



USDA Foreign Agricultural Service

GAIN Report
Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 3/25/2004

GAIN Report Number: SP4006

Spain

Tobacco and Products

Annual

2004

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Report Highlights: U.S. tobacco exports into Spain are declining dramatically due to the continuing reduction in the in-country manufacturing of cigarettes under license. The initial proposal for the reform of the EU tobacco regime calls for a total decoupling of aids, a measure that producing countries oppose since it will force tobacco growers to abandon production.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Madrid [SP1]
[SP]

Executive Summary	3
TOBACCO, UNMANUFACTURED	4
TOBACCO, UNMANUFACTURED	4
Tobacco,Unmfg.,Flue Cured	4
Tobacco, Unmfg., Burley	4
Tobacco, Unmfg., Burley	5
Tobacco, Unmfg., Total	5
Tobacco, Unmfg., Total	6
Production	6
Production Table	7
Price Table	7
Consumption	8
Trade	8
Stocks	8
Policy	8
Production Policy	8
Tariff Changes and Non-Tariff Barriers.....	9
Marketing	10
Marketing Development Opportunities	10
TOBACCO, MANUFACTURED	10
Cigarettes.....	10

Executive Summary

Spanish leaf tobacco consumption has been declining dramatically due to the on-going reduction in the in-country manufacturing of cigarettes under license. This trend is mainly affecting U.S. tobacco imports. Dark tobacco use and imports are also experiencing a declining trend, reflecting a steady decline in the domestic consumption of dark cigarettes.

Spanish leaf tobacco imports from all sources declined to 28,133 tons in 2003. This compares with 36,964 tons in 2002 and 52,445 tons in 2000. In terms of value, they have declined from €322 million in 2000 to €144 in 2003. U.S. leaf tobacco imports in 2003 slipped to 7,070 tons worth €53 million, down 32 and 42 percent in terms of volume and value, respectively. The U.S. market share, value basis, decreased six percentage points to 37 percent in 2003. In comparison with the preceding year, Malawi and Zimbabwe registered increases while Cuba, Colombia and Brazil slipped.

The industry expects U.S. tobacco purchases will continue to decline in the current year as well as in 2005, the year in which production of Philip Morris's brands in Spain will be discontinued. However, purchases of U.S. tobacco leaf will be maintained as they are used in the production of local brands. For 2004, purchases of U.S. tobacco will amount to 9,100 metric tons and from the year 2005 onwards they are projected at 6,500 tons.

The great majority of the local tobacco production is exported. Last year, about 87 percent of Spanish tobacco exports were destined to other EU-15 markets.

As was the case of previous years, Spain's tobacco leaf production in 2004 will continue to be closely aligned to the nearly 41,000 ton EU-allocated guarantee threshold for Spain.

Cigarette sales reached a record 96.6 billion pieces in 2003, an increase of 2.2 percent over the preceding year. Several factors contributed to this gain, including the government's successful anti-smuggling campaign, a growing population due to immigration and the fact that Spain is a key tourist country with lower tobacco retail prices. Consumers' preference for American Blend tobacco cigarettes has pushed their share of the market to an unprecedented 83 percent.

The reform of the EU tobacco regime, as currently proposed by the EU Commission, includes a total decoupling of the existing tobacco premiums with most of the decoupled aid going into the Single Farm Payment (SFP) and the remainder into a new restructuring fund. This would be implemented over a three year period. All EU tobacco producing countries are opposed to this initial proposal because total decoupling will incentive production abandonment.

TOBACCO, UNMANUFACTURED

Tobacco,Unmfg.,Flue Cured

Country	Spain						UOM
	Tobacco,Unmfg.,Flue Cured (HA)(MT)						
Commodity	2002	Revised	2003	Estimate	2004	Forecast	MM/YYYY
	USDA Official [	Estimate [DA	Official [	Estimate [DA	Official [	Estimate [New]	
Market Year Begin	01/2002		01/2003		01/2004		
Area Planted	8450	8673	8420	8560	0	8560	(HA)
Beginning Stocks	5811	5811	5637	6638	5063	4628	(MT)
Farm Sales Weight Prod	29300	29911	29300	29500	0	29500	(MT)
Dry Weight Production	24026	24527	24026	24190	0	24190	(MT)
U.S. Leaf Imports	6000	6000	5000	3900	0	5250	(MT)
Other Foreign Imports	7600	7600	6500	5600	0	6000	(MT)
TOTAL Imports	13600	13600	11500	9500	0	11250	(MT)
TOTAL SUPPLY	43437	43938	41163	40328	5063	40068	(MT)
Exports	20000	20000	19000	20500	0	20000	(MT)
Dom. Leaf Consumption	4000	3000	5000	3000	0	3000	(MT)
U.S. Leaf Dom. Consum.	6000	6500	5000	5100	0	5300	(MT)
Other Foreign Consump.	7800	7800	7100	7100	0	7000	(MT)
TOTAL Dom. Consumptic	17800	17300	17100	15200	0	15300	(MT)
TOTAL Disappearance	37800	37300	36100	35700	0	35300	(MT)
Ending Stocks	5637	6638	5063	4628	0	4768	(MT)
TOTAL DISTRIBUTION	43437	43938	41163	40328	0	40068	(MT)

