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Tobacco and Products

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Report Highlights:

Total Argentine tobacco output for 2003 is estimated at 116,000 tons (farm sales weight), which is lower than expected as bad weather affected most of the producing provinces. As domestic use of tobacco is forecast to increase, due to an increase in cigarette sales as well as exports of smoking tobacco, export surpluses will be smaller than in the past two crops. Tobacco production for 2004 is projected to increase as farmers' returns were very good in 2003 and demand is expected to continue strong.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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SECTION I. SITUATION AND OUTLOOK

Argentine tobacco exports for 2003 are forecast at 61,000 metric tons (MT), lower than in 2002 as a result of a smaller output and larger domestic use. By May 2003 practically all local tobacco was committed as foreign demand was extremely strong due to limited production in Zimbabwe and a shorter crop than expected in Brazil. The largest exports are expected to be of flue cured, followed by burley. Dark and sun cured shipments will be small.

FOB prices for 2003 are estimated to be about the same as or slightly higher than last year. Based on Argentine official data, the 2002 average price for flue cured strip was \$2.46 per kilo and for burley was \$2.49 per kilo. Exports of tobacco refuse, primarily stems, has been growing in the past few years. In 2000, refuse represented 19 percent of total tobacco exports, 23 percent in 2001 and 26 percent in 2002. The average price ranged between \$0.25/0.32 a kilo. Local official statistics report refuse exports as a total, and do not identify by type of tobacco. Dealers estimate that flue cured refuse accounts for 55-60 percent and burley accounts for the remaining balance.

The U.S. is expected to be the largest buyer of Argentine tobacco in 2003, as it usually is. Other markets of importance will most likely be Belgium, Germany, Paraguay, Brazil, France and the UK. Exports of flue cured are projected to fall significantly less than burley, which suffered greater losses. Argentine total tobacco exports in 2002 were 80,600 tons, valued at \$145 million.

The quality of the 2003 crop is average. Flue cured in Salta and Jujuy is reported to have suffered somewhat erratic weather (too much rain and drought) and the attack of mites. This resulted in a higher percentage of unripe tobacco. The burley crop was also affected by weather problems. In Misiones, the quality was good, but too much rain has produced a light tobacco, with good color. Tucuman's burley is reported to be fair, also affected by weather problems (drought and then too much rain) and to a delayed start of the buying. The quality of the dark air and sun cured in Corrientes was also affected by too much rain.

Total Argentine tobacco production for 2003 is estimated at 116,000 tons (flue cured and Tucuman's burley buying were completed), lower than last year. However, based on planted area, production was aimed at approximately 135,000 tons, but unfavorable weather (including strong hail) in practically all producing provinces impacted negatively on production. Burley losses are estimated at 13,500 tons, flue cured's at 6,000 tons and dark and sun cured at 1,500 tons.

The demand of local producers of tobacco products is projected to increase slightly over 10 percent in 2003 as result of increased cigarette sales and larger exports of smoking tobacco. Therefore, exportable supplies will be lower than last year as a result of a lower output and an increased domestic demand.

The industry structure remains quite the same as previous years, with two local cigarette manufacturers (subsidiaries of Philip Morris and BAT), cooperatives which in most cases have strong ties with international dealers, a few small exporters and a large processor which exports most of Misiones' burley. All these players buy tobacco from producers, except BAT which a few years ago sold its leaf division to Standard Commercial and now buys tobacco from them. There are a few investments dedicated to expand production, such the case of the cooperative in Misiones which has expanded its processing capacity.

Prices paid to the producer increased significantly in 2003 as result of higher production costs and a strong international demand. The following table shows 2002 prices in pesos per kilo and what it is expected for 2003

(flue cured in Salta and Jujuy and burley in Tucuman are already confirmed prices):

	Buyer 2003	STF* 2003	Total 2003	Total 2002	Dif. '03/'02
Flue cured					
Salta	3.84	1.20	5.04	3.07	64%
Jujuy	3.65	1.20	4.85	2.98	63%
Burley					
Misiones	3.29	1.20	4.49	3.00	50%
Tucuman	2.93	1.20	4.13	2.64	56%

* Special Tobacco Fund - Estimated average

After the devaluation in early 2002 the peso was no longer pegged to the dollar at a one to one rate. The exchange rate moved erratically with a peak of 3.85 pesos per dollar in June 2002. Since then, the value of the dollar has been dropping, with an exchange rate of 2.85 pesos per dollar in May 2003. Most analysts predict the value of the dollar to remain near 3 pesos for the next year or so. The new administration has already said it will maintain a weak currency to encourage exports.

