



CUBA'S TOBACCO AGRO- INDUSTRY AND GLOBAL VALUE CHAINS

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Introduction

- When one speaks of Cuban tobacco, what comes to mind is the famous tobacco Premium Cigar(the Cuban pure), of exquisite aroma and flavor, high quality and also of high price.
- Although the Premium tobacco elaborated by hand remains the main product of the Cuban tobacco agro-industry, undoubtedly the diversification of the production of the sector has been a successful process.
- This is the case from both an export revenue perspective and from the point of view of using it as tool to successfully reinsert the Cuban internationally.



Introduction

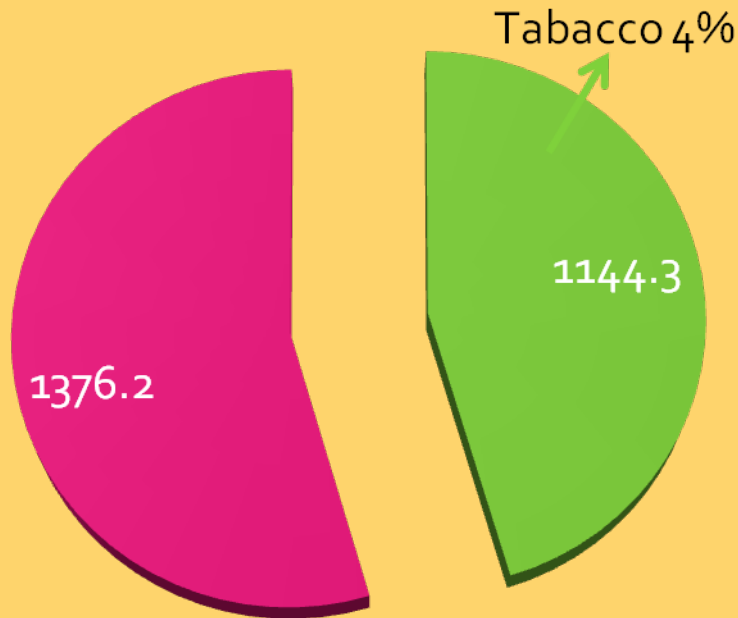
- This presentation offers an overview of the principal characteristics of the recent efforts to reinsert Cuba's tobacco agro-industry in global value chains.



In relation to arable land (thousands of hectares)

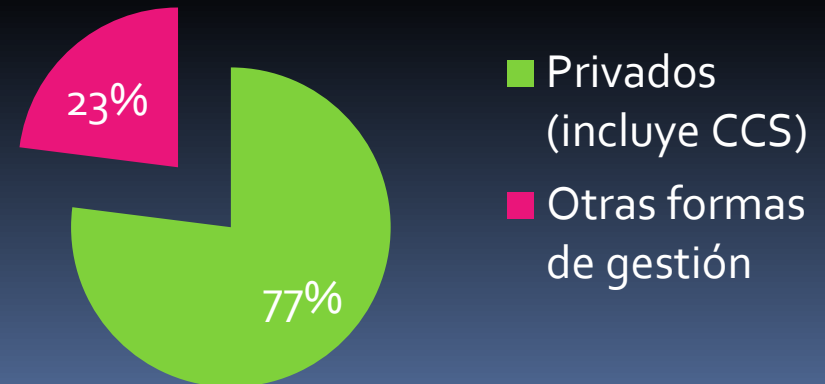
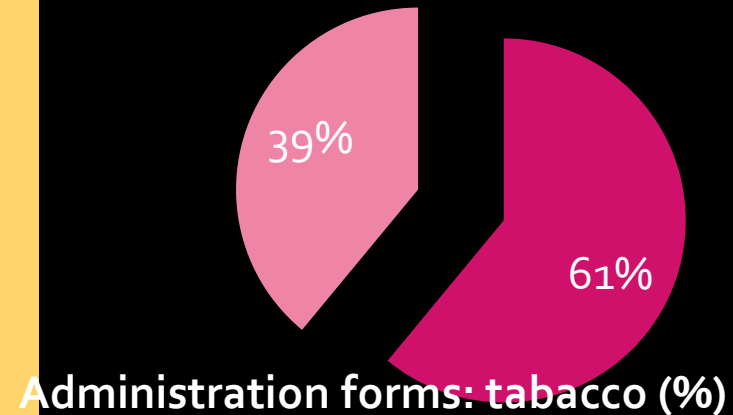
Types of crops