Tobacco, Unmfg., Burley

Commodity	Tobacco, Unmfg., Burley (HA)(MT)						UOM
	2002	Revised	2003	Estimate	2004	Forecast	
	USDA Official [	Estimate [01/2002	DA Official [	Estimate [01/2003	DA Official [	Estimate [01/2004	
Market Year Begin							MM/YYYY
Area Planted	3830	3901	3680	3690	0	3690	(HA)
Beginning Stocks	1304	1304	1662	2862	1287	2405	(MT)
Farm Sales Weight Prod	11900	11379	11250	11150	0	11150	(MT)
Dry Weight Production	9758	9758	9225	9143	0	9143	(MT)
U.S. Leaf Imports	4300	4300	3500	3000	0	3750	(MT)
Other Foreign Imports	4700	4700	4400	3400	0	3700	(MT)
TOTAL Imports	9000	9000	7900	6400	0	7450	(MT)
TOTAL SUPPLY	20062	20062	18787	18405	1287	18998	(MT)
Exports	5500	5500	5500	5500	0	4500	(MT)
Dom. Leaf Consumption	3900	2700	4000	2200	0	2100	(MT)
U.S. Leaf Dom. Consum.	4300	4300	3500	4000	0	4000	(MT)
Other Foreign Consump.	4700	4700	4500	4300	0	4400	(MT)
TOTAL Dom. Consumptic	12900	11700	12000	10500	0	10500	(MT)
TOTAL Disappearance	18400	17200	17500	16000	0	15000	(MT)
Ending Stocks	1662	2862	1287	2405	0	3998	(MT)
TOTAL DISTRIBUTION	20062	20062	18787	18405	0	18998	(MT)

Tobacco, Unmfg., Total

Country Commodity	Spain Tobacco, Unmfg., Total						UOM
	2002	Revised	2003	Estimate	2004	Forecast	
Market Year Begin	USDA Official [Estimate]	DA Official [Estimate]	USDA Official [Estimate]	DA Official [Estimate]	USDA Official [Estimate]	DA Official [Estimate]	[New]
	01/2002		01/2003		01/2004		MM/YYYY
Area Planted	12430	12724	12250	12400	12400	12400	(HA)
Beginning Stocks	9360	9360	5301	7375	1978	1978	(MT)
Farm Sales Weight Prod	41650	41740	41000	41000	41000	41000	(MT)
Dry Weight Production	34153	34227	33620	33620	33620	33620	(MT)
U.S. Leaf Imports	10393	10393	8700	7070	9100	9100	(MT)
Other Foreign Imports	26571	26571	26300	21063	23000	23000	(MT)
TOTAL Imports	36964	36964	35000	28133	32100	32100	(MT)
TOTAL SUPPLY	80477	80551	73921	69128	67698	67698	(MT)
Exports	30176	30176	27000	32450	31000	31000	(MT)
Dom. Leaf Consumption	8000	6000	8000	4500	4000	4000	(MT)
U.S. Leaf Dom. Consum.	11000	11000	8700	9200	9100	9100	(MT)
Other Foreign Consump.	26000	26000	26600	21000	20000	20000	(MT)
TOTAL Dom. Consumptic	45000	43000	43300	34700	33100	33100	(MT)
TOTAL Disappearance	75176	73176	70300	67150	64100	64100	(MT)
Ending Stocks	5301	7375	3621	1978	3598	3598	(MT)
TOTAL DISTRIBUTION	80477	80551	73921	69128	67698	67698	(MT)

Production

Spain's tobacco leaf output is consistently near its EU guarantee threshold. During the past few years, the total threshold has been reduced while the production "groups" are being re-oriented towards market demand:

EU Guarantee Threshold for Spain (MT, f. s. basis)	2001	2002	2003-04
Group I (Flue cured)	29,000	29,472	29,028
Group II (Burley, non-fermented)	2,470	5,748	5,545
Group III (Burley, fermented and Havana)	10,800	6,662	6,388
Group IV (Fire cured)	30	30	30
- Total	42,300	41,872	40,991

Note: All production data collected by post is on a farm sales basis. Production data is computed into dry weight by applying an 18 percent average loss of moisture.

