a cigarette with lower tar or nicotine content has increased the demand for leaf varieties that contain lower levels of these substances. Cigarette brands with low tar and nicotine account for over one-half of U.S. cigarette sales.

Specialty types of cigarettes, including clove cigarettes, therapeutic cigarettes, and cigarettes containing tobacco substitutes, are minor items in world trade. Clove cigarettes (HTS subheading 2402.20.10) are not produced in the United States but are imported from Indonesia, where they are a popular consumer item. Items classified as cigarettes, non-paper-wrapped (HTS subheading 2402.20.90) include bidis or beedes, which are cone-shaped cigarettes in which the tobacco is wrapped in a nontobacco leaf (T.D. 56184(25)). Bidis are not produced in the United States and are a minor item of commerce. Cigarettes containing therapeutic agents for the purpose of soothing the upper respiratory tract are classifiable as drugs (HTS subheading 3004.90.60.85) and cigarettes containing tobacco substitutes but no therapeutic agents are dutiable at the same rate applicable to cigarettes containing tobacco.

U.S. Industry

U.S. Industry Structure

Six large multinational corporations, which operate 12 establishments, constitute the U.S. cigarette industry (SIC category 2111) (fig. 1).[2] The total value of shipments was about $20 billion in 1990, exclusive of taxes.[3] Cigarette production has remained stable or increased slightly in recent years, since the increase in exports compensated for the decline in domestic consumption.

The U.S. cigarette industry is highly concentrated. During 1986-90, the six cigarette manufacturers produced over 99 percent of the cigarettes manufactured in the United States. The three largest manufacturers account for about 90 percent of domestic cigarette sales each year. Cigarette firms have diversified their operations into food, beverages, and other industries, partly in response to concerns about the long-run decline in domestic demand for cigarettes.

Employment in cigarette manufacturing declined during the 1980s, continuing the downward trend of the past two decades. Labor-saving technology has

[1] U.S. Department of Agriculture (USDA), Economic Research Service (ERS), *Tobacco Situation and Outlook Report*, TS-212, Sept. 1990, p. 5.

[2] The six firms are Philip Morris, R.J. Reynolds, American Brands, Lorillard, Liggett & Meyers (owned by Grand Metropolitan), and Brown and Williamson (owned by British American Tobacco).

[3] USITC staff estimate, based on U.S. Department of Commerce records.

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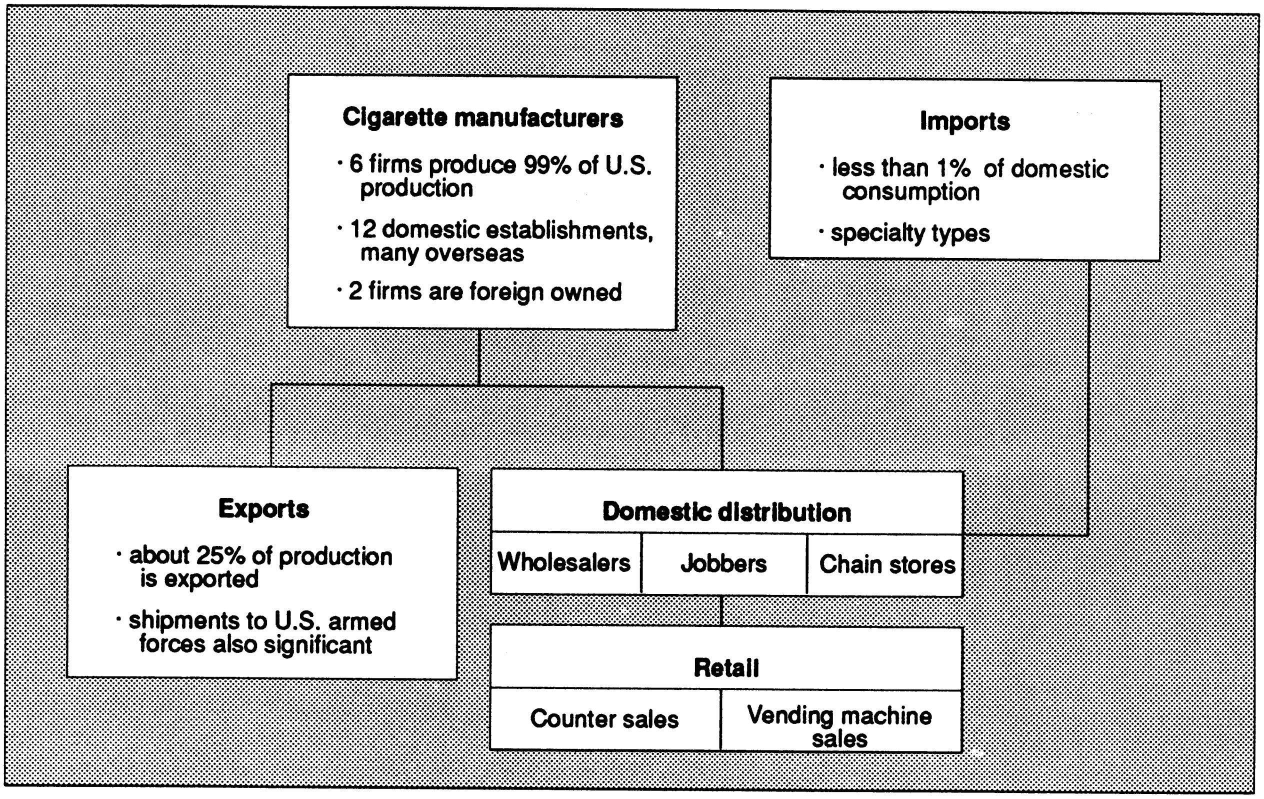
Figure 1
Cigarette industry structure and channels of distribution



