

INTERNATIONAL GERMANY

DELI TOBACCO, PRECIOUSNESS NEARLY DISAPPEARS

The prestige of Tobacco originated from Deli and Java in the international has elapsed. The bale quantity of tobacco has declined from year to year. Its prestigious rank in the international market has been taken over by another manufacturer. Or will it soon become a reign to memorize?



Tobacco Auction in Tobacco Exchange in Bremen, Germany.

Bremen Germany, end of June 2007, it was bright sunny day surrounding the cities in which Indonesian Tobacco Auction Hall in Bremen (Tabak Boerse Bremen) was held. It was unfortunate that the sales volume of natural products offered by PT Perkebunan Nusantara (PTPN) II and X still remained compared to last year's auction. Although they were sold out only within two days (June 27-28), the number of sales only reached 5,2 million euro lower than last year, 6 million euro.

Despite the slight decline of total sales, this year best international auction managed to increase the price in average of 35 euro per kilogram. It was equal to Rp.434.000 and showed an increase of 17% compared to one year lapsed.

Merchandise of PTPN II and X in Bremen, as accompanied by the officials of red plate were sold out, shipped by big cigarette company in Europe. They were the only one purchasing best quality tobacco at highest price. The auction sales were made through estate per estate and party per party causing broad price margins. Once, the best part of sand-leaf tobacco were sold price of almost 90 euro per kilogram or equivalent to Rp.1.116.000. The lowest price was about 10 euro per kilo. Looking at this fact, Sumatran tobacco is the most expensive in the world.

Such high price is possible only through auction. Different from public traditional auction of natural commodities or artworks at which price is announced using amplifier or auction for electronic products via internet i.e. *e-bay*, Tobacco auction in Bremen was organized elegantly, privately and secretly. It offers different situation. The auction hall in the harbor city of Bremen is situated within industrial estate and warehouse complex. From a distance, there looks Indonesian Red-White Flag and Bremen Federal Flag straightly standing side by side between which the building name is shown "Bremen Tabakboerse"



cigar-quality tobacco

In the building's parking area, there are cars of neighboring countries such as Netherland, Belgium, England, Scandinavia and other cities in Germany. On one side of wall in the parking lot there is a board marked "no smoking". Uniquely, cigarette aroma directly strikes while entering the post-modern architecture building complex of 1950-es. The 3.000 square meter building is constructed facing to the north with angled transparent roofs blocking the sunlight exposure but absorbing the natural sunlight. The sunlight is utilized for natural study of the tobacco leaf color.

The building is fully equipped with regulating system to maintain constant humidity 85% and temperature 24-26 Celsius degree as in regions with tropical climate where tobacco is grown. Bremen is a city in the north part of Germany with dried climate, constant humidity and minimum population of insects making it an ideal place for tobacco storage. To arrive at the main hall, the visitors must first pass the rooms with open roofs. In those rooms, prospective buyers will examine the sample tobacco. On each door, there is marked the name of cigarette company or broker.

Finally, we arrived at the hall of approximately 100 x 25 meters size, a place where dried tobacco sample originated from Sumatra and Java is exhibited. Tobacco leaves are tied and coded as per plantation of origin and party and are placed on a table. Tens of lanes were made available for Deli tobacco and the other two lanes were intended for Java tobacco. The prospective buyers are allowed opportunity to touch, smell and even lit up the leaves to test them.

Couple of persons from many countries had rushed since early in the morning. They were well-dressed that day. Not to forget, there were also cigars on their fingers or lips. They are the tobacco merchants, brokers, prospective buyers, tobacco experts, cigar producers and Tobacco observers from Indonesia. It is not a secret that there are competitors of Deli and Java tobacco producers, South Americans were also present at the auction hall.

This auction was made as the meeting forum of tobacco world cigar and tobacco entrepreneurs, particularly from Europe. This is the only tobacco auction hall in the world. Unfortunately, the intensity of tobacco auction in Bremen has decreased. During the early years, there were six to eight auctions within only a year, one auction roll per day. Due to the fall of Indonesia tobacco production volume, the auction has been held only twice since 2002.