After Italy and Greece, Spain is the third largest tobacco producer in the EU. Caceres (Extremadura), located in the Tietar and Alagon river basins, is the dominant producing area for Spanish flue cured and burley tobaccos, accounting for about 85 percent of total tobacco leaf production. Other less important producing areas include Cordoba, Granada, the Canary Islands and several areas in Northern Spain.

The growing period is normally from early May to September.

Favorable weather once again prevailed in all producing areas during the growing period of the last crop.

Area planted to tobacco is generally adjusted to meet the EU guarantee threshold. With the exception of asparagus, there are currently no competing crops for tobacco land in Spain.

Tobacco seedlings are grown in floating trays. Transplanting normally takes place in early May and harvesting, during September. Flue cured is hand-harvested, leaf by leaf. In contrast, burley is harvested more rapidly since the entire plant is cut.

Growers currently have a wide range of varieties resistant to the various diseases and pests endemic in Spain, in particular nematodes, TMV and PVY viruses. Blue molds and aphids may also be significant pests depending on climatic conditions. Growers make particularly generous use of fertilizers and pesticides. Labor is scarce.

Spanish tobacco yields tend to be rather stable from one year to the next. The principal factors that can substantially reduce yields are heavy rains or hail at the end of the growing season in August and September. However, these weather patterns are unusual in the main production area.

Production Table

Tobacco - Spain						
	Area (ha.)			Production (MT)		
	2002	2003	2004	2002	2003	2004
Flue Cured	8,673	8,560	8,560	29,911	29,500	29,500
Burley	3,901	3,690	3,690	11,379	11,150	11,150
D. air c., cigar	150	150	150	450	450	450
Total	12,724	12,400	12,400	41,740	41,100	41,100

Price Table

EU premiums for leaf tobacco in 2004 will remain from previous years, as follows:

	Euros per Metric Ton
Virginia (Flue cured)	2,980
Burley (Light air-cured)	2,384
Dark air cured	2,384
Kentucky (Fire cured)	2,621

Total growers' returns in 2003, market prices and premiums combined, are estimated at about euro 3.54 per kilogram. This represents an eight percent increase over the preceding year due to increased market prices.

Consumption

PS&D figures on domestic consumption are post estimates since consumption data on domestic tobaccos as well as imported blends are unavailable. Consumption of both flue-cured and burley tobacco leaf is decreasing due to cutbacks in cigarette manufacturing.

Trade

Leaf tobacco imports into Spain are declining dramatically due to the on-going reduction in the in-country manufacturing of cigarettes under license. This is mainly affecting U.S. tobacco imports. In addition, steady reduction in the consumption of dark cigarettes are curbing imports of dark tobaccos which are mainly sourced in Cuba, the Philippines, Colombia and Dominican Republic.

Spanish leaf tobacco imports from all sources declined to 28,133 tons in 2003. This compares with 36,964 tons in 2002 and 52,445 tons in 2000. In terms of value, they have declined from €322 million in 2000 to €144 in 2003.

U.S. leaf tobacco imports in 2003 slipped to 7,070 tons worth €53 million, down 32 and 42 percent in terms of volume and value, respectively. The U.S. market share, value basis, decreased six percentage points to 37 percent in 2003. Other leading tobacco leaf suppliers in 2003 included France (12 percent), Turkey (6 percent), Cuba (5 percent), Dominican Republic, Malawi and Zimbabwe (4 percent each). In comparison with the preceding year, France, Turkey, Malawi and Zimbabwe registered notable increases whereas Colombia and Brazil slipped notably.

Leaf tobacco imports into Spain represent a high proportion of the industry's needs. The great majority of the local tobacco production is exported. Last year, about 87 percent of Spanish tobacco exports were destined to other EU-15 markets. There are no export subsidies for tobacco.

There are currently four tobacco leaf dealers Spain. Cetarsa, a company owned jointly by the Spanish government and Altadis, is the main operator for domestically produced tobaccos, followed by Agroexpansion/Dimon, World Wide Tobacco/Standard and Taes/Universal Leaf.

Stocks

Stocks data are estimated as residuals since they are not published by either Government or trade sources.

Policy

Production Policy

Spanish tobacco policies are fully governed by EU Council Regulation No. 2075/92 which established the current EU tobacco regime. A reform to the regime was approved in 1998 which includes measures to increase quality and incentives to abandon production. In addition, production controls were enhanced. In 2002, a three-year extension of the threshold system with cuts in aids for low-grade tobacco was approved. In late 2003, the Commission stepped up its campaign to reduce EU support to tobacco growers. Three percent of the EU's 1 billion euro tobacco program will be used to encourage farmers to give up tobacco production and to fund anti-smoking campaigns.