Source: Based on Richard L. Kohls and Joseph N. Uhl, *Marketing of Agricultural Products.*

contributed to the reduction in employment. According to the 1987 *Census of Manufactures*, total employment in cigarette manufacturing was 32,000, mainly located in North Carolina and Virginia. This represents a 23 percent decline from the number employed as of the 1982 *Census*. Total employment in cigarette manufacturing was estimated by the Department of Commerce to have declined to 30,000 in 1989. The typical cigarette manufacturing establishment employs over 2,500 persons.

Cigarette manufacturing is a relatively capital-intensive industry. The plants employ highly specialized cigarette-making and packing machinery.[4] The cigarette-manufacturing process does not have substantial economies of scale because the largest plants use several identical production lines. Economies of scale are a factor, however, in the purchase of inputs and, more importantly, in the marketing of products.

The manufacturing process begins with processed and aged leaf tobacco.[5] The tobacco is reconditioned, blended, and flavored before shredding. The shredded blend is transported through pressurized tubes, at 60 miles per hour in one plant, directly to the cigarette machine. The machine rolls one long cigarette, cuts it into pieces, drops in filters, paper-wraps individual cigarettes, and after computerized quality control, wraps and seals a package of 20 cigarettes. A state-of-the-art machine can produce 8,000 cigarettes per minute, with 3 persons operating the machine.

Raw Materials

Cigarettes are made of a blend of various types of tobacco, some of which, for instance, oriental leaf, are not grown in the United States but must be imported. The blending and flavoring process is an important factor in producing a cigarette with the desired characteristics. U.S. imports of oriental leaf tobacco in 1990 amounted to 85,932 metric tons. Certain other special varieties of tobacco are also imported for both flavor and cost considerations. Of the flue-cured and burley tobacco used in U.S.-made cigarettes, about 17 percent (in quantity terms) was imported in 1990.[6] When oriental tobacco is factored in, about 31 percent of the total quantity of cigarette leaf used in U.S. cigarette manufacture was imported.

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[4] Paul R. Johnson, *The Economics of the Tobacco Industry* (New York: Praeger Studies in Select Basic Industries, 1984) p. 69.

[5] Material in this section based on "Economic Impact of Tobacco Exports on the U.S. Economy," Price Waterhouse, Sept. 1989, p.II-23.

[6] Estimated by USITC staff.

Advanced technology has improved the ability of manufacturers to employ leaf-conserving production methods. These methods increase the filling capacity of a given amount of leaf and reduce waste through the reuse of stems and scraps. While the tobacco element in U.S. cigarette production costs is about $3 billion annually,[7] tobacco generally accounts for less than 10 percent of the total cost of a package of cigarettes.[8] Packaging, advertising, and other marketing costs take up the larger share of total costs.

Most cigarette manufacturers employ purchasing agents who attend tobacco auctions in the United States and foreign countries, and purchase the types, grades, and qualities of tobacco required for their various cigarette blends. Some transactions are made through independent dealers, particularly for purchases of imported leaf. Cigarette manufacturers also import tobacco themselves. Although it is not a common practice, some multinationals have integrated vertically and contract directly with growers in foreign countries or maintain subsidiaries in tobacco-growing areas to obtain leaf supplies. Such vertical integration to the farm level does not occur within the United States.

Marketing Methods

Cigarettes are marketed domestically through wholesalers or directly to large chain stores. Competition for retail sales among cigarette firms focuses on product differentiation and development of consumer loyalty to particular brands. Industry spending on advertising and promotion is substantial, about $3.3 billion or 18 percent of gross sales in 1988, according to the Federal Trade Commission. The extensive investment in brand-name recognition is considered a significant barrier to entry of new firms in the sector, and is seen to have contributed to the high level of industry concentration.[9] In the last 2 years, however, generic cigarettes, priced about 35 percent below advertised brands, and lower priced brands, discounted about 15 percent, have made rapid advances in the U.S. market. The market share of such cigarettes rose to about one-fifth of sales in 1990, up from about 15 percent in 1989.[10] This price-competitive segment of the U.S. market was introduced in the early 1980s.

