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Tobacco and Products

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Report Highlights:

Planted area and production of tobacco leaf are forecast to decrease in CY2001 as a result of high beginning stocks and a decreased export market due to increasing health concerns of consumers. Mexican cigarette companies will continue to buy domestic burley and flue cured production with a small amount of imports of flue cured to cover demand and maintain manufacturer's required ending stocks.

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SECTION I. SITUATION AND OUTLOOK

Economic Situation and Outlook: Mexico's 2001 economic prospects augur continuing growth. It will be a good year, but not exceptional, because of the slowdown of the U.S. economy. Mexico's exports to the U.S. could drop if the slowdown worsens. The Fox Administration faces several challenges that call for fundamental structural changes. Appropriately implemented, they would enhance Mexico's ability to withstand the harmful effects of external economic shocks.

The outlook for the Mexican economy for 2001 remains positive although real growth may be a little more than half of what it was in 2000. Since final domestic demand and exports will remain strong, GDP growth could average 3.8 percent in 2001. This performance would be a far cry from the unsustainable 7.1 percent real growth recorded in 2000. Inflation in 2001 may be slightly lower than it was in 2000. The average was 8.9 percent last year, and forecasters are predicting 7.9 percent for 2001.

Mexico's economic growth depends on its export market, essentially the United States. Ninety percent of Mexico's exports, including half of its manufacturing output, are exported to the United States. In 2000, Mexico exported \$166.4 billion, a 22.0 percent increase over 1999. Exports may increase by 11.0 percent in 2001, reflecting the slowdown of the U.S. economy. Mexico's most dynamic export sector, the maquiladora plants, assembles goods for the U.S. market. The import needs of the sector explain the 22.9 percent increase in imports in 2000, to \$174.4 billion. Imports may rise to by 18.0 percent in 2001, to \$206 billion.

Personal consumption continues to fuel Mexico's economic growth. Demand for goods and services, including imports, grew by about ten percent in real terms in 2000. That figure may average eight percent in 2001. Since the U.S. economic slowdown will force exporters to reduce their margins, they will try to keep costs down, including labor costs. The government has proposed a value-added tax on exempt products and services. All these factors will crimp personal demand in 2001.

Mexico's external accounts may cause concern in 2001. In 2000, its current account deficit totaled \$19 billion, 3.3 percent of GDP. But for high oil prices, that deficit might have been 4.7 percent of GDP in 2000. The current account deficit rose in each of the last six years except 1998. Forecasters agree that the decline in U.S. economic growth, and possibly in international oil prices, will again widen Mexico's current account deficit in 2001. The effect could be a 11.0/1.0 peso/US\$ exchange rate by the end of the year, about thirteen percent depreciation relative to the average rate of 9.5 in 2000. Since Mexico's exports enabled it to accumulate \$2.8 billion in international reserves (\$33.6 billion) in 2000, a less dynamic export environment and a lower level of foreign short- and long-term capital inflows, especially from the United States, could result in a stable reserve level in 2001.

The Fox Administration aims to pursue conservative fiscal and monetary policies. It will encounter difficulty in achieving a balanced budget in the absence of legislative support. In December 2000, the Fox Administration proposed a fiscal deficit of 0.5 percent of GDP in 2001.

Congress decided that the target should be 0.65 percent. Mexico's fiscal deficit was 1.0 percent of GDP in 2000.

The fiscal deficit approved by the Congress is complicating the Fox Administration's task of achieving sustainable 7.0 percent economic growth and measurable improvement in living standards, which President Fox promised during the presidential campaign. Financing such a deficit puts upward pressure on domestic interest rates. The result will be lower domestically driven fixed capital investment, with reduced employment and personal income. At the same time, higher domestic interest rates attract foreign capital. Such flows, even if neutralized, strengthen the peso and reduce the competitiveness of Mexican exports while making imports more attractive. Without fundamental change, the net effect could be a run on the peso, such as happened in December 1994. Avoiding calls for major structural changes in public finance, in labor legislation, and in the energy sector, the opposition-dominated Congress seems reluctant to approve the necessary changes.

