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## **Argentina**

### **Tobacco Semi-Annual**

### **1999**

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#### **Report Highlights:**

**Argentine tobacco production for MY2000 is projected to drop to 103,800 MT. An oversupplied world market and a large crop in neighboring Brazil offered at very competitive prices forced local prices, and thus plantings, in Argentina to decline. Tobacco exports are forecast at 56,000 MT, lower than the previous year as a result of a smaller output and shorter stocks.**

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Includes PSD changes: Yes  
Includes Trade Matrix: No  
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## SECTION I. SITUATION AND OUTLOOK

Argentine tobacco production for MY2000 is projected to drop to 103,800 MT farm sales weight (FSW). Weak international demand and a large crop in Brazil at very competitive prices as result of their large currency devaluation, has resulted in lesser buyer interest in Argentine tobacco. The two large local cigarette manufacturers are expected to purchase similar volumes as in previous years, but tobacco dealers will buy smaller volumes, as reflected by their limited financial support to producers throughout the production year.

Has-MT	Area	Area	Area	Production	Production	Production
Product	1998	1999	2000	1998	1999	2000
Flue Cured	44000	35500	30700	82400	61100	57750
Burley	26700	24000	20200	28600	40900	36000
Other*	8300	9500	8100	5500	11400	10050
Total	79000	69000	59000	116500	113400	103800

\* primarily dark air and sun cured

Total tobacco exports for MY2000 are projected at 56,000 MT, lower than the previous year as result of a smaller output, reduced stocks and weak international demand. FOB prices are expected to drop in 2000 for these reasons: Brazil's large crop and inexpensive prices will determine the values of Argentine exports; due to a relatively similar quality to Brazil's crop and the smaller volumes produced, Argentina's tobacco needs to be a few cents lower than its neighbor's in order to create buyer interest. Through January-October 1999, the US was the largest export market for Argentine tobacco with 16,944 MT (\$35.8 million), followed by Germany with 12,208 MT (\$29.9 million), Belgium 7,005 MT (\$17.7 million) and Paraguay with 4,026 MT. Total exports in January-October 1999 were 63,000 MT valued at \$150 million.

The following table shows Argentine FOB values for the most exported products:

Type	Product	\$/Kg '99*	\$/Kg '98	Dif. '99/'98
Flue Cured	Strip	2.96	3.08	-4%
Burley	Strip	3.65	4.06	-10%

\* Jan-Oct

Although most of the Argentine tobacco crop is still in the process of curing, the quality of the flue cured and burley is expected to be good. However, the weather has been somewhat dry and more humidity will be needed during this stage.

The recently elected administration has not announced any new agricultural policy nor specific measures for the tobacco sector. The Special tobacco fund (STF), which continues to support tobacco growers, has experienced no modification. Reportedly the new government wants to increase one of the many taxes which affect cigarettes and which would increase the sales price between 30-50 percent. If the tax is put in place, cigarette sales will fall and tobacco prices paid to farmers will certainly drop as the cigarette companies' profitability will shrink. However, private sources are very doubtful that congress will finally pass this modification.

## SECTION II. STATISTICAL TABLES

PSD Table						
Country	Argentina					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Planted	79000	79000	0	69000	0	59000
Beginning Stocks	35850	36550	50650	50650	0	45750
Farm Sales Weight Prod	117300	116500	0	113400	0	103800
Dry Weight Production	98800	98100	0	93400	0	85500
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	5000	4000	0	6000	0	6500
TOTAL Imports	5000	4000	0	6000	0	6500
TOTAL SUPPLY	139650	138650	50650	150050	0	137750
Exports	53000	52400	0	68000	0	56000
Dom. Leaf Consumption	31000	31600	0	30300	0	29800
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	5000	4000	0	6000	0	6500
TOTAL Dom. Consumption	36000	35600	0	36300	0	36300
TOTAL Disappearance	89000	88000	0	104300	0	92300
Ending Stocks	50650	50650	0	45750	0	45450
TOTAL DISTRIBUTION	139650	138650	0	150050	0	137750

PSD Table						
Country	Argentina					
Commodity	Tobacco, Unmfg., Flue Cured				(HA)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Planted	44000	44000	0	35500	0	30700
Beginning Stocks	16000	16000	28850	33000	0	21700
Farm Sales Weight Prod	83000	82400	0	61100	0	57750
Dry Weight Production	72000	71500	0	53000	0	50000
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	2000	2000	0	5000	0	6000
TOTAL Imports	2000	2000	0	5000	0	6000
TOTAL SUPPLY	90000	89500	28850	91000	0	77700
Exports	40000	35600	0	48000	0	34000
Dom. Leaf Consumption	19150	18900	0	16300	0	15300
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	2000	2000	0	5000	0	6000
TOTAL Dom. Consumption	21150	20900	0	21300	0	21300
TOTAL Disappearance	61150	56500	0	69300	0	55300
Ending Stocks	28850	33000	0	21700	0	22400
TOTAL DISTRIBUTION	90000	89500	0	91000	0	77700