Argentina has not implemented any new policies directed at the tobacco industry. The Special Tobacco Fund (STF) pays producers part of the final price they receive (the other part is paid by the buyers) with money collected from an excise tax on cigarettes. Last year the fund was owing producers several million pesos, but in early 2003 they paid and canceled all debts. The total amount to be collected in 2003 is expected to be close to 200 million pesos (roughly \$70 million), of which 80 percent is expected to go as price support and the balance for administrative costs and tobacco reconversion programs.

Production in 2004 is expected to increase 10 to 15 percent as most producers have made good returns in 2003 and the feeling is that good prices will continue at least until next year. Traders see Argentina as increasing its flue cured and Misiones' burley in the next 3-5 years. The country's total output could be closer to 160,000 MT. Domestic cigarette consumption is expected to increase together with the economy, and exports of both processed tobacco and some tobacco products, especially smoking tobacco, should also increase. With a weak local currency production costs in Argentina became very competitive. Also dealers and foreign tobacco users prefer to diversify their sources of raw material in order to reduce risks.

SECTION II. STATISTICAL TABLES

PSD Table						
Country	Argentina					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		01/2001		01/2002		01/2003
Area Planted	60000	60000	65500	65500	0	72100
Beginning Stocks	47800	47800	26400	26900	27400	27400
Farm Sales Weight Prod	98110	98110	127500	132400	0	116000
Dry Weight Production	81300	82400	106000	111200	0	97700
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	2800	2700	2000	2200	0	1500
TOTAL Imports	2800	2700	2000	2200	0	1500
TOTAL SUPPLY	131900	132900	134400	140300	27400	126600
Exports	73700	75700	75700	80600	0	61000
Dom. Leaf Consumption	29000	27600	29300	30100	0	34500
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	2800	2700	2000	2200	0	1500
TOTAL Dom. Consumption	31800	30300	31300	32300	0	36000
TOTAL Disappearance	105500	106000	107000	112900	0	97000
Ending Stocks	26400	26900	27400	27400	0	29600
TOTAL DISTRIBUTION	131900	132900	134400	140300	0	126600

PSD Table						
Country	Argentina					

Commodity	Tobacco, Unmfg., Burley				(HA)(MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		01/2001		01/2002		01/2003
Area Planted	22500	22500	0	26500	0	30000
Beginning Stocks	15900	15900	15000	9900	0	8100
Farm Sales Weight Prod	36000	35800	0	50500	0	40000
Dry Weight Production	27200	29500	0	41500	0	32800
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	1000	500	0	400	0	200
TOTAL Imports	1000	500	0	400	0	200
TOTAL SUPPLY	44100	45900	15000	51800	0	41100
Exports	18500	27000	0	34000	0	21000
Dom. Leaf Consumption	9600	8500	0	9300	0	10600
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	1000	500	0	400	0	200
TOTAL Dom. Consumption	10600	9000	0	9700	0	10800
TOTAL Disappearance	29100	36000	0	43700	0	31800
Ending Stocks	15000	9900	0	8100	0	9300
TOTAL DISTRIBUTION	44100	45900	0	51800	0	41100

PSD Table						
Country	Argentina					

Commodity	Tobacco, U nmfg., Flue Cured				(HA)(MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		01/2001		01/2002		01/2003
Area Planted	27000	27000	0	32500	0	35000
Beginning Stocks	29050	29050	28450	15650	0	18950
Farm Sales Weight Prod	54400	54400	0	73100	0	69000
Dry Weight Production	47000	47700	0	64000	0	60300
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	2000	900	0	600	0	300
TOTAL Imports	2000	900	0	600	0	300
TOTAL SUPPLY	78050	77650	28450	80250	0	79550
Exports	31000	43700	0	41700	0	38500
Dom. Leaf Consumption	16600	17400	0	19000	0	21600
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	2000	900	0	600	0	300
TOTAL Dom. Consumption	18600	18300	0	19600	0	21900
TOTAL Disappearance	49600	62000	0	61300	0	60400
Ending Stocks	28450	15650	0	18950	0	19150
TOTAL DISTRIBUTION	78050	77650	0	80250	0	79550