Government Programs

The U.S. domestic producer support program for tobacco indirectly affects cigarette manufacturers. Price supports, acreage allotments, and marketing quotas control supplies of domestic leaf tobacco. These domestic policies, in combination with support programs in effect in many other countries, have maintained world prices of tobacco leaf above free market-clearing levels.[11]

Generally applicable duty-drawback provisions allow cigarette manufacturers to import leaf tobacco and receive a refund of 99 percent of the duty paid if they export a similar quantity and type of tobacco in manufactured form. The increase in cigarette exports since the early 1970s closely parallels the increase in imports of flue-cured and burley tobacco.[12]

Consumer Characteristics and Factors Affecting Demand

U.S. cigarette consumption per capita declined in 1990 for the sixth consecutive year. Per-capita consumption during 1989/90 was approximately 140 packs of 20 cigarettes, the lowest level since 1942. Although the overall prevalence of smoking has declined from 36.7 percent of adults in 1974 to 30.4 percent of adults in 1985, the rate of decline has varied among different social and economic groups in the population.[13] Smoking prevalence is decreasing at a slower rate for women than for men, mainly as a result of the higher rate of initiation of smoking among young women. Although blacks smoked at higher rates than whites (34 percent of black adults smoked compared with 29 percent of white adults), the rate of decline in smoking among black adults was similar to the rate of decline among the white adult population.

Health concerns, restrictions on places in which to smoke, the diminished acceptance of smoking, and price increases have contributed to the fall in cigarette consumption. Higher prices have resulted from increased manufacturers' charges and rising excise taxes.[14]

Cigarette prices have been rising faster than the index for all consumer items.[15] The rise in cigarette prices has enhanced the profitability of cigarette production, to a reported $7 billion in total industry operating profits in 1989, but also contributed to the decline in consumption.[16]

Increases in the Federal excise tax on cigarettes have been passed on to the consumer and have contributed to rising retail prices. Beginning in

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7 *Census of Manufactures*, 1987.

8 Verner N. Grise, *The World Tobacco Market—Government Intervention and Multilateral Policy Reform* (USDA, ERS, 1990), p. 43.

9 Shepherd, p. 65.

10 USITC staff discussion with USDA, ERS sources.

11 Grise, *The World Tobacco Market*, p. 40.

12 Johnson, *The Economics of the Tobacco Industry*, p. 107.

13 Michael C. Fiore and others, "Trends in Cigarette Smoking in the United States: The Changing Influence of Gender and Race," *Journal of the American Medical Association*, vol. 261, No. 1, Jan. 6, 1989, p. 49.

14 USDA, ERS, *Tobacco Situation and Outlook*, June 1990, p. 4.

15 *Tobacco Situation and Outlook*, June 1990, p. 4.

16 *Business Week*, Feb. 19, 1990, p. 54; Commerce Department, International Trade Administration, *US Industrial Outlook, 1990*, pp. 34-31. Studies have shown that the demand for cigarettes is price inelastic, estimated between -0.1 to -0.7.

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January 1991, the Federal excise tax on cigarettes rose from 16 cents per pack, the rate that had been in effect since 1982, to 20 cents per pack. The Federal tax is scheduled to increase in 1993 to 24 cents per pack. State taxes vary widely; in aggregate, however, State tax receipts from tobacco exceed those from Federal tobacco taxes. Preliminary figures show that Federal revenues from cigarette taxes in 1989/90 were $4.2 billion, and State revenues were $5.5 billion. Twenty-one States raised cigarette taxes during 1989-90, resulting in a weighted average State tax of 24.4 cents per pack.[17]

Foreign Industry

Cigarette production worldwide has increased by about 2.5 percent annually since the 1960s.[18] China, the EC, and the Soviet Union are among the leading foreign producers (table 1). World production is highly concentrated, with nine major multinational firms accounting for an estimated 40 percent of total world production.[19] Government tobacco monopolies control production, imports, and distribution of cigarettes in about 40 countries, and often make licensing arrangements with multinational firms to produce popular brands.[20] Most government tobacco monopolies also control foreign trade of tobacco products and collect excise tax revenues on cigarette sales.

Cigarette production in the developing world rose faster than production in the developed countries during the 1980s. Consumption increases in developing countries have been the driving force behind these production increases.[21]

[17] USDA, ERS, *Tobacco Situation and Outlook Yearbook*, Dec. 1990, p. 4, Sept. 1990, p. 30.
[18] Grise, *The World Tobacco Market*, p. 20.
[19] Shepherd, p. 64.
[20] FAO Commodities and Trade Division, *Tobacco: Supply, Demand and Trade Projections, 1995 and 2000*, 1990, p. 16.
[21] FAO, p. 14.

Most cigarette-producing countries import at least some of the leaf tobacco used in their cigarettes. The growing popularity of American-blend cigarettes has increased the demand for imported raw materials, often U.S.-grown tobacco.

China[22]

China accounts for 30 percent of world cigarette production and has been the driving force behind recent world production increases.[23] China's cigarette production rose about 9 percent annually during most of the 1980s; world production of cigarettes, excluding China's, has been stable.