PSD Table						
Country	Argentina					
Commodity	Tobacco, Unmfg., Burley				(HA)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Planted	26700	26700	0	24000	0	20200
Beginning Stocks	9300	10000	11300	10500	0	16500
Farm Sales Weight Prod	28500	28600	0	40900	0	36000
Dry Weight Production	22800	23400	0	33400	0	29400
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	2500	1600	0	500	0	1000
TOTAL Imports	2500	1600	0	500	0	1000
TOTAL SUPPLY	34600	35000	11300	44400	0	46900
Exports	11500	12800	0	16000	0	18000
Dom. Leaf Consumption	9300	10100	0	11400	0	10900
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	2500	1600	0	500	0	1000
TOTAL Dom. Consumption	11800	11700	0	11900	0	11900
TOTAL Disappearance	23300	24500	0	27900	0	29900
Ending Stocks	11300	10500	0	16500	0	17000
TOTAL DISTRIBUTION	34600	35000	0	44400	0	46900

### SECTION III. NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

#### PRODUCTION

##### A) Flue cured:

Planted area in MY2000 is the smallest in the past five years with a total production forecast at 57,750 MT (FSW). Weak demand from international buyers forced growers in Salta and Jujuy to limit or reduce their plantations. Dealers gave very little support to growers throughout the crop. Most producers received help with productive inputs from local cigarette manufacturers and some received special credits from the STF in order to produce tobacco for the export market. The weather in general was good but tending to be dryer than normal. Good rainfall in the last week of 1999 will surely help to improve the quality of the 2000 crop. Unlike many other years, hailstorm damage was insignificant. The buying season is expected to open the first week of 2000, and grower prices are forecast to drop once again. Sources expect this year to have two distinct prices: one higher, paid by local cigarette manufacturers, and another price paid by tobacco dealers which is expected to be

lower as a reflection of the depressed international market. Grower returns are getting tighter and tighter every year, but still the most efficient can make some money. The STF support should be somewhat higher this year as total tobacco production will be lower than last year and the funds collected are expected to be the same.

#### B) Burley:

Production is also expected to drop in MY2000, to 36,000 MT (FSW) due to the same reasons as for flue cured. The two main producing provinces are Misiones (in the northeast of the country) and Tucuman (in the northwest):

Tucuman: Approximately 5,500 hectares were planted (including Catamarca province). Plantings were smaller due to the scarcity of financial support from provincial entities and to the fact that the STF money became available to the producer slower than expected. The weather in Tucuman has been dryer than usual and now more humidity is needed for the curing process. So far the quality is good, but it will depend on the weather of the next month. Approximately half of the province's burley will be used by local cigarette manufacturers, and the balance will be exported. A US company together with local partners are testing a "summer burley" which would be transplanted in February and harvested in May.

Misiones: This is the main burley producing province in Argentina. Planted area in MY2000 was approximately 14,000 hectares. After a couple of bad years, the weather so far has been good. Plantations look very good and currently producers are harvesting. Some more rainfall will now be needed to secure a good curing process. Sources expect about 75 percent of the province's burley to be exported, while the balance will be used domestically.

## **CONSUMPTION**

Domestic consumption is forecast to remain unchanged in 2000, as it has in the last five years. However, if taxes on cigarettes increase, consumption is expected to decline.

There are about 12 million smokers in Argentina (37 percent of the population). Approximately 42 percent of men and 33 percent of women consume cigarettes. A little over 40 percent of youngsters between 18 and 25 years old and 44 percent of the people between 36 and 50 years old smoke. The average smoker consumes 15 units per day. The higher the socioeconomic status, the greater is the consumption.

The two large local cigarette manufacturers continue to compete fiercely to gain more market share. American-type cigarettes dominate the preference with almost 91 percent, while dark tobacco cigarettes continue to drop.

## **TRADE**

Flue cured exports in MY2000 are expected to drop significantly to 56,000 MT as result of lower output and smaller stocks. The international market is still well supplied and Brazil will have a very good crop and, as a result of the devaluation, very competitive prices.

Flue cured exports in January-October 1999 totaled 45,000 MT. Our previous export forecast was lower, but

some dealers preferred to export their uncommitted stocks to be able to collect back the value added tax (21 percent ) and the rebate (5.4 percent). During this period, Germany was the largest destiny of Argentine flue cured with 9,957 MT, followed by the US with 8,515 MT; Belgium with 6,857 MT; Paraguay 3,625 MT; and Egypt with 3,611 MT.

Burley exports for MY2000 are forecast at 18,000 MT, higher than the previous year. Total exports in January-October 1999 14,000 MT. The US was the leading market with 8,409 MT, followed by Germany with 2,251 MT, Netherlands 1,098 MT, Russia with 756 MT and Turkey with 499 MT.

Imports of tobacco for MY2000 are projected up at 6,500 MT. Local cigarette companies continue to import tobacco to use in the manufacturing of cigarettes. Imports could continue to expand in the future as long as Brazil's importance in the region continues and its prices stay very competitive. In the first eight months of 1999, Argentina imported 2,244 MT of partly or wholly stripped flue cured (primarily from Brazil), 1,716 MT of flue cured refuse (primarily from Brazil), 200 MT of Turkish tobacco and 127 MT of burley strip from Brazil.

Export rebates continue to be 5.4 percent, while import duties are 17 percent for countries outside Mercosur and zero for member countries.

## **STOCKS**

Tracking stocks is very difficult due to the confidentiality of the information and the complexity of tobacco trade. However, sources estimate that the two local cigarette manufacturers are well supplied. Foreign tobacco dealers, which together with local cooperatives handle most tobacco exports, many times ship uncommitted tobacco to other countries to recover the value added tax and the export rebate.