Excepting the Mediterranean producing countries, considerable pressure exists in the EU to cease support for tobacco production. The reform of the EU tobacco regime, as proposed by the EU Commission, includes a total decoupling of the existing tobacco premiums with most of the decoupled aid going into the Single Farm Payment (SFP) and the remainder into a new restructuring fund. This would be implemented over a three year period and three stretches of payments would be established. The first stretch between 0 and 3.5 million of a farmer's output will be transferred into the single farm payment (SFP) immediately. In the stretch between 3.5 and 10 tons, some 75 percent of the premium will be incorporated into the SFP, with the remainder going into new restructuring envelope. Any subsidy applicable to production over ten tons will be divided between the SPF and the restructuring fund, reaching at the end of the three year period 45 and 55 percent, respectively. This initial proposal is being opposed by all the EU Mediterranean countries since total decoupling may cause farmers to abandon tobacco production. In addition, the EU parliament has recently given its opinion that decoupling should be limited to 30 percent of the aids, instead of 100 percent of the Commission's proposal.

Total support to the tobacco sector would remain, however, unchanged at €955 million. Out of this, Spain is receiving about €116 millions annually.

Tariff Changes and Non-Tariff Barriers

Current tariffs, which were not changed from last year, are as follows:

1. Flue-cured Virginia type, light air-cured Burley type, light air-cured Maryland type, fire-cured Kentucky type and "other": 18.4 percent AD VALOREM (Minimum 22 Euros per 100 kg/net, Maximum 24 Euros per 100 kg/net)
2. Other: Light air-cured, sun-cured (Oriental), dark air-cured, flue-cured and "other": 11.2 percent AD VALOREM (Minimum 22 Euros per 100 kg/net, Maximum 56 Euros per 100 kg/net)

A favorable tariff treatment may be granted to tobacco imports into Spain or any other EU country when a "certificate of authenticity tobacco" is presented. Several tobacco-exporting countries are eligible for certification, including the United States, Canada, Argentina, Bangladesh, Brazil, China, Colombia, Cuba, Guatemala, India, Indonesia, Mexico, Philippines, South Korea, Sri Lanka, Switzerland and Thailand. In the case of the United States, the body authorized for issuing "certificates of authenticity tobacco" is the Tobacco Association of the United States, located in Raleigh, North Carolina (phone number 919-782-5151) or its authorized offices.

The Canary Islands, a traditional tobacco manufacturing center, has a TRQ of 22,000 tons of tobacco leaf. However, leaf imports are currently falling short of the TRQ due to a decline in tobacco manufacturing in the Islands.

Marketing

Marketing Development Opportunities

The local tobacco company estimates that its total U.S. tobacco purchases will continue to decline through the year 2005. Although the PSD shows an increase in imports of U.S. tobacco in 2004 over the preceding year, this is due to the fact that the import figure for 2003 is unrealistically low since shipments due in December were counted in January. For 2004, purchases of U.S. tobacco are projected at about 9,100 tons, 7,500 for the mainland and the remaining 1,700 for the Canary Islands. For the year 2005 onwards, they are projected at 6,500 tons, 5,000 tons for the mainland and the remaining 1,500 tons for the Canary Islands. In the mainland, this U.S. tobacco will be used for the production of local brands whereas in the Canary Islands it will be still used for the production of foreign brands under license.

TOBACCO, MANUFACTURED

Cigarettes

PSD Table

Country Commodity	Spain Tobacco, Mfg., Cigarettes (MIL PCS)						UOM
	2002 Revised USDA Official [	2003 Estimate [DA Official [	2004 Forecast USDA Official [	Estimate [New]		
Market Year Begin	01/2002	01/2003	01/2004			MM/YYYY	
Filter Production	61587	61587	59300	58000	0	56400 (MIL PCS)	
Non-Filter Production	1165	1165	1200	1100	0	1100 (MIL PCS)	
TOTAL Production	62752	62752	60500	59100	0	57500 (MIL PCS)	
Imports	35941	35941	38400	41000	0	43000 (MIL PCS)	
TOTAL SUPPLY	98693	98693	98900	100100	0	100500 (MIL PCS)	
Exports	4384	4384	4600	3500	0	3500 (MIL PCS)	
Domestic Consumption	94309	94309	94300	96600	0	97000 (MIL PCS)	
TOTAL DISTRIBUTION	98693	98693	98900	100100	0	100500 (MIL PCS)	