■ Short cycle ■ Permanent



Administration forms (%)

■ Others administration forms
■ Private (it includes CCS)

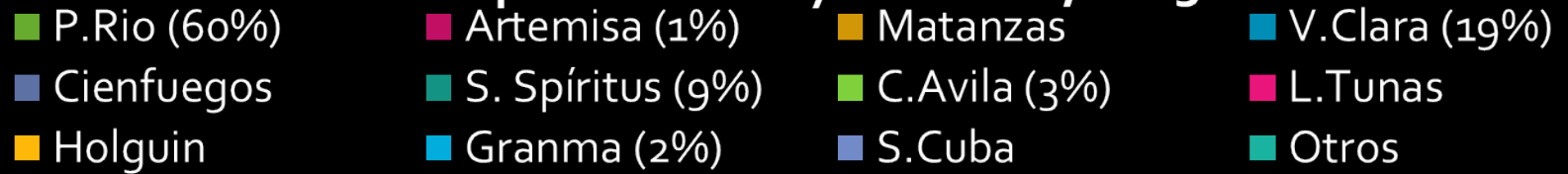


Source: ONEI, 2013

Forms of administration in Cuba's tobacco industry:

- The reason is not only historical. The cultivation of the Cuban tobacco, almost all black, is a delicate and meticulous work that only offers favorable results if it is cultivated in special soils and in areas carefully worked by people with strong attachments to them.
- The cultivation of tobacco is a complex, labor-intensive process, that is not suitable to mechanization, and requires expert skills, based on experience and tradition.

Tobacco production by Province, 2013



Even though tobacco cultivation takes place across Cuba, more than 90% of the country's tobacco leaves are planted and harvested in six provinces.

The soils for Cuban Tobacco crop

- The selectivity is even stricter for high quality tobacco.
- More than 90% of the black tobacco leaf of market quality it is cultivated in well-known very limited regions, which are known as "Vuelta Abajo", "Partidos", y "Semi-Vuelta", that are in fact the lands of the famous tobacco "Habano".



Given such delicate, and specialized, cultivation, it is unrealistic to hope for substantial increases in output and yield.

Cuban tobacco agriculture

source: ONEI 2013

Annual Harvests	Harvested Area hectares	Production (ton)	Yields (T/h)
1999/2000	52,685	37,987	0,72
2006/2007	32,670	29,700	1,1
2007/2008	28,672	25,600	1,12
2008/2009	19,995	21,500	0,93
2009/2010	25,452	25,200	1,01
2010/2011	20,705	20,500	1,01
2011/2012	29,054	19,900	1,46
2012/2013	23,634	23,400	1,01
2013/2014	25,000	26,400	1,07

Cuban tobacco agriculture

When analyzing Cuban tobacco output, the following factors should be considered:

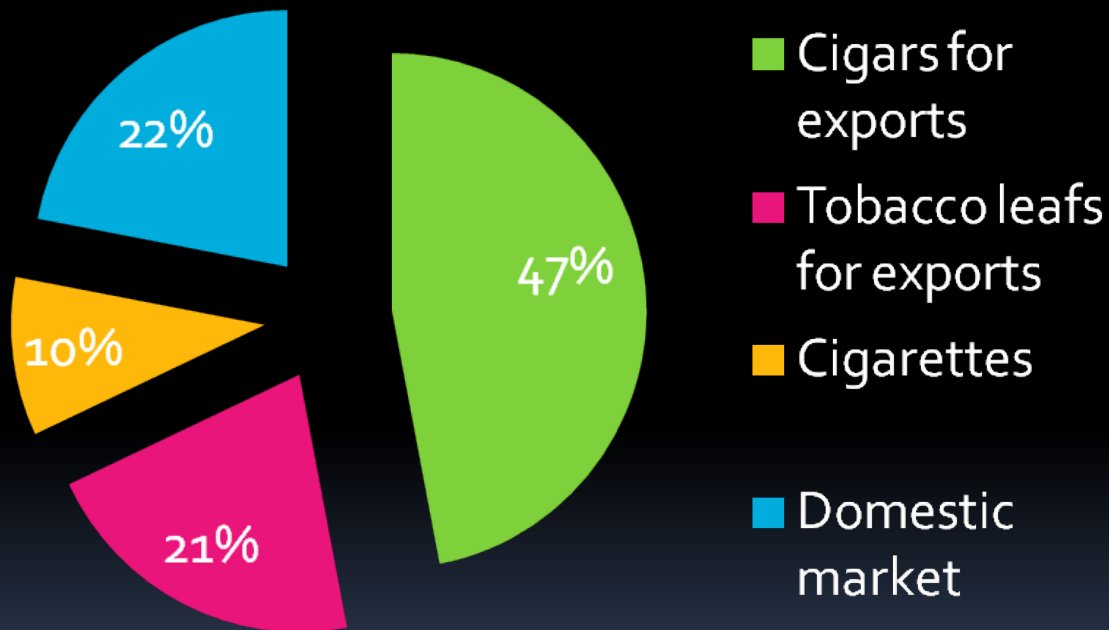
- The tobacco crop is extremely sensitive to illnesses and biological affectations: such as the virus of the mosaic, the blue mold and the environmental necrosis.
- Climatic events such as hurricanes and droughts also affect tobacco production.
- The organizational structure of the agro-industry also has an impact on output.