The Chinese industry comprises 146 factories, including one joint venture with R.J. Reynolds, a U.S.-based firm. Two-thirds of Chinese factories are said to be unprofitable, but they are protected because they are a source of local government revenue. Most of the Chinese facilities do not use leaf-conserving technology and have faced supply problems because the central government has encouraged growers to shift from tobacco to food production. The manufacturers that produce higher quality cigarettes face competition from imports, which, because of smuggling, are reportedly much larger than published data suggest.

Nearly 500 brands of cigarettes are sold in China; most of these cigarettes are manufactured from domestically produced leaf. Chinese consumers generally prefer English cigarettes, made from flue-cured tobacco, although American blends are gaining popularity among young people. Filter-tip cigarettes reportedly constitute about 41 percent of China's cigarette production.

[22] Information on foreign countries is based primarily on agricultural attache reports from FAS, USDA.
[23] USDA, FAS, *World Tobacco Situation*, Aug. 1990, p. 37.

Table 1
Cigarette production, by principal producing countries, 1986-90
(In billions of cigarettes)

Country	*1986*	*1987*	*1988*	*1989*	*1990*[1]
China	1,297	1,441	1,545	1,598	1,650
United States	658	689	695	677	670
EC	631	624	625	627	627
Soviet Union	384	378	358	360	350
Japan	296	274	268	268	268
Brazil	169	161	158	163	160
Indonesia	116	115	136	148	155
All other	1,440	1,446	1,460	1,452	1,495
Total	4,991	5,128	5,245	5,293	5,375

[1] Data for 1990 are estimated.

Source: USDA, Foreign Agricultural Service (FAS), *World Tobacco Situation*, Aug. 1990, p. 52.

Soviet Union

The state-controlled industry in the Soviet Union has faced difficulties meeting domestic demand for cigarettes. There are reportedly 24 cigarette plants, but many of these have shut down as a result of equipment and supply problems or ethnic unrest in tobacco leaf production areas.[24] Imports fell because of a lack of foreign currency and because of changes in the trading relationship with Eastern European suppliers. In response, domestic producer prices were raised to spur tobacco production, and higher levels of imports of cigarettes from the United States and Germany were permitted.

EC

Cigarette production has been stable or declined in the EC in recent years. The leading tobacco multinationals based outside of the United States are EC firms, based in Great Britain and Germany. EC countries with government tobacco monopolies are France, Italy, Denmark, Spain, and Portugal. Because of the high external tariff, U.S. firms generally license production of their brands or maintain manufacturing subsidiaries to serve the EC market. Antismoking campaigns have made inroads into consumption in EC countries and have been influential in shifting demand toward cigarettes with lower tar content. The EC Council passed rules limiting the tar content of cigarettes as of the end of 1992.

Germany produces about 160 billion cigarettes per year, about one-fourth of total EC production. The unification of Germany added substantial production capacity. Multinationals Reetsma, R.J. Reynolds, and Philip Morris purchased the four plants located in the former East Germany, which produced around 26 billion cigarettes annually.

Great Britain produces about 112 billion cigarettes annually, 30 percent of which are exported. Unlike consumers in many other countries, consumers in Britain have not demonstrated any increasing preference for American-blend cigarettes, but still choose cigarettes made exclusively of flue-cured tobacco.

[24] USDA, FAS, *World Tobacco Situation,* Aug. 1990, p. 7.

Japan

Cigarette production in Japan peaked in 1982 and has been flat, at about 270 billion cigarettes annually, since the privatization of the former Japanese tobacco government monopoly in 1985. The Ministry of Finance is the sole stockholder in Japan Tobacco, Inc., but the organization is run more like a business than like a monopoly. Imports have taken a larger share of consumption since the relaxation of trade barriers in 1987.

World Trade

Total exports of cigarettes increased by almost 50 percent between 1986 and 1990, led by strong growth in U.S. exports. Leading exporters in 1990, following the United States, were Bulgaria (which exports about 80 percent of production), the Netherlands, West Germany, and Hong Kong (table 2).

Demand for the American-blend type of cigarette has increased in foreign countries, generally at the expense of stronger, unblended cigarettes. Some consumers have shifted to low-tar, low-nicotine, and filter-tipped cigarettes, particularly in developed countries where health concerns have affected demand. In the developing countries, population increases and, in some countries, gains in consumer income have contributed to rising demand for imported cigarettes. While the Soviet Union remained the principal importer of cigarettes in 1990 (not including aggregate EC imports), imports have declined significantly, falling by 26 percent between 1986 and 1990 (table 3). The Asian market for imported cigarettes increased by 208 percent between 1986 and 1990, a trend that the tobacco industry expects to continue during the next decade.[25]

[25] Judith Mackay, "The Tobacco Epidemic Spreads," *World Health,* October 1988, p.12.

Table 2
Cigarette exports, by principal exporting countries, 1986-90

(In billions of cigarettes)

Country	*1986*	*1987*	*1988*	*1989*	*1990*[1]
United States	64.3	100.2	118.5	141.8	160.0
Bulgaria	72.3	74.8	73.5	68.8	70.0
Netherlands	47.7	50.8	59.0	60.0	61.1
West Germany[2]	53.6	45.5	47.0	47.6	50.0
Hong Kong	17.2	24.9	38.9	40.6	40.7
All other	108.0	109.0	123.3	149.5	161.3
Total	363.1	405.2	460.2	508.3	543.1

[1] Data for 1990 are estimated.
[2] Primarily intra-EC trade. The EC would be the leading cigarette exporter if intra-EC trade were included in the table.
Source: USDA, FAS, *World Tobacco Situation,* Aug. 1990, p. 52.