Mexico's ability to absorb the effects of the U.S. economic slowdown, and possibly of a fall in oil prices, will determine whether Mexico will maintain buoyant economic growth during Fox's administration. Mexico's expansion of trade with its non-NAFTA partners could mitigate the effects of the U.S. slowdown. In particular, Mexico's free trade agreement with the European Union could initiate robust growth in Mexican exports to Europe. Europe's demand for manufactured imports could be critical to Mexico in the event of a prolonged economic downturn in the United States, given that Mexico's oil exports account for less than 10.0 percent of its total exports.

Oil-related revenues remain important to Mexico. Since they account for about 30 percent of government budgetary revenue, the Government of Mexico has a strong interest in cooperating with the OPEC producers to ensure that the price of oil remains at what they consider an acceptable level. The Government assumes that Mexico will obtain \$18.0 per barrel for its oil exports in 2001 and that it will export an average of 1.750 million barrels per day. The government's yield will be about \$11.5 billion in 2001. (Source: Embassy's Economics Section: JPG 012901)

Tobacco Situation and Outlook: Planted area and production of tobacco leaf are forecast to decrease in CY2001 as a result of high beginning stocks and a decreased export market due to increasing health concerns of consumers. Mexican cigarette companies will continue to buy domestic burley and flue cured production with a small amount of imports of flue cured to cover demand and maintain manufacturer's required ending stocks.

Lower tobacco leaf utilization will likely result in unchanged import needs for 2001, particularly for flue cured tobacco. For the same reason, ending stocks for burley tobacco in CY2001 are expected to decrease somewhat from the previous year. Ending burley stocks for CY2000 have been revised upward from our previous estimate due to increased production and high beginning stocks.

Tobacco leaf production is revised downward for CY2000 due to lower planted area for burley, flue cured and light air cured. Burley exports increased for CY2000 due to forward contracts and

commitments with international buyers in addition to large beginning stocks. Burley yields and quality for CY2000 were very good due to exceptional weather favorable to tobacco production and almost nil incidence of blue mold in Nayarit, the main producing state.

Cigarette Situation and Outlook: Cigarette production and consumption in CY2001 are forecast to remain unchanged from the previous year's estimates due to increases in retail prices and consumer health concerns. Cigarette imports are dampened because they are more expensive than domestic products. Mexican cigarette exports are forecast to remain unchanged in CY2001, and reportedly exports of both low priced domestic brands and non-branded cigarettes go mostly to Eastern European, Asian, and African countries. Cigarette imports continued to be negligible in CY2000 and are expected to remain unchanged for CY2001. Also, as a result of continued stringent customs controls, and lower prices for domestic cigarettes, imports of contraband cigarettes, mostly from the U.S., especially into central and southern Mexico, reportedly have decreased. They continue, however, to flow in large quantities into bordertowns along the U.S./Mexico border.

SECTION II. STATISTICAL TABLES

PS&D Tobacco (Burley)

(Hectares) (Metric Tons)

PS&D Table						
Country:	Mexico					
Commodity:	Tobacco, Burley					
	Revised 1999		Preliminary 2000		Forecast 2001	
	Old	New	Old	New	Old	New
Market Year Begin	01/1999		01/2000		01/2001	
Area Planted	14598	14598	12206	11850	0	10760
Beginning Stocks	33871	33871	37992	37992	0	31933
Farm Sales Weight Prod	25674	25674	14317	23351	0	22790
Dry Weight Production	21977	21977	13028	19423	0	18956
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	0	0	0	0	0	0
Total Imports	0	0	0	0	0	0
TOTAL SUPPLY	57848	55848	51020	57415	0	50889
Exports	5056	5056	9975	12682	0	11855
Dom. Leaf Consumption	12800	12800	12600	12800	0	12800
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consum.	0	0	0	0	0	0
Total Dom. Consum.	12800	12800	12600	12800	0	12800
Total Disappearance	17856	17856	22575	25482	0	24655
Ending Stocks	37992	37992	28445	31933	0	26234
TOTAL DISTRIB.	55848	55848	51020	57415	0	50889

PS&D Tobacco (Flue Cured)