The managerial TABACUBA group

- The organizational structure of the Cuban tobacco agro-industry has experienced several transformations since 1959 (*see, Peña L. La agroindustria tabacalera cubana en la década del noventa y su inserción internacional, 2001*)
- Since the year 2000, TABACUBA, S.A., constitutes the organizational structure for driving the activities of the agro-industry. It is a closely-held corporate structure affiliated to Ministry of Agriculture.
- Currently, TABACUBA operates with more than 20 companies for channeling the input and services to all the production units, and distributing, according to the different destinations, its production.

Tobacco: Different Destinations

- Distribution of tobacco output by destination:



Approximately 80% of Cuba's tobacco output is destined for exports.

I. The cigars production for exports

- There are 51 factories for the production of cigars elaborated by hand, which employ an estimated 14,000 workers.
- Production volumes oscillate between 150 and 190 million cigars, almost 80% of them are high-quality Premium cigars.
- Around 50% of cigar production volume is elaborated by machine.
- In Cuba, there is a factory that specializes in the automated production of the Cuban cigars for export: “International Cubana del Tabaco”, ICT, S.A.

Cuban Tobacco Production

II. For Domestic consumption.

- There are 39 cigar factories in Cuba, which employ nearly 3,500 workers, with an average annual production of 144 million cigars.

III. Cigarettes for domestic consumption and exports.

- There are 5 factories to supply domestic cigarette demand, with a total production volume of 7, 500 million cigarettes.
- BRASCUBA, S.A., a joint venture, was created to meet domestic demand for cigarettes in CUC, and to export cigarettes.

Tobacco exports as a share of merchandise exports (millions of dollars)

Years	Tobacco Exports as % of Merchandise Exports		
	Tobacco Exports	Merchandise Exports	% of Merchandise Exports
2000	166,3	1675,9	9,92
2006	245,9	2924,6	8,41
2007	236,1	3685,7	6,41
2008	234,5	3664,2	6,40
2009	212,3	2863,0	7,42
2010	202,1	4549,5	4,44
2011	223,4	6041,0	3,70

Source ONEI, 2013

The tobacco sector and the international insertion of Cuban economy

- At the present time, the relationships of the Cuban tobacco economy with foreign capital are institutionalized in four main entities:
 - *1. Habanos S.A.,*
 - *2. Internacional Cubana del Tabaco, ICT S.A.,*
 - *3. Teca Puros S.A.,*
 - *4. Premium Publicity.*

Habanos S.A.