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Table 3
Cigarette imports, by principal importing countries, 1986-90

(In billions of cigarettes)

Country	1986	1987	1988	1989	1990[1]
EC[2]	109.2	108.9	112.7	118.3	120.0
Soviet Union	68.0	61.0	61.0	55.0	50.0
Japan	13.9	36.4	40.8	46.5	46.9
Hong Kong	9.6	13.7	23.7	27.0	26.3
Singapore	6.6	6.0	7.0	15.1	19.6
Colombia	10.5	12.9	16.1	15.4	15.1
Iran	3.0	3.0	6.0	11.0	15.0
Saudi Arabia	13.5	13.2	12.9	12.9	13.0
All other	90.5	109.4	109.7	100.3	112.1
Total	324.8	364.5	389.9	401.5	418.0

[1] Data for 1990 are estimated.
[2] Primarily intra-EC trade.

Source: USDA, FAS, *World Tobacco Situation,* Aug. 1990, p. 52.

U.S. Trade Measures

Tariff Measures

The current U.S. rates of duty applicable to cigarettes appear in table 4. For duty purposes, the weight is that of the cigarette alone, exclusive of the package. In addition to tariffs, which averaged 15 percent ad valorem in 1990, imported cigarettes are subject to the Federal excise tax discussed above.

Nontariff Measures

There are no identified nontariff measures affecting U.S. cigarette imports.

Table 4
Cigarettes: Harmonized Tariff Schedule subheading; description; U.S. col. 1 rate of duty as of Jan. 1, 1991; U.S. exports, 1990; and U.S. imports, 1990

HTS subheading	Description	Col. 1 rate of duty As of Jan. 1, 1991 General	Special[2]	U.S. exports 1990[3]	U.S. imports 1990
		Dollars per kilogram, percent ad valorem		Million dollars	
2402.20	Cigarettes containing tobacco:				
2402.20.10	Containing clove	92.6¢/kg + 2%	Free (A,E, IL); 64.8¢/kg + 1.4% (CA)	0	1
	Other:				
2402.20.80	Paper-wrapped	$2.34/kg + 5%	Free (E,IL); $1.638/kg + 3.5% (CA)	4,761	27
2402.20.90	Other	$2.34/kg + 5%	Free (A,E, IL); $1.638/kg + 3.5% (CA)	0	3

[1] Imports under these subheadings are subject to a Federal Excise Tax (26 U.S.C. 5701) of:
(1) $12.00 per 1,000 on cigarettes, weighing not more than 3 pounds per 1,000;
(2) $12.00 per 1,000 on cigarettes, weighing more than 3 pounds per 1,000, except that, if more than 6-1/2 inches in length they shall be taxable at the rate prescribed for cigarettes weighing not more than 3 pounds per 1,000, counting each 2-3/4 inches, or fraction thereof, of the length of each as one cigarette.

[2] Programs under which special tariff treatment may be provided, and the corresponding symbols for such programs as they are indicated in the "Special" subcolumn, are as follows: Generalized System of Preferences (A); Automotive Products Trade Act (B); Agreement on Trade in Civil Aircraft (C); United States-Canada Free-Trade Agreement (CA); Caribbean Basin Economic Recovery Act (E); and United States-Israel Free Trade Area (IL).

[3] U.S. Department of Commerce export records do not include separate classifications for clove cigarettes and other than paper-wrapped cigarettes. However, exports of these items are believed to be nil.

Source: U.S. exports and imports compiled from data of the U.S. Department of Commerce.

Foreign Trade Measures

The types of tariff and nontariff barriers to world trade in cigarettes vary widely among countries. High tariffs, primarily in developed countries, affect world cigarette trade significantly. To avoid high duties, cigarette firms license production of their brands or establish subsidiaries to serve local markets. Some countries ban imports of cigarettes entirely through restrictive import licensing or control of marketing by government monopolies.

Tariff Measures[26]

Tariffs on cigarette imports imposed by the leading consuming countries are shown in the following tabulation (in percent ad valorem):

Country	
China	150
EC	90
Soviet Union	[1]20-40
India	100
Japan	[2]90
Brazil	[3]105
Egypt	([4])
Indonesia	[5]30

[1] The government selects the items to be imported based on perceived needs and the availability of foreign currency.
[2] Temporarily duty-free, but duty-free status is not expected to change, according to USDA sources.
[3] Imports are effectively banned by a restrictive import license.
[4] Imports are banned.
[5] There is an additional sales tax of 30 percent on imported cigarettes.