After four weeks of shipping by special container from Hapag Lloyd (the company owns special container for tobacco and coffee shipment) and landing in Bremen, the tobacco is stored in a warehouse exactly situated across the auction hall. Within a period of 40 days before the auction, many cigar companies and tobacco merchants in Netherland, England and Scandinavian countries sent their tobacco experts to see the quality of tobacco by their

colors, leaf width, aroma and elasticity to determine the estimated price they may offer.

At nine o'clock local time, auction for Sumatran tobacco was commenced. Each company inserted envelopes containing the offering price to the box marked "Gebote", Offer. In a closed room behind the box, the commodity owners as represented by Director of PTPN II, X and representative officials from Bremen Auction Hall (DITH – Deutsch – Indonesische Tabak Handelsgesellschaft mbH & Co KG) were waiting. They will decide who have offered the highest price to bring home the superior quality of tobacco.

After 15 minutes, through sound amplifier, woman's voice in Deutsch language announced that the time for making offer is extended to 15 minutes. There were two extensions allowed after which no more extension would be given. A red light turns on showing that the time for submitting the offer is up. The owner and DITH check and discuss the offer submitted. Discussion is held within about one hour in a stressful atmosphere.

A participant from Belgium admitted that his heart was beating so fast waiting for the announcement. Again, the Germany woman's voice was heard but not announcing the price. The large hall became silent at a sudden; the participants were listening to the results of the auction. They wrote who will win the auction. As soon as it is finished, it began to crowd, the winners in the auction were congratulated by other participants. Smiles were all over the halls. Henry Masquelin, tobacco purchaser of cigar manufacturer J. Cortes Belgium commented, "I think, this year's tobacco market is not demonstrated by the merchants not for the quality is high but the high demand."

The characteristics of Deli tobacco are not replaceable by other tobacco from any part of the world. Their superiority lies in the bright leaf color, low content of nicotine, white dust, good elasticity and distinguished aroma (spicy but mild). It is very appropriate for the outer cigar wrapper of cigar (Deckblatt – German / wrapper – English). The superiority has made classy European cigar industry a loyal customer and big fan of Deli Tobacco for years and in fact they have never been absent from the auction. Name it J. Cortez (Belgium), Royal Agio and De Olifant (Netherlands), Nobel Cigars and Henri Wintermans (Netherlands-Denmark) and Villiger (Germany – Switzerland).

De Olifant, established in 1832, owned its small factory producing 4.000.000 cigars every year. Since 80 years ago, they have always used Sumatran Tobacco. "Deli Tobacco is the best in the world. No other tobacco will match its taste and aroma. It's really beautiful. Said Ravi Ravestijn, company's advisor, being a tobacco expert for 50 years.



Naif Ali Dahbul, Adi Prasongko, Soedjai Kartasmita and Teuku Darmawan.

Ravi admitted that, minor production of Olifant used Brazilian tobacco. However, it always tries to satisfy consumer demand to use Deli tobacco. Milled tobacco leaves.

Olifant products have fanatic consumers. A wooden pack of Cigarilos (small cigar of cigarette size) with 10 contents is sold at price of 12 euro (Rp 148.800). Meanwhile, the possible highest price of premium-type of cigar would be 5 up to 7 euro per bar.

The world trend is now shifting from cigar to small cigar. Why has Sumatran cigar price not higher than cigar originated from Latin America? "It is only a matter of brand image". Cuban cigars, for example, are sold at expensive price due to export prohibition to America," explained Chandra Perpatih, tobacco broker of Perantara GmbH.

Six years ago, wrapper market share of Indonesian tobacco reached 42% out of total world demand for cigars. Due to low productivity of Deli tobacco, hence wrapper share of Indonesian tobacco declined to 34%. During the last five years, the volume of Deli tobacco for auction has fluctuated significantly.

This year, tobacco volume auctioned in Bremen fell to the lowest point 2.477 bales (1 bale = 75 kilograms) or 185.775 kilograms. Sumatran Tobacco was only 1.675 kilograms. Meanwhile, the world demand for first-class wrapper Sumatran tobacco reached 3.000 bales. Due to the lower production of Deli tobacco from year to year, the rank of Deli tobacco auctioned in Bremen could be taken over by the manufacturers from Ecuador, Brazil, Mexico, Cameroon and Cuba. The shortfall of supply for Deli Tobacco must be accommodated by tobacco from other countries for the need of production. If no attention is paid to this condition, it is possible that the superiority of Deli tobacco will be forgotten by the consumers.