Export Trade Matrix			
Country	Argentina		

Commodity	Tobacco, Unmfg., Total		
Time period	CY	Units:	Metric Tons
Exports for:	2002		2003
U.S.	22440	U.S.	
Others		Others	
Belgium	10030		
Germany	8589		
Paraguay	8551		
Brazil	7071		
France	4475		
UK	3364		
Netherlands	1689		
Mexico	1296		
Uruguay	1093		
Turkey	1060		
Total for Others	47218		0
Others not Listed	11013		
Grand Total	80671		0

Import Trade Matrix			
Country	Argentina		

Commodity	Tobacco, Unmfg., Total		
Time period	CY	Units:	Metric Tons
Imports for:	2002		2003
U.S.		U.S.	
Others		Others	
Brazil	633		
Turkey	609		
Malawi	368		
Macedonia	287		
Greece	208		
Paraguay	34		
Dominican Rep.	15		
Indonesia	8		
Total for Others	2162		0
Others not Listed	3		
Grand Total	2165		0

Export Trade Matrix			
Country	Argentina		

Commodity	Tobacco, Unmfg., Burley		
Time period	CY	Units:	Metric Tons
Exports for:	2002		2003
U.S.	8094	U.S.	
Others		Others	
Belgium	4856		
Germany	2957		
Brazil	1593		
Netherlands	1495		
Turkey	983		
Portugal	847		
Spain	577		
Switzerland	550		
Bulgaria	501		
Lithuania	441		
Total for Others	14800		0
Others not Listed	2207		
Grand Total	25101		0

BURLEY REFUSE EXPORTS ARE NOT INCLUDED IN TABLE

Import Trade Matrix			
Country	Argentina		

Commodity	Tobacco, Unmfg., Burley		
Time period	CY	Units:	Metric Tons
Imports for:	2002		2003
U.S.		U.S.	
Others		Others	
Malawi	368		
Total for Others	368		0
Others not Listed			
Grand Total	368		0

Export Trade Matrix			
Country	Argentina		

Commodity	Tobacco, Un mfg., Flue Cured		
Time period	CY	Units:	Metric Tons
Exports for:			1
U.S.	4202	U.S.	
Others		Others	
Paraguay	4121		
Belgium	3655		
Brazil	3548		
Germany	3208		
UK	2468		
France	1894		
Mexico	1296		
Uruguay	906		
Italy	533		
Ireland	508		
Total for Others	22137		0
Others not Listed	3101		
Grand Total	29440		0

EXPORTS OF FLUE CURED REFUSE ARE NOT INCLUDED IN TABLE

Import Trade Matrix			
Country	Argentina		

Commodity	Tobacco, Un mfg., Flue Cured		
Time period	CY	Units:	Metric Tons
Imports for:			1
U.S.		U.S.	
Others		Others	
Brazil	263		
Total for Others	263		0
Others not Listed			
Grand Total	263		0

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

Production

Total planted area for 2003 is estimated at 72,100 hectares. There are no official data, but producers expanded their area after a profitable 2002 crop which resulted in excellent weather and thus, high yields. After a profitable crop, tobacco producers usually expand their acreage the following season as it remains the best alternative and they can reach a better scale of production.

Product	Area (ha)	Area (ha)	Area (ha)	Prod (mt)	Prod (mt)	Prod (mt)
	MY01	MY02	MY03	MY01	MY02	MY03
Flue cured	27,000	32,500	35,000	54,400	73,100	69,000
Burley	22,500	26,500	30,000	35,800	50,500	40,000
DASC	10,000	5,700	6,500	6,760	7,200	5,800
Light Air C.	500	800	600	1,150	1,600	1,200
Total	60,000	65,500	72,100	98,110	132,400	116,000

The usage of inputs was as usual, with tobacco cooperatives, dealers and cigarette manufacturers advancing a great portion of the inputs utilized throughout the crop season. Farmers then pay back at the moment they deliver the tobacco.