Nontariff Measures

In Brazil, imports of cigarettes are banned through restrictive import licensing. Several Asian countries had maintained similar restrictive import policies, until the Office of the U.S. Trade Representative undertook a series of negotiations under section 301 of the Trade Act of 1974 to open markets to U.S. cigarette exports. The most recent investigation, regarding Thailand, was terminated in November of 1990 following actions and commitments by Thailand to open its market. Earlier cases involved Japan, Taiwan, and South Korea.

U.S. Industry Performance in Domestic Markets

U.S. Consumption

U.S. cigarette manufacturers face a declining domestic market (table 5). The quantity of cigarettes consumed in the United States declined between 1986 and 1990 at an average annual rate of 2.7 percent.

U.S. Production

Strong export growth sustained increases in U.S. production between 1986 and 1988, although in 1989 the value of shipments (adjusted for inflation) declined slightly.[27]

U.S. Imports

U.S. imports of cigarettes are small and generally comprise specialty items not produced in the United States. Canada is the leading source of U.S. imports, followed by the United Kingdom and Indonesia (table 6). Indonesia mainly supplies clove cigarettes. U.S.

[26] Material in this section is based on Bill George, FAS, "Import Requirements and Restrictions for Tobacco and Tobacco Products in Foreign Markets," *World Tobacco Situation*, supplement 5-89, Nov. 1989.
[27] U.S. Department of Commerce, *U.S. Industrial Outlook 1990*, pp. 34-31.

Table 5
Cigarettes: U.S. production, trade, change in stocks, apparent consumption, ratio of imports to consumption, and ratio of exports to shipments, 1986-90

Item		*1986*	*1987*	*1988*	*1989*	*1990*
Production	(Billions)	658.0	689.4	694.5	677.2	700.0
Taxable removals[1]	(Billions)	583.1	577.2	543.4	539.9	520.0
Exports	(Billions)	63.9	100.2	118.5	141.8	164.3
Imports	(Billions)	1.2	1.3	1.2	1.5	1.4
Increase in stocks	(Billions)	10.9	14.5	-7.7	8.7	5.0[2]
U.S. consumption	(Billions)	583.8	575.0	562.5	540.0	532.1[2]
Import to consumption ratio	(Percent)	0.2	0.2	0.2	0.3	0.3
Export to shipment ratio	(Percent)	9.7	14.5	17.1	20.9	23.5
Production	(Million dollars)	15,699	16,741	18,544	19,612	20,400
Exports	(Million dollars)	1,298	2,047	2,645	3,369	4,761
Imports	(Million dollars)	17	22	22	28	31
Increase in stocks[2]	(Million dollars)	260	352	-205	251	145
U.S. consumption[2]	(Million dollars)	14,158	14,364	16,127	16,019	15,524
Import to consumption ratio[2]	(Percent)	0.1	0.2	0.1	0.2	0.2
Export to shipment ratio[2]	(Percent)	8.3	12.2	14.3	17.2	23.3

[1] Taxable removals are the number of cigarettes distributed into domestic channels, excluding exports and shipments to overseas armed forces.
[2] Estimated by the staff of the USITC.
Source: Quantity data from USDA, ERS, *Tobacco Situation and Outlook*, Sept. 1990; value data from Commerce Dept., *U.S. Industrial Outlook, 1990.* Data for 1990 are estimates.

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imports of cigarettes increased 20 percent in quantity and 87 percent in value between 1986 and 1990. The unit value of imports from Canada and the United Kingdom increased steadily during the period, outpacing the growth in quantity of such imports.

Leaf tobacco grown in the United States is exported to most cigarette-manufacturing countries in the world (about 200,000 metric tons annually) and used as an ingredient in many blends produced overseas. Therefore, it is likely that many imported cigarettes contain some U.S.-produced raw materials, although the specific amount is not known.

U.S. Industry Performance in Foreign Markets

Developed countries are the largest potential markets for U.S. cigarettes, but, like in the United States, their cigarette consumption is generally declining; moreover, their markets are often protected by high tariffs. On the other hand, developing countries with rising populations display a trend toward increased consumption of cigarettes, particularly as per-capita income increases. The United States produces high quality cigarettes that are growing more popular in overseas markets where consumer income is rising.[28] In recent years, successful marketing strategies by U.S. firms have coincided with foreign government policy changes to allow increasing exports of U.S. cigarettes. In addition, recent domestic policy changes in the Soviet Union and Eastern Europe have opened export markets.

[28] Grise, *The World Tobacco Market,* p. 22.