(Hectares) (Metric Tons)

PS&D Table						
Country:	Mexico					
Commodity:	Tobacco, Flue Cured					
	Revised 1999		Preliminary 2000		Forecast 2001	
	Old	New	Old	New	Old	New
Market Year Begin	01/1999		01/2000		01/2001	
Area Planted	6903	6903	5735	5652	0	5212
Beginning Stocks	3379	3379	1254	1254	0	1662
Farm Sales Weight Prod	11503	11503	11079	9953	0	10731
Dry Weight Production	10375	10375	10082	8758	0	9443
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	500	500	500	2900	0	3040
Total Imports	500	500	500	2900	0	3040
TOTAL SUPPLY	14254	14254	11836	12912	0	14145
Exports	0	0	0	0	0	0
Dom. Leaf Consum.	10000	10000	9000	10000	0	10000
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consum.	3000	3000	1000	1250	0	1500
Total Dom. Consum.	13000	13000	10000	11250	0	11500
Total Disappearance	13000	13000	10000	11250	0	11500
Ending Stocks	1254	1254	1836	1662	0	2645
TOTAL DISTRIB.	14254	14254	11836	12912	0	14145

PS&D Tobacco, Unmfg., Total

(Hectares) (Metric Tons)

PS&D Table						
Country:	Mexico					
Commodity:	Tobacco, Unmfg., Total					
	Revised 1999		Preliminary 2000		Forecast 2001	
	Old	New	Old	New	Old	New
Market Year Begin	01/1999		01/2000		01/2001	
Area Planted	26798	26798	21574	21013	0	18518
Beginning Stocks	69767	69767	70249	70249	0	63183
Farm Sales Weight Prod	47957	47957	42404	40992	0	39556
Dry Weight Production	44744	44744	39646	38122	0	36787
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	3350	3350	3350	3350	0	3350
Total Imports	3350	3350	3350	3350	0	3350
TOTAL SUPPLY	117861	117861	113245	111721	0	103320
Exports	10112	10112	12206	10038	0	9765
Dom. Leaf Consum.	31000	31000	32000	32000	0	32000
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consum.	6500	6500	6500	6500	0	6500
Total Dom. Consum.	37500	37500	38500	38500	0	38500
Total Disappearance	47612	47612	50706	48538	0	48265
Ending Stocks	70249	70249	62539	63183	0	55055
TOTAL DISTRIB.	117861	117861	113245	111721	0	103320

PS&D Cigarettes

(1,000,000 Pieces)

PS&D Table						
Country:	Mexico					
Commodity:	Tobacco, Cigarettes					
Market Year Begin.	Revised 1999		Preliminary 2000		Forecast 2001	
	Old	New	Old	New	Old	New
Filter Production	32200	32200	32200	32200	0	32200
Non-Filter Production	15000	15000	15000	15000	0	15000
Total Production	47200	47200	47200	47200	0	47200
Imports	0	0	0	0	0	0
TOTAL SUPPLY	47200	47200	47200	47200	0	47200
Exports	20	20	20	20	0	20
Domestic Consumption	47180	47180	47180	47180	0	47180
TOTAL DISTRIB.	47200	47200	47200	47200	0	47200

Tobacco Trade Matrix 1999 and 2000*

TOBACCO					UNITS: Metric Tons/U.S. Dollars				
EXPORTS TO:	1999		2000*		IMPORTS FROM:	1999		2000*	
	Val.	Vol.	Val.	Vol.		Val.	Vol.	Val.	Vol.
U.S.	12.576.585	2.367	9.277.662	1879	U.S.	0	0	0	0
OTHER					OTHER				
Spain	1.087.503	69	0	0	Brazil	16.702.870	5.163	5.259.086	1.653
Dominican Republic	916.696	70	776.195	49	Greece	6.427.514	1.385	0	0
Sri Lanka	700.090	28	538.474	22	Turkey	5.487.387	1.084	2.741.144	481
Honduras	625.466	125	212.137	44	Guatemala	809.648	180	0	0
France	185.922	7	221.570	8	Italy	444.159	176	545.248	218
Nicaragua	10.472	1	32.040	8	Chile	0	0	1.006.375	254
Total of other & U.S.	16.102.734	2.667	11.058.078	2.010	Total of other & U.S.	29.871.578	7.988	9.551.953	2.606
Others not listed	13.366	10	895.470	216	Others not listed	1.282	1	7.125	1
GRAND TOTAL	16.116.100	2.677	11.953.548	2.226	GRAND TOTAL	29.872.860	7.989	9.558.978	2.607

Source: Global Trade Information Services, Inc. World Trade Atlas, Mexico Edition, October 2000.