According to Naif Ali Dahbul, Finance Director of PTPN II Tanjung Morawa, who was interviewed during the auction break, the drop of tobacco volume was mainly attributable to natural factors. The plants are very sensitive to climatic changes. Rain intensity and heat will affect the quality of tobacco.

Other factor causing the declined production is the city expansion which converting the functions of tobacco fields to public facilities and personal property. Many fields have become golf courses, trade complex and housing. Moreover, there were claims for land ownership by the communities. Eighty years ago, total width of tobacco fields was 200.000 hectares but now there are only 120.000 hectares.

Anticipating this condition, Dahbul said that the company has tried to disseminate among the communities the mechanism on tobacco plants. "One year before tobacco planting season, the land must have been vacated for loosing soils and fertilization process. However, most habitants believe that they will become neglected lands.

He stated that, to this date, local government as supported by National Land Agency has fully informed the local communities that the vacant lands are the property of PTP. In addition, there are about 5.800 hectares of land in the suburbs considered as no longer feasible for tobacco planting.



Chandra Perpatih

Dahbul admitted the drop tobacco production in PTPN II during the last three years. "Our next strategy is to focus on quality not quantity since it will help realizing broader margins", he said. PTPN II is planning to supply more lands approximately 12.000 hectares. With five-year rotation for one planting in part of the land, there will be 1.000 fields for planting in Sumatra. They are planning to make an increase to 1.200 and another gradual increase (one field 0,8 hectare). They are also concentrating on special lands for tobacco and no sugar canes will be planted during the intervals.

Different from tobacco market situation in Java, Adi Prasongko, President Director of PTPN X, accompanying the sales of tobacco in Bremen, said that there are many consumers to purchase Java Tobacco and in fact the price is very competitive. Total production of PTPN X reached about 10.000 bale, nevertheless, there were merely 702 bales auctioned in Bremen. The remainders were aimed at direct purchase. "We produce tobacco as per demands from the purchasers", he remarked.

According to Prasongko, the price of direct sales remains higher than auction. "However, we conceive this event as a partnership between Indonesian and German Government. We will regularly participate in this market," he added, if auction market offers good price, it is possible that the sales volume will increase the forthcoming period. Unlike tobacco fields in Sumatra, those in Java are owned by farmers not HGU. **MIRANTI S. HIRSCHMANN (GERMANY)**

Cameroon Tobacco and Smoking Ban

The presence of Kelle Hubert-Jean from Cameroon in the auction hall was very surprisingly highlighted. He talked almost with all persons he met. Hubert-Jean introduced himself as tobacco manufacturer for cigar wrapper from Batscenga, Cameroon. He was inspired to learn about Tobacco auction.

The country in the western coast of Africa was once a luring place for tobacco trade and possessed its own Cameroon Tobacco auction hall in France. It was the strongest competitor of Indonesia. After ceasing the partnership with the French company, the quality of its tobacco products has extremely dropped. As a consequence, the auction hall in France was closed in 1992.

Now, they are beginning to start again from zero. Hubert-Jean shared a story, Batscenga, his village of origin, is the pioneering field of tobacco. Cameroon tobacco seeds were sourced from Sumatra transported by the Netherlands to Africa in about a century ago. The local climate and temperature in Cameroon is not much different from in Sumatra, thus making it successful to grow Sumatra tobacco seeds. He is optimistic to retake the reign of Cameroon tobacco in the future. "We are working hard to reorganize tobacco culture system," he said.

The success of Deli tobacco has definitely caused envy tobacco farmers in other countries. Chandra Papatih, tobacco broker of Perantara GmbH, said that Sumatran tobacco seeds have been widely grown in South America to challenge the quality of Deli Tobacco. In fact, however, many of them are not successful yet" the output per hectare is relatively low and the quality of aroma is not comparable to the original from Deli", he remarked.



Observer from Cameroon

At present, there are five companies seeking to pursue the success of Deli tobacco. Two of them are situated in Bahia, Brazil and the other is in Mexico, the other two are domestic companies in Jember (PTPN X and private company). "The only one achieving the success is Jember. However, by comparing the price, they will find it difficult to compete with us. The aroma is absolutely different. This is said to be the distinguished value of soil elements in Deli," he added.