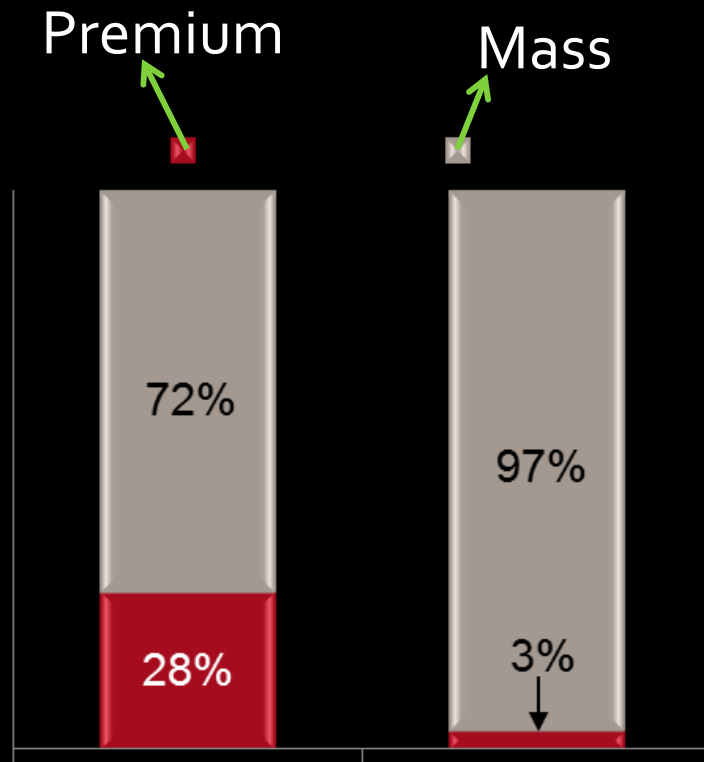
- Habanos S.A., was created in 1994 and became a mixed company in the year 2000. Its property is shared in similar parts by Cubatabaco, a company that belongs to the Managerial Group of the Tobacco (Tabacuba), and Altadis S.A, a filial enterprise of the English Group Imperial Tobacco.
- Habanos S,A., it is the company that sells the famous Cuban Premium cigar. It is the owner of well-known tobacco brands in the world such as Cohiba, Montecristo, Partagás, Romeo y Julieta etc.

Habanos-ALTADIS-Imperial Tobacco, S.A.

- Altadis S.A., was created in March of 1945 with the denomination of "Tabaquera Sociedad Anónima, compañía gestora del monopolio de tabacos y servicios anejos S.A.," its name was modified later, and now it is called "Tabaquera S.A".
- On November 2007, the British Society Imperial Tobacco Group, presented a stock purchase public offering (OPA) on 100% of the capital stock of Altadis S.A. In February 2008 the Imperial Tobacco Overseas Holding (ITOH), acquired the entirety of stocks of Altadis S.A., which were excluded of the stock market in Madrid and Paris.
- Imperial Tobacco S. A., is one of the most important corporations in the production and commercialization of tobacco products in the world: they have 26% of the world market of cigarettes and 22% of the world cigar market, and are the first in the Premium tobacco market a quota of market of 40%.

Imperial Tobacco S.A: The cigars production

As average for the years 2012-2013, the net income of the corporation rose to 10,500 million dollars, of those approximately 4% came from tobacco.



Value
(420
million
USD)

Volume

Keeping in mind the endowment limitations of natural resources (soil, climate, etc.) and in general the quality restrictions to elevate the production of the tobacco Premium, it is evident that the possibilities of the sector to increase their revenues for exports depend on successfully positioning mass produced tobacco.
Source: Imperial Tobacco S.A.