Table 6
Cigarettes: U.S. imports for consumption, by principal sources, 1986-90

Source	*1986*	*1987*	*1988*	*1989*	*1990*
	Quantity (millions of cigarettes)				
Canada	556	800	700	1,023	906
United Kingdom	340	321	318	308	333
Indonesia	39	37	44	38	53
Guatemala	0	5	16	24	25
Japan	42	43	67	36	35
Hong Kong	26	10	17	20	14
Singapore	0	4	19	17	8
Germany, West	150	20	7	4	6
Jamaica	7	8	14	9	9
All other	19	37	34	16	26
Total	1,179	1,286	1,236	1,496	1,415
	Value (1,000 dollars)				
Canada	8,314	14,252	12,865	19,513	20,643
United Kingdom	4,328	4,581	5,191	5,367	6,829
Indonesia	1,361	909	990	820	1,001
Guatemala	0	84	294	678	707
Japan	559	623	1,053	627	671
Hong Kong	496	197	353	390	282
Singapore	0	99	441	393	181
Germany, West	1,073	251	151	102	170
Jamaica	93	78	158	123	125
All other	374	655	684	302	352
Total	16,599	21,729	22,180	28,315	30,961
	Unit value (per 1,000 cigarettes)				
Canada	$14.95	$17.81	$18.39	$19.08	$22.80
United Kingdom	12.71	14.28	16.30	17.42	20.53
Indonesia	34.57	24.47	22.47	21.54	18.86
Guatemala	—	15.52	18.70	27.75	28.26
Japan	13.25	14.35	15.77	17.32	19.29
Hong Kong	19.17	19.92	20.32	19.38	19.57
Singapore	—	22.31	23.23	22.94	22.40
Germany, West	7.17	12.29	20.76	23.40	27.02
Jamaica	13.73	10.32	11.70	13.05	13.81
All other	19.61	17.75	20.05	19.34	13.59
Total	14.07	16.89	17.95	18.93	21.88

Note.—Data before 1989 are estimated.
Source: Compiled from official statistics of the U.S. Department of Commerce.

U.S. Exports

Cigarette exports grew rapidly during the 1980s, rising by more than 25 percent in value and more than 15 percent in quantity each year between 1986 and 1990 (table 7). In 1990, cigarette exports rose by 41 percent in value compared with those in 1989.

Asian markets accounted for a major share of the recent growth in cigarette exports. Japan and other Asian countries were destinations for about 40 percent of U.S. cigarette exports in 1990. U.S. cigarette exports to Asian markets increased about 30 percent in 1990 compared with the 1989 levels.

Because of the role of Brussels as a center for redistribution of cigarettes, many U.S. exports are transshipped from Belgium to Eastern Europe or the Middle East. The extent of transshipment is not known; however, it is believed that most of the increased exports to EC countries were transshipped to Eastern Europe and did not enter EC markets.

Table 7
Cigarettes: U.S. domestic exports, by principal markets, 1986-90

Market	*1986*	*1987*	*1988*	*1989*	*1990*
	Quantity (millions of cigarettes)				
Belgium	0	0	26,691	33,214	53,528
Japan	9,638	31,951	35,027	45,167	47,589
Hong Kong	9,151	11,924	15,750	19,062	16,530
United Arab Emirates	1,649	2,193	3,568	6,992	7,015
Saudi Arabia	5,778	5,747	5,290	5,268	5,967
Singapore	2,844	3,214	3,801	4,457	4,185
Taiwan	209	5,100	4,526	2,251	3,479
Turkey	330	569	987	836	3,128
Korea, South	281	312	2,400	3,846	3,427
All other	34,064	39,238	20,460	20,663	19,455
Total	63,945	100,246	118,499	141,755	164,301
	Value (1,000 dollars)				
Belgium	0	0	727,134	940,264	1,727,351
Japan	127,974	491,857	606,318	871,155	1,312,380
Hong Kong	190,748	262,280	348,068	467,061	430,434
United Arab Emirates	30,415	40,902	67,579	159,980	186,886
Saudi Arabia	135,660	132,382	132,915	146,934	186,310
Singapore	59,717	75,147	98,691	119,478	118,644
Taiwan	4,355	118,767	119,152	55,545	107,602
Turkey	7,608	14,337	26,668	24,071	107,083
Korea, South	5,644	6,070	56,382	106,415	100,501
All other	735,991	905,632	462,462	478,254	483,807
Total	1,298,113	2,047,375	2,645,369	3,369,157	4,760,997
	Unit value (per 1,000 cigarettes)				
Belgium	—	—	$27.24	$28.31	$32.27
Japan	$13.28	$15.39	17.31	19.29	27.58
Hong Kong	20.84	22.00	22.10	24.50	26.04
United Arab Emirates	18.44	18.65	18.94	22.88	26.64
Saudi Arabia	23.48	23.04	25.13	27.89	31.22
Singapore	21.00	23.39	25.96	26.81	28.35
Taiwan	20.81	23.29	26.33	24.67	30.93
Turkey	23.07	25.21	27.01	28.80	34.23
Korea, South	20.10	19.49	23.49	27.67	29.33
All other	21.61	23.08	22.60	23.15	24.87
Total	20.30	20.42	22.32	23.77	28.98

Note.—Data before 1989 are estimated.

Source: Compiled from official statistics of the U.S. Department of Commerce.

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U.S. Trade Balance

The U.S. has traditionally run a trade surplus in cigarettes. As a result of rising exports, the U.S. trade surplus in cigarettes increased substantially during 1986-90 (table 8).

Table 8
Cigarettes: U.S. exports, imports, and trade balance, 1986-90

(In million dollars)

Year	*Exports*	*Imports*	*Balance*
1986	1,298	17	1,281
1987	2,047	22	2,025
1988	2,645	22	2,623
1989	3,369	28	3,341
1990	4,761	31	4,730

Source: Compiled from official statistics of the U.S. Department of Commerce.

