

## Low production doesn't set tobacco prices on fire

By Ashish Kulshrestha, ET Bureau | Feb 14, 2017, 05.46 PM IST

HYDERABAD: [Tobacco](#) farmers in India are unlikely to get better remuneration for their produce this year despite low production as demand from global and domestic players have declined due to high taxation in domestic market and availability of better tobacco at competitive rates in other global markets.

Production of Flue-cured Virginia (FCV) tobacco, which is used in cigarettes and accounts for 40% of the total tobacco produced in India, is likely to fall by 10-15% this year from the crop size fixed by the Tobacco Board, says Murali Babu, general secretary, Federation of All India Farmer Associations (FAIFA).



*India exports more than 60% of Indian FCV tobacco produce to more than 100 countries across the globe.*

While it is expected to fall from 130 million kg to 105 million kg in [Andhra Pradesh](#), Virginia tobacco production in the other key producing state, [Karnataka](#), is pegged at 90 million kg as against the targeted 95 million kg.

Tobacco Board fixes the crop size for FCV tobacco, which is mostly produced in three states -- Andhra Pradesh, [Telangana](#) and Karnataka, and is procured through auctions. Cultivation of non-FCV tobacco, which accounts for the large chunk of Indian tobacco production and finds use in bidi and jarda, is not regulated.

Fall in Virginia tobacco production was mainly due to drought in tobacco-producing regions of AP, the largest producer, and also due to farmers partly reducing crop area and shifting to other crops like Bengal gram, said Murali Babu.

Indian farmers, who largely cultivate Virginia tobacco, may get some 5% better realisation for their produce this time as against the over 15% increase they saw over the past years, says cigarette giant [ITC](#)'s divisional chief executive Sanjiv Rangrass. He attributes the not-so-encouraging rewards to tobacco farmers to subdued demand from international buyers.

According to Murali Babu of FAIFA, average price for Virginia tobacco is likely to be around Rs 110 per kg this marketing season starting February as against Rs 105 per kg last year. "However, as input costs have increased since last year, farmers were anticipating at least Rs 120 a kg to make tobacco cultivation remunerative."

While domestic demand has been shrinking due to high taxes which has increased by 118% since 2012-13, declining interest from international buyers have reduced farmers' realisations by 22%, says FAIFA.

India's tobacco exports have been volatile over the past two years and a senior executive from

ITC said their offtake from farmers declined by 10%, mostly on account of a fall in exports during this period.

Ravi Kumar, auctions manager, Tobacco Board, said, "[Brazil](#) and Zimbabwe are having good production since the last couple of years while the quality and quantity of Indian tobacco have been volatile due to unfavourable weather conditions during the last two monsoons. Exporters prefer to buy from these two countries and are looking at India only in case of requirement of a particular variety of tobacco or to meet their additional requirements."

According to Syed Mahmood Ahmad, director, [Tobacco Institute of India](#) (TII), Indian tobacco exports are expected to be around 200 million kg in 2016-17 as against 209 million kg in 2015-16. Exports have been dropping from a peak of 230 million kg in 2009-10.

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According to the Tobacco Institute of India (TII), India is the world's second-largest producer of tobacco with an estimated annual production of 800 million kg. FCV is the main exportable tobacco produced in India and more than half (60%) is exported, while the rest used in domestic cigarette manufacturing.

Source: <http://economictimes.indiatimes.com/industry/cons-products/tobacco/low-production-doesnt-set-tobacco-prices-on-fire/printarticle/57148150.cms>