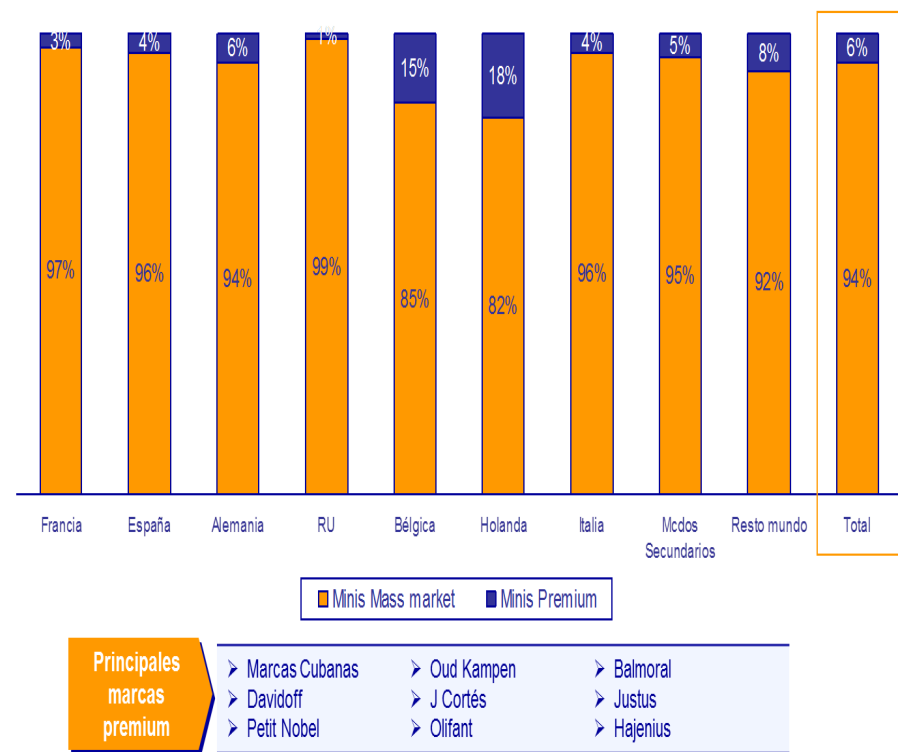
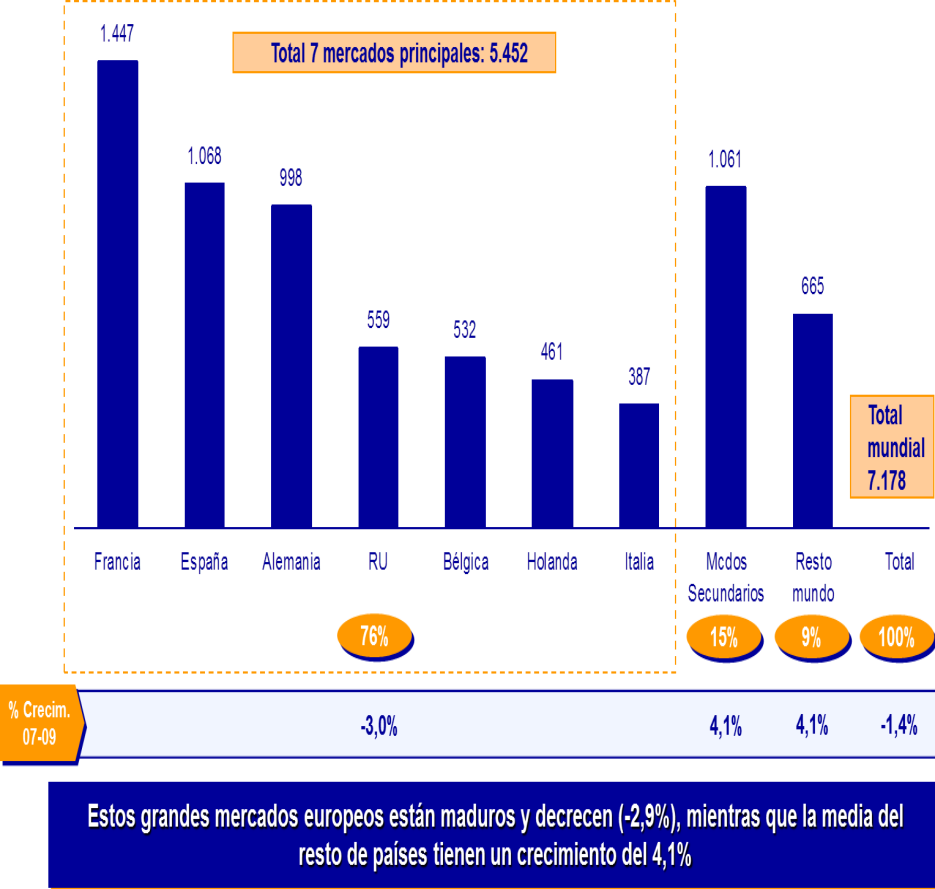
Internacional Cubana de Tabaco ICT, SA.

- It is a joint venture under the form of anonymous society by registered shares. It was constituted in the year 1999 for the production of cigars elaborated by machine for exports.
- At the present time, the partners of ICT, S.A., are: for the foreign part, the Spanish company ITI Cigars, S.L., (presently a branch of Imperial Tobacco, S.A.,) while for the Cuban part, the Cuban Mercantile Society TABAGEST, S.A., of the Managerial Group TABACUBA.





- During the period 2001- 2013 ICT. S.A., more than 1 200 million units of tobacco have been sold for more than 200 millions of USD.
- During this period, the sales of tobacco elaborated by machine have grown at an average annual rate of 18,0% in units and 14,4% in value.
- Today they have 10 brands in the market in 7 different formats, everything 100% natural.
- Cuban mass-produced tobacco has reached today a quota of 24% in the 100% natural mass world market.
- Tobacco exports in units elaborated by machine represent today more than 50% of all the exports of domestic tobacco.
- Source: ICT. S.A.