Tobacco product is now encountered with anti-tobacco campaign initiated by many countries. Each country in Europe has begun their anti-tobacco rally. Indonesia (Jakarta) has also taken part in anti-tobacco campaign through smoking ban in various public places. So, what about the future of cigar industry? Fritz Bossert, Senior Vice President of Kulenkampf AG, tobacco seller in America, visited Bremen to meet his business partners. He assumed that anti-tobacco campaign is full of political loads.

"It is easy for politicians to claim that anti-tobacco campaign is actively initiated to minimize tobacco-related diseases. Never compare cigarette and cigar. Cigar is something to really enjoy. People may relax enjoying each blow and finish the cigar within 30 minutes. To feel the taste of good quality cigar we must spend 3 up to 4 euro per bar. This is completely different from cigarettes," said Bossert. He renounced the assumption that anti-tobacco campaign will affect cigar production. He saw the tendency of increased production of best-quality cigar manufactured by machinery and manual. The import volume has also increased 3% - 4% per year.

Wolfgang G. Koehne, Managing Director of DITH, expressed the same opinion regarding such case.

"First, the demand of European and American Government for placement of warning on smoking hazard in the cigarette packs. To this date, it bears no significant effect on cigar industry. However, it may affect the cigarette industry," he said.

In Europe, there is no identified impact on the smoking ban in public places. In Italy, despite the strict prohibition to smoking in public premises and restaurant, there is in fact increasing demand for cigars. This fact clearly

shows that cigar consumers are *genuss raucher* or tobacco fan who only smoke cigar during their leisure time. "Cigar is lifestyle", he emphasized.

MIRANTI S. HIRSCHMANN (GERMANY)

Java and Deli Tobacco Sales

Year	Deli Tobacco (bale)	Sales Value (euro)	Java Tobacco (bale)	Sales Value (euro)
2003	2,304	3,869,000	1,686	1,624,000
2004	1,636	3,698,000	1,143	1,574,000
2005	2,124	5,020,000	1,294	1,810,000
2006	2,082	4,395,000	1,112	1,674,000
2007	1,675	3,998,000	802	1,235,000

Source: Perantara GmbH

The Challenges toward 50 Years of Bremen Auction

Next year, Bremen Auction Hall will organize the 50th anniversary of the auction. However, due to the fall of tobacco volume originated from Indonesia, there is a fear that the volume will no longer meet the quota for auction and Bremen Auction Hall will be forced to discontinue its operation as Cameroon Tobacco Auction Hall in France in 1992.

Encountering the fear of discontinued operation of tobacco auction in Bremen, Wolfgang G. Koehne stated that his side and PTPN have made attempts to increase tobacco volume to be traded in Bremen. We highly expect that it will restore and rebuild the trust of cigarette manufacturers to use Sumatran tobacco. "I have my own confidence that the superiority of Sumatran tobacco," he said.



Wolfgang G Koehne

Wolfgang G. Koehne is the successor of family company Hellmering Koehne & Co, engaged in tobacco trade. His father, Wolfgang Koehne, is a prominent figure in cooperation scheme Indonesian tobacco trade in Germany, including the conception of the auction hall. At present, Wolfgang Koehne is holding the position of Managing Director of DITH, marketing agency of Sumatran and Java tobacco in Bremen. For 49 years, none of the customers has filed even their complaints.

In his routine as an actor in tobacco industry, Wolfgang Koehne is demanded to try various kinds of cigars. What is his expression for the taste of Sumatran tobacco? "It is the best, light and full of taste, I cannot wait to lit up the next cigar", he replied.

MIRANTI S.HIRSCHMANN (GERMANY)

De Olifant's Loyalty to Deli

Selling cigars using Sumatran tobacco? We do not sell local products," a woman voice is heard replying by telephone. What about Europe manufactured cigars? Silent. "We just sell imported cigars from Havana or Dominica," she replied again.

This is a phone conversation between GATRA and servant of a cigar lounge in a five-star hotel in Jalan Thamrin, Jakarta. It is Ironic. GATRA met different responses while visiting a cigar store among the fashion boutiques of Marienplatz luxurious brand proprietor, Munich Germany. It's still the same question? Do you sell Sumatran tobacco?"