*As of October 2000

Cigarette Trade Matrix 1999 and 2000*

<i>CIGARETTES</i>					<i>UNITS: Metric Tons/U.S. Dollars</i>				
EXPORTS TO:	1999		2000*		IMPORTS FROM:	1999		2000*	
	Val.	Vol.	Val.	Vol.		Val.	Vol.	Val.	Vol.
U.S.	2,844,446	102	4,985,892	259	U.S.	2,353,112	88	2,424,301	84
OTHER					OTHER				
Uruguay	363	60	0	0	England	293	12	438	22
Germany	0	0	239	11	France	257	8	34	2
					Switzerland	203.307	6	250	10
					Cuba	17	2	36	2
Total of other & U.S.	363	60	239	270	Total of other & U.S.	3,124,465	116	3,182,687	120
Others not listed	15	1	21	1	Others not listed	91	3	125	3
GRAND TOTAL	3,222,125	163	5,245,559	271	GRAND TOTAL	3,215,401	119	3,307,559	123

Source: Global Trade Information Services, Inc. World Trade Atlas, Mexico Edition, October 2000.

*As of October 2000

Tobacco Leaf Grower Prices per Quality Levels by State for 2000/01 Tobacco Leaf Burley Semi-Shade & Stalk Cut (Pesos per Kilogram)				
Grades	Nayarit	Grades	Chiapas	Oaxaca
X1	1,68e+88	X1	1,60e+101	1,168e+98
X2		X2		
X3		X3		
X4		X4		
C1		X5		
C2		C1		
C3		C2		
C4		C3		
B1		C4		
B2		C5		
B3		B1		
B4		B2		
T1		B3		
T2		B4		
T3		B5		
T4		T1		
SC		T2		
AVG.		T3		
		T4		
		T5		
		SC		
		AVG.		

SOURCE: CIGATAM and La Moderna, as of January, 2001
 Exchange rate: U.S.\$1.00 = \$9.47 Pesos as of March 20, 2001

Tobacco Leaf Grower Prices per Quality Levels Tobacco Leaf Flue-cured, (Green Basis) for 2000/01 (Pesos per Kilogram)		
Grades	Nayarit	Veracruz
X1	19.792	1,765916776e+137
X2	18.802	
X3	16.427	
X4	13.854	
X5	11.479	
CO1	25.136	
CO2	2.75	
CL1	21.71	
CL2	20.86	
C3	17.19	
C4	14.46	
C5	12.67	
BO1	25.73	
BO2	24.344	
BL1	22,365	
BL2	20.782	
B3	17.813	
B4	1.524	
B5	12.073	
TO1	24.74	
TO2	22.969	
TL1	21.735	
TL2	19.792	
T3	15.834	
T4	13.261	
T5	10.886	
SC	7.687	
Average	19.792	
Price:		

SOURCE: CIGATAM and La Moderna, as of January, 2001
Exchange rate: U.S.\$1.00 = \$9.47 Pesos as of March 20, 2001

Burley Planted Area Under Forward Contracts for 99/00 and 00/01 (Hectares)						
For Domestic Consumption						
Company	Semi-Shade Burley		Stalk Cut Burley		Total Burley	
	99/00	36896	99/00	36896	99/00	36896
CIGATAM	971	200	1,594	2,000	2,565	2,200
LA MODERNA	2,012	1,165	2,391	2,895	4,403	4,060
Subtotal	2,983	1,365	3,985	4,895	6,968	6,260
For Export						
DIMON	1,863	2,000	3,985	4,895	1,863	2,000
TPN	3,019	2,500			3,019	2,500
Subtotal	4,882	4,500			4,882	4,500
Grand Total	7,865	5,865			11,850	10,760