APPENDIX
EXPLANATION OF TARIFF AND TRADE AGREEMENT TERMS

TARIFF AND TRADE AGREEMENT TERMS

The ***Harmonized Tariff Schedule of the United States*** (HTS) replaced the *Tariff Schedules of the United States* (TSUS) effective January 1, 1989. Chapters 1 through 97 are based on the internationally adopted Harmonized Commodity Description and Coding System through the 6-digit level of product description, with additional U.S. product subdivisions at the 8-digit level. Chapters 98 and 99 contain special U.S. classification provisions and temporary rate provisions, respectively.

Rates of duty in the ***general*** subcolumn of HTS column 1 are most-favored-nation (MFN) rates; for the most part, they represent the final concession rate from the Tokyo Round of Multilateral Trade Negotiations. Column 1-general duty rates are applicable to imported goods from all countries except those enumerated in general note 3(b) to the HTS, whose products are dutied at the rates set forth in ***column 2***. Goods from the People's Republic of China, Czechoslovakia, Hungary, Poland, and Yugoslavia are among those eligible for MFN treatment. Among articles dutiable at column 1-general rates, particular products of enumerated countries may be eligible for reduced rates of duty or for duty-free entry under one or more preferential tariff programs. Such tariff treatment is set forth in the ***special*** subcolumn of HTS column 1.

The ***Generalized System of Preferences*** (GSP) affords nonreciprocal tariff preferences to developing countries to aid their economic development and to diversify and expand their production and exports. The U.S. GSP, enacted in title V of the Trade Act of 1974 and renewed in the Trade and Tariff Act of 1984, applies to merchandise imported on or after January 1, 1976, and before July 4, 1993. Indicated by the symbol "A" or "A*" in the special subcolumn of column 1, the GSP provides duty-free entry to eligible articles the product of and imported directly from designated beneficiary developing countries, as set forth in general note 3(c)(ii) to the HTS.

The ***Caribbean Basin Economic Recovery Act*** (CBERA) affords nonreciprocal tariff preferences to developing countries in the Caribbean Basin area to aid their economic development and to diversify and expand their production and exports. The CBERA, enacted in title II of Public Law 98-67, implemented by Presidential Proclamation 5133 of November 30, 1983, and amended by the Customs and Trade Act of 1990, applies to merchandise entered, or withdrawn from warehouse for consumption, on or after January 1, 1984; this tariff preference program has no expiration date. Indicated by the symbol "E" or "E*" in the special subcolumn of column 1, the CBERA provides duty-free entry to eligible articles the product of and imported directly from designated countries, as set forth in general note 3(c)(v) to the HTS.

Preferential rates of duty in the special subcolumn of column 1 followed by the symbol "IL" are applicable to products of Israel under the ***United States-Israel Free-Trade Area Implementation Act*** of 1985, as provided in general note 3(c)(vi) of the HTS. When no rate of duty is provided for products of Israel in the special subcolumn for a particular provision, the rate of duty in the general subcolumn of column 1 applies.

Preferential rates of duty in the special duty rates subcolumn of column 1 followed by the symbol "CA" are applicable to eligible goods originating in the territory of Canada under the ***United States-Canada Free-Trade Agreement***, as provided in general note 3(c)(vii) to the HTS.

Other special tariff treatment applies to particular ***products of insular possessions*** (general note 3(a)(iv)), goods covered by the ***Automotive Products Trade Act*** (general note 3(c)(iii)) and the ***Agreement on Trade in Civil Aircraft*** (general note 3(c)(iv)), and ***articles imported from freely associated states*** (general note 3(c)(viii)).

The ***General Agreement on Tariffs and Trade*** (GATT) (61 Stat. (pt. 5) A58; 8 UST (pt. 2) 1786) is the multilateral agreement setting forth basic principles governing international trade among its more than 90 signatories. The GATT's main obligations relate to most-favored-nation treatment, the maintenance of scheduled concession rates of duty, and national (nondiscriminatory) treatment for imported products. The GATT also provides the legal framework for customs valuation standards, "escape clause" (emergency) actions, antidumping and countervailing duties, and other measures. Results of GATT-sponsored multilateral tariff negotiations are set forth by way of separate schedules of concessions for each participating contracting party, with the U.S. schedule designated as schedule XX.

Officially known as "The Arrangement Regarding International Trade in Textiles," the ***Multifiber Arrangement*** (MFA) provides a framework for the negotiation of bilateral agreements between importing and producing countries, or for unilateral action by importing countries in the absence of an agreement. These bilateral agreements establish quantitative limits on imports of textiles and apparel, of cotton and other vegetable fibers, wool, manmade fibers, and silk blends, in order to prevent market disruption in the importing countries—restrictions that would otherwise be a departure from GATT provisions. The United States has bilateral agreements with more than 30 supplying countries, including the four largest suppliers: China, Hong Kong, the Republic of Korea, and Taiwan.

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