The reply was unpredictable, "of course, we only sell the best-quality tobaccos from all over the world. "The shop keeper straightly pointed a cabinet displaying a row of wooden boxes of various European brands on which there are Sumatra labels. "We have large collections of Sumatra Tobacco. In fact we also sell the vintage"

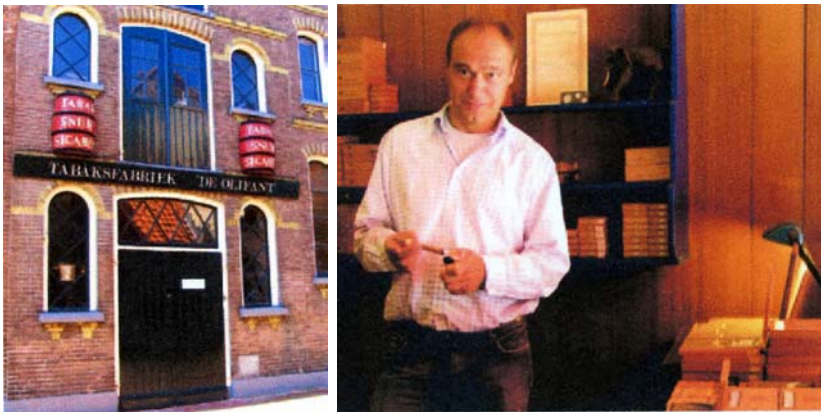
Sumatra tobacco brand has its special rank among the European cigars. There is also long history about the pride in Deli's indigenous natural commodities. It is not apart from the development of harbor cities in Germany and Netherland a century ago.

Kampen is a city with population of about 50,000 lives. It is situated in Overijssel Province, Netherland. Ijssel River made it a popular cargo port in the 12th and 13th century. Tobacco industry in Kampen rapidly grew from 1826 until 1950. In 1920, it was recorded that more than 110 cigar plants dominated the city economic activities and it produced 1,5 billion bars of manual-made cigars in 1880.

While getting off the regional train in Kampen Station, the aroma of cigars was obvious all over the places. In the city hub, there were old and young man relaxed sitting and chatting one with another enjoying their cigars. The remaining reign of Kampen as tobacco industry city is still apparent, including in the ex-cigar factory. However, as time passed by, tobacco factories have disappeared. There is remaining one tobacco factory with semi-engine production system, De Olifant, the name of the factory.

Witwe Meulenkamp started his elephant-logo tobacco business in 1832. A five-story cigar factory fully equipped with tobacco leaf storage facilities in the basement constructed not far from the river. Until now, the building is still operating as cigar factory. The front part of the building has been redesigned into cigar shop and café to promote the sales of tea and coffee.

De Olifant is the smallest cigar manufacturer among the giant companies Netherlands, such as Swedish Match (1,5 Billion bars per year), Henry Wintermans Cigars, Royal Agio Cigars (800 million bars per year) and Ritmeester Cigars. In the past, the large-scale manufacturers always used Deli's *sand-leaf* tobacco. Today, they no longer use it for many reasons, higher price and low supply. Manufacturers producing billions of bars must seek substitutes since 1980s.



De Olifant Cigar Factory and Thomas Klaphake

Uniquely, the primary alternative with similar qualities to Sumatran tobacco is Java tobacco. As a matter of fact, Java tobacco is always used as binder. The second alternative is Brazilian and Mexican tobacco using seeds originated from Sumatra. Since then, Brazilian tobacco has been popularly known as Bras or Brazil-Sumatra.

De Olifant, however, manufacturing 4 million bars per year, always used the best quality tobacco. For 80 years, it has been a loyal user of Deli Tobacco for wrapper. Thomas Klaphake, Managing Director of De Olifant said that, "we only use Sumatra Tobacco. The sand leaf."

Due to lower production of quality Sumatran tobacco, Klaphake cannot deny the opportunity to use Sumatran tobacco grown at other places. "If Brazil-Sumatra and Mexico-Sumatra produce better quality, many companies will be lured by its lower price and shorter distance of shipping," he said.