Argentine tobacco production is going through big changes in order to comply with foreign buyers' requirements of product quality and environmentally friendly production. International cigarette manufacturers are becoming more demanding with traceability. Local tobacco producers continue to adopt the seedling floating system to eradicate the use of methyl bromide. In Misiones, tobacco buyers are encouraging no-till production and integrated disease management programs. In Salta and Jujuy producers are rapidly converting heat interchangers of gas curing barns to produce external combustion to eliminate the formation of toxic gases. Tobacco buyers have financed this investment and it is expected to be completed by the end of this year.

Yields in 2003 are expected to be significantly lower than the previous crop which was exceptionally good. Misiones' burley will yield 25 percent less than projected due to excess rain after transplants. Corrientes province was affected by four straight months of rain, and Tucuman suffered a drought and tobacco delivery was delayed a month. In Jujuy and Salta there were roughly 2,200 hectares lost because of strong hail.

Despite lower yields and quality, grower returns are expected to be good. Local sources estimate flue cured cost of production in Salta and Jujuy at approximately 8,500 pesos per hectare. Based on average yields of 2,100 kilos per hectare, and at an average total price of 5 pesos per kilo, farmers' net result was 2,000 pesos or US\$ 670 per hectare. There was practically no agricultural alternative which could yield such high return. On the other hand, producers' returns in Misiones are expected to be thin due to low yields.

Production of GMO tobacco in Argentina is prohibited. A couple of years ago there was a company which produced GMO tobacco without an official permit. The production was confiscated and destroyed. Argentina

supports GMO production, but with strict controls. Currently there are a few varieties under official trial (herbicide resistant, low nicotine) but they are not expected to be released any time soon.

Consumption

Tobacco domestic demand for 2003 is projected to increase to a total of 36,000 MT. The strong devaluation of early 2002 had two consequences which affected the local tobacco products market: 1) improved competitiveness in world markets, and 2) made imported products more expensive. Smoking tobacco exports have increased significantly in 2002, reaching over 5,000 tons. The main market is Paraguay, followed far behind by Uruguay. Exports for 2003 are expected to continue to be strong. Cigarette exports have yet not reacted to the benefits of the devaluation. Imported cigarettes, which were mostly smuggled from neighboring countries at very inexpensive prices, have declined abruptly. At one point, "imports" represented approximately 15 percent of the local cigarette market, which have now been substituted by locally manufactured ones. Since the devaluation, cigarette prices have increased very little compared to 45 percent inflation.

There are two large cigarette manufacturers which represent international companies. Massalin Particulares (Philip Morris) accounts for about 65 percent of the market, while the balance is in the hands of Nobleza Piccardo (BAT). In 2002 Marlboro accounted for roughly 29 percent of the markets, followed by Philip Morris with 19 percent and by two local brands, Jockey Club and Derby, which each accounted for 10 percent.

Based on a study recently released by the Argentine Association of Cardiology, there are 9 million smokers in Argentina. Approximately 40 percent of the adult population smokes of which 65 percent are men. One third of the total smokers consume over a pack a day. Almost 70 percent of the beginners are between 15-20 years old.

Of the total domestic tobacco consumption, Flue cured accounts for about 60 percent, burley 30 percent and the balance is made primarily of dark air and sun cured and some imported tobacco of types not produced locally.

Stocks

Ending stocks for 2003 are expected to be close to 30,000 tons. Stocks are very difficult to confirm as local manufacturers and dealers are quite reluctant to provide such information. However, cigarette manufacturers normally keep between 10-16 months of use. Although dealers are reported to have sold all the exportable surplus of 2003 crop, some tobacco might remain unshipped by the end of 2003.

Trade

The following table shows current import duties, export rebates and export tax:

HTS	Description	Import Duty	Export Rebate	Export Tax
-----	-------------	-------------	---------------	------------

2401.10/20/30	Unmanufactured tobacco	15.5%	2.7%	10.0%
2402.10/20/90	Cigars, cigarettes	21.5%	5.0%	5.0%
2403.10	Smoking tobacco	21.5%	4.05%	5.0%