En Bélgica y Holanda, mercados con gran tradición en minis, el segmento premium tiene un mayor peso (15%-18%) debido a la alta presencia de marcas locales muy consolidadas

The smallest formats (Mini and Club) represent the 77% of the whole world market and of them, the segment of natural tobacco 100% with Premium prices, only 6%.

In such a market of natural tobacco 100 %, Cuba has a share of 24%.

The possibility of expansion in the mass-produced international tobacco market that is not 100% natural, called homogenized tobacco mass, is being studied.

BRASCUBA, S.A.

- It is a joint venture formed by Sousa Cruz, a Brazilian subsidiary of the group British American Tobacco (BAT), base in the United Kingdom, and TABACUBA. It was founded in 1995, so it is considered the pioneer of the Brazilian investments in the Caribbean island.
- Their production is centered in cigarettes for the domestic market in CUC; around 75% of its production and, also, 25% for export.
- BRASCUBA with noted brands such as H.Hupman, Popular, Romeo and Julieta, Hollywood etc., accounts for 18% of the domestic market of cigarettes.
- In the year 2012 BRASCUBA achieved a production record of around 2 200 million cigarettes; this represents a growth rate of 45% compared to 2008.
- It is estimated that sales revenues for BRASCUBA are about 28 million USD and the profits are around the 10 million USD in 2012.
- Source: BRASCUBA, S.A.

BRASCUBA, SA.

- While the domestic market grew in the last two years to a rate of two digits, exports stagnated and even fell.
- In 2012, the volume exported fell 40%, to 136 million units, mainly as a result of the reduction of the Spanish market, the biggest consumer export market for BRASCUBA, S.A.
- To improve results, the company is looking for new partners. This year, they have exported to Egypt and Russia for the first time.

Existing Restrictions:

- The public health restrictions of the market are the main obstruction to the growth of the revenues of the sector for all the producers that compete in tobacco world markets.
- For example, in 2012 more than 20,000 million USD, (13,902 £ million), were paid by the Corporation Imperial Tobacco S.A., in taxes and similar concepts.

Consolidated Income Statement

£ million 2012

Revenue 28,574

Duties and similar items (13,902)

Other cost of sales (9,178)

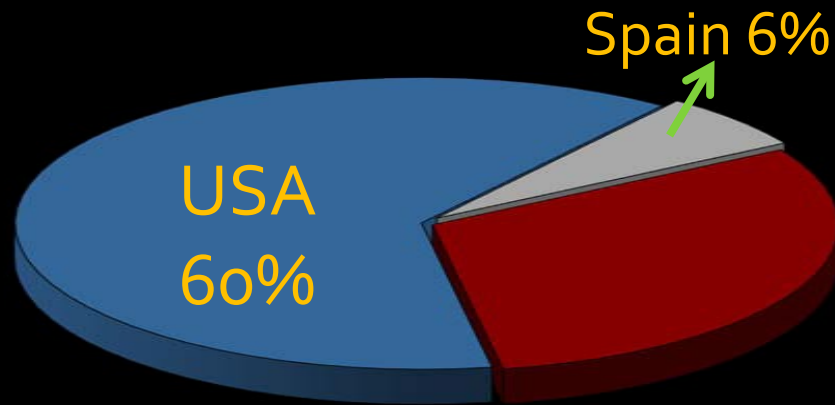
Cost of sales (23,080)

Gross profits 5,494

Source: Imperial Tobacco Annual Report. 2013

Other restrictions

- For Cuba other restrictions are added, for problems of political nature, the North American market is closed for Cuban products.
- In the US market Imperial Tobacco S.A., sells 60% of its Premium cigars.



Source: Imperial Tobacco Annual Report. 2013

Concluding Remarks

- In general, the strategy of international reinsertion of the Cuban tobacco agro-industry has been successful.
- Income levels have shown a growing tendency, a diversification of the products has also been observed, and what is more important an upgrading process that allows to Cuban companies to improve their linkages with international value chains has also taken place.
- Nevertheless, the tobacco market is a highly competitive market and has a negative restrictive tendency.
- As a result, it is unlikely that Cuba's tobacco exports can increase at high rates.