SOURCE: CIGATAM and La Moderna, as of January, 2001

Flue-Cured Planted Area Under Forward Contract for 99/00-00/01 (Hectares)		
Company	99/00	00/01
CIGATAM	3,335	2,750
LA MODERNA	2,317	2,462
Total	5,652	5,212

SOURCE: CIGATAM and La Moderna, as of January, 2001

Total Area and Tobacco Production				
Type of Tobacco	Area (ha.)		Production (MT)	
	99/00	36896	99/00	00/01
Flue-Cured	5,652	5,212	9,953	10,731
Burley	11,850	10,760	23,351	22,790
Light Air Cured	3,128	2,196	6,801	5,160
Dark Air Cured	383	350	887	875
TOTAL	21,013	18,518	40,992	39,556

SOURCE: CIGATAM and La Moderna as of January 20, 2001

Mexican Cigarette Prices Domestic Market			
Price per Pack (Mexican Pesos)			
<u>CIGATAM BRANDS</u>	<u>Price</u>	<u>LA MODERNA BRANDS</u>	<u>Price</u>
Benson & Hedges Ment, 100	15.00	Viceroy Gold 100 (5 Caj,)	15.00
Benson & Hedges 100	15.00	Viceroy Gold 100 L y M (5 Caj,)	15.00
Marlboro C,S,100	15.00	Viceroy L, Prem C,S, & C,D,	12.00
Marlboro Lights E,L,85	12.00	Viceroy C,S, Y C,D,	12.00
Marlboro Lights C,S,85	12.00	Salem C,S, y C,D,	12.00
Marlboro E,L, 85	12.00	Camel C,D, Y LIGHTS C,S,	12.00
Marlboro F,T, 80	12.00	Raleigh F,T,	11.00
Marlboro 14 F,T,	9.00	Pall Mall FF C,S, Y C,D,	10.00
L&M Regular C,S & F,T,	10.00	Pall Mall LIGHTS C,S, Y C,D,	10.00
L&M Lights C,S, & FT	10.00	Montana FF C,S, & C,D,	10.00
Broadway Lights C,S & F,T,	9.00	Montana Lights C,D, Y C,S,	10.00
Broadway Regular C,S, & F,T,	9.00	Fiesta C,S	9.00
Broadway Lights 14 C,S, & F,T,	6.50	Del Prado	9.00
Broadway Regular 14 C,S, & F,T,	6.50	Boots C,D, Y C,S,	9.00
Dalton Lights F,T, 80	9.00	Boots LIGHTS C,D, Y C,S,	9.00
Dalton F,T, 20	9.00	Alas Extra	5.00
Rodeo	9.00	Pacifico Ovalados	5.00
Delicados Oscuros F,T,	5.00	Argentinos	5.00
Elegantes Mentolados	5.00	Alas	5.00
Elegantes Regular	5.00	Gratos	5.00
Delicados Ovalados	4.00	Embajadores C,B C,S, Y C,D	5.00
Tigres Ment, F,T,	4.00	Bohemios	4.00
Tigres F,T,	4.00	Alitas	4.00
Tigres	4.00		
Reales	4.00		
Faros Ovalados			

Source: Cigatam, S.A. de C.V.

Prices as of August 28, 2000

Exchange rate: U.S.\$1.00 = \$9.47 Pesos as of March 20, 2001

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

TOBACCO

Production

PS&D production figures are based on industry sources. Revised and preliminary tobacco production and planted area are considered reliable since CY1999, CY2000 and CY2001 figures are based on forward contracts signed between growers and domestic and foreign buyers. Tobacco information from governmental sources is very limited and is based on data provided by the leading cigarette companies.