For safety measure, Olifant has tried various fermented tobacco products and compared them to Sumatran tobacco. As a loyal user of Sumatran tobacco, Klaphake repeatedly reminded the officials of PTPN visiting his factory, "You should take good care of the gold (leaves) in your hands."

With piled stocks in his warehouse, Klaphake felt confident for the production until next six years. He is satisfied with the quality of tobacco as auctioned in Bremen last month; in fact it has better quality than those used in

the preceding years. Then, De Olifant purchased the best tobacco leaf at price of 450.000 euro.

The factory employing 34 workers launched nine types of cigars with different sizes and qualities. De Olifant is also a manufacturer of other brands of cigars in Netherland, producing their cigars with "Dutch recipes", wrapper originated from Sumatra, binder from Java (Besuki/Jember) and mix content from Brazil, Sumatra, Java and Havana. The difference lies at the filler composition and quality of wrapper and binder. We like the taste and aroma and we will maintain the recipes and quality of our products," Klaphake added.

He explained that different tobacco plantation will produce different taste. The favorite of De Olifant is from Tanjung Putus plantation (87) and Halvetia (73). "There are not so many choices, they just have six plantations remaining," he remarked.

Among the stacks of bales wrapped with plaited map, there are tobacco leaves for best quality production (vintage). To achieve vintage predicate, the leaves must be stored again for a minimum of seven years before made as cigar wrapper to have the perfect taste. The potential price for one bales of super quality tobacco is 7.000 to 10.000 euro.

In one of the ready-sale premium cigar packs, it is written "Vintage dekblad oogstjar 1987 plantage 73/1", which means "best-quality wrapper" harvested in 1987, taken from plantation 73 (Halvetia - PT Perkebunan Nasional II) Quality I".

Netherland ranked the second in the world in total volume of cigar production after the United States. In 2005, there were recorded 2,3 billion of cigars exported to 100 countries. 87% of the main export destinations include the European Union countries, France (836 million bars) and England (268 million bars).

France, Germany and Spain were the three of the largest cigar users in European Union. Unfortunately, in the country in which sand-leaf tobacco grow for 45 days, only few understand the best quality of tobacco leaves admired by foreign countries. Many tobacco fields have been converted to golf courses.

MIRANTI S. HIRSCHMANN (KAMPEN, NETHERLAND)

Netherlands Cigar Production

(in million bars)

	2003	2004	2005
Production	2,201	2,555	2,545

Netherland Cigar Export

(in million bars)

	2003	2004	2005
European Union	1,914	269	2,025
Other Countries	256	2,048	294
Total	2,183	2,281	2,342

Source: CBS (Central Statistic Office)

The History of Tobacco Market

- 1959, Indonesian Tobacco market under auction scheme was relocated from Amsterdam, Netherland to Bremen, Germany. The effect of Indonesian confrontation against Netherlands on West Irian.
- For the purpose of auction, Deutsche Indonesische Tabak-Handelsgesellschaft (DITH) was established being cooperation between Indonesia (Tobacco national companies (PPNs) – presently PTPN II and PTPN X) and Germany (Bremer Gruppe composed of tobacco sellers and bank consortium in Bremen).
- First Auction was held in a warehouse situated in Bremen port. Three auctions were held successfully.
- Under cooperation scheme with the same parties (without bank consortium), auction hall is established (Tabakboerse) and Bremer Tabakboerse company is established as the management of the auction hall, in which 50% was owned by Indonesian government (PTPN) and 50% was owned by Bremer Gruppe.
- Subject to decree of Indonesian Government under authority of Ministry of Trade since 1959, it is provided that all cigar tobacco shall be auctioned in Bremen, Sumatra, i.e Sumatran Tobacco owned by PTPN II Tanjung Morawa, Medan, Java Tobacco from Klaten (Vorstenlanden) and Jember (Besuki) owned by PTPN X Surabaya and Besuki tobacco owned by private exporters.
- In 1976, the sale of low-quality tobacco in Bremen was not profitable that it only auctioned the best quality products.
- In 1989, the sales procedures of tobacco in Indonesia were exempted, auctioned in Bremen or directly sold. Besuki tobacco owned by PTPN and private enterprises not sold anymore in Bremen.
- Sumatran Tobacco and Vorstenlanden and shaded tobacco (VBN type FIK) remains for auction in Bremen until now.