For CY2001, the forecast of planted area covered by forward contracts is estimated to reach 18,518 hectares, representing a decrease of 11.87 percent over the previous year's revised figure. In CY2000, planted area covered by forward contracts in Mexico totaled 21,013 hectares, representing a decrease of 2.6 percent from the previous estimate due mainly to high domestic stocks and international surplus of burley for export. Total tobacco production is revised downward in CY2000 from previous estimates due to lower planted area. Burley production, however, is revised upward as a result of excellent weather which allowed for very high yields offsetting the reductions in area planted. To a lesser extent, foreign buyers also provided less financing for the CY2000 harvest. Flue cured production is revised downward due to lower planted area and reduced demand by domestic cigarette companies.

Flue cured production continues to decline in CY2000, reflecting lower utilization. This tobacco is produced to meet demand from domestic cigarette companies. Acreage for light-air-cured tobacco decreased for CY2000 due to lower demand for low priced cigarettes. With the reduced planted area for CY2000, domestic cigarette companies and foreign buyers were able to use more productive acreage. Consequently, production gains from increased yields should offset some of the losses caused by the decrease in planted area. Land previously devoted to flue cured and burley was planted with dry beans and corn.

Most of the tobacco leaf produced in Mexico, except dark fire cured, is planted on irrigated areas using primarily sprinkler irrigation systems. Tobacco seedbeds are prepared in September and October in Mexico. Assuming favorable weather, burley tobacco imports will likely be insignificant in years ahead. Although growers' returns have declined, tobacco production continues to be more attractive than other alternative crops, such as dry beans and horticultural products.

Consumption

Burley consumption for CY2001 is forecast to remain unchanged from the previous year because health concerns continue to dampen demand. For CY2000, cigarette companies reported more consumption of low and mid-priced cigarettes in substitution of high priced cigarettes because of retail price increases. As a result, manufacturers report an increase of burley, light air cured and flue cured tobacco utilization in CY2000 at the expense of certain lower grades of burley and

flue cured tobacco. Total utilization of dark tobaccos continues to be strong in response to high demand for Mexican cigars.

Trade

Flue cured imports for CY2001 are forecast upward due to increased consumption and necessary stock building. Other imports will likely include oriental and, to a lesser extent, dark air cured. No imports of burley tobacco are expected for CY2001. As a result of cigarette companies' high stock levels, tobacco leaf imports remain unchanged in CY1999, CY2000 and in the forecast for CY2001. Main imports in CY2000 were for flue cured which were revised upward from the previous estimate due to lower production and higher consumption.

The CY2000 unmanufactured burley tobacco export forecast is revised upward due to increased production and large beginning stocks. Foreign buyers' forward contracts with burley growers reduced planted area from 11,850 hectares in CY2000 to 10,760 hectares for the CY2001 harvest.

Included are CY1999 and CY2000 trade matrices for unmanufactured tobacco. The source for trade data is the Secretariat of Economy (SDE). The official data are presented as light and dark tobaccos. Note that official import data for calendar years 1999 and 2000 are not used in the PS&D tables because they are not consistent with the information provided by cigarette companies. However, official figures are included in trade matrix tables per reporting requirements. Detailed tobacco and products trade data from other public and or private sources are not available.

Stocks

Ending stocks for CY2001 are forecast downward due to lower production of burley and overall decreased tobacco planted area. Ending stocks for CY2000 are revised upward from our previous estimate due to higher burley production and increased imports of flue cured tobacco. Domestic cigarette companies expect to swap stocks of burley tobacco for imported dark tobaccos whose domestic production continues to be below domestic demand. Leading cigarette companies generally keep between 18-20 months supply of tobacco leaf, particularly burley, flue cured and light air cured.

For CY2001, ending stocks of flue cured tobacco are forecast to be higher compared to the previous year's revised estimate due to higher production and increased imports. Due to reduced production and increased consumption of flue cured tobaccos, ending stocks have been revised downward in CY2000.

Policy

Mexican cigarette companies continue to finance growers to basically produce enough tobacco, particularly burley, flue cured and light air cured, to meet their needs based on projected cigarette production and domestic sales.

Tobacco leaf imports from NAFTA countries are subject to an import tariff of 10 percent for CY2001. Under WTO commitments, Mexico converted its import license system into import tariffs. The tariffs for WTO members applied to tobacco leaf and tobacco product imports are 45 percent for CY2001. At the same time, cigarette imports from non-NAFTA countries continue to be subject to an import tariff of 67 percent. Unmanufactured and manufactured tobacco exports are not subject to export taxes nor export permits.

CIGARETTES**Production**

Regardless of higher production costs which are reportedly well above international levels, Mexican cigarette producers are committed to support domestic production rather than depend on imports. Mexican cigarette companies have historically been able to pass production cost increases onto their consumers. The Government of Mexico (GOM) has approved retail price increases normally above the domestic inflation rate in recent years. As a result, imports will likely remain insignificant in future years, assuming normal weather in Mexico's tobacco producing regions.

The CY2001 output level is forecast to remain unchanged from the previous year's estimate due to health concerns of the population and cigarette price increases. Present market shares among cigarette companies are: La Moderna - 52.1 percent; CIGATAM - 47.5 percent; and La Libertad - 0.4 percent.

Consumption

At present, most cigarette companies are reportedly operating below capacity, except those primarily manufacturing low priced cigarettes.

Overall cigarette consumption remained unchanged for CY1999, CY2000 and is expected to remain unchanged for the CY2001 forecast due to retail price increases and consumer health concerns. Consumers, particularly young smokers, are changing from smoking higher priced cigarettes made up of high quality flue cured, burley, and oriental tobaccos to mid and low-priced cigarettes made of low quality flue cured, light air cured and dark air cured tobaccos. Based on improved economic conditions, population growth (1.9 percent annually) and with half of all inhabitants below 20 years of age, Mexico, with intensive marketing initiatives could continue to be a strong cigarette market in the medium and long terms.

The GOM, through the Secretariat of Commerce and Industrial Development (SECOFI), currently

known as the Secretariat of Economy (SDE), continues to negotiate with leading domestic cigarette companies price increases based on the inflation rate. The official inflation rate reported by the GOM for CY2000 is 8.9 percent, well below the 12.3 percent achieved in CY1999.

Trade

Tobacco leaf imports for CY2001 are projected to remain unchanged from previous years. The bulk of imports are dark and oriental tobaccos and to a lesser extent small amounts of specific grades of flue cured tobacco. Mexico's main supplier of flue cured tobacco leaf for CY1999 and CY2000 was Brazil. Mexican imports of oriental are due to zero domestic production. Oriental tobacco imports are from Turkey and Greece, while dark tobacco imports are reportedly from Italy.

Burley and flue cured continue to be by far the main tobaccos used to manufacture cigarettes in Mexico, mostly high and mid priced filter-tipped cigarettes. Sales of these cigarettes, however, continue to decline due to retail price hikes. Although Mexican cigarette companies are aware of the higher quality of the U.S. tobacco, particularly flue cured and burley, they claim higher prices than other exporting countries. Mexican cigarette companies have commonly looked for price competitiveness when importing tobacco leaf rather than quality of the product.

Tobacco leaf exports are revised downward for CY2000 as a result of the reportedly large surpluses in international markets. Mexico is forecast to export 9,765 MT of unmanufactured tobacco in CY2001, mostly burley (95 percent) and to a lesser extent dark fire cured. Foreign buyers' forward contracts with burley growers reduced planted area from 3,620 hectares in CY2000 to 3,280 hectares for the CY2001 harvest.

For CY2001, Mexican cigarette exports are forecast to remain unchanged from the previous year's exports. Cigarette imports continued to be negligible in CY1999 and CY2000 and are expected to remain unchanged for the CY2001 forecast.

Policy

According to NAFTA, manufactured tobacco products from the United States and Canada are subject to import tariffs of 10 percent in CY2001. The phase-out period is now 4 years. Tobacco product imports from WTO members are now subject to 67.5 percent import tariff, but no longer require import permits. Currently, it is unlikely that Mexico will expand imports of tobacco products.

Marketing

Marketing opportunities for U.S. cigarette brands are limited because they are more expensive than domestically produced cigarettes. Furthermore, major international brands continue to be produced in Mexico by leading cigarette companies under licensing arrangements. Mexican health authorities require that package labels indicate approved health hazard warnings, such as "smoking causes cancer".