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Report Highlights:

Increased cigarette imports are curbing domestic cigarette production and tobacco leaf import needs. Although total Spanish tobacco leaf imports were cut by 25 percent last year, those sourced in the U.S. declined only moderately. The U.S. share of the market rose significantly to 59 percent, reflecting larger consumption of American blend types cigarettes, the newly created Spanish-French tobacco company's policy of stressing quality and Government's successful actions against smuggling.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

Despite increased consumers' health awareness and cigarette price increases, Government's successful anti-smuggling actions helped to sustain legal cigarette sales in Spain during 1999 at about year earlier record level of 89.9 billion pieces. However, while sales of American blend cigarette brands rose 3.3 percent to 66.6 billion pieces, sales of dark cigarettes declined 8.4 percent to 23.3 billion pieces. The tendency of Spanish smokers switching to American blend types cigarettes at the expense of dark cigarettes continued last year, pushing American blend type cigarette brands' share of the market to an unprecedented 74 percent. Increased access for foreign brands are significantly boosting cigarette imports. The newly created Spanish-French tobacco group Altadis is also planning to expand Spanish cigarette sales in export markets.

With a flattening market during 1999, increased cigarette imports that did not offset gains in cigarette exports curbed domestic cigarette production. This in turn led to a significant decline in tobacco leaf import needs into Spain last year. Spanish leaf tobacco imports in 1999 declined to 45,556 metric tons, down about 25 percent from year earlier levels.

The value of these imports amounted to \$268 million in 1999, \$68 million less than in 1998. U.S. leaf tobacco imports in 1999 declined in terms of volume by 8.6 percent to 17,775 metric tons, and also decreased in value to \$157 million, \$9 million less than in the preceding year. In terms of value, the U.S. continues to be by far the leading supplier of tobacco to Spain. The U.S. share of the market rose from 49 percent in 1998 to 59 percent last year. Other leading tobacco leaf suppliers in 1999 were Brazil (10 percent), Cuba (4 percent), Philippines (4 percent), Dominican Republic (3 percent), Turkey, Zimbabwe and Greece (2 percent each).

Spain's tobacco leaf production which is governed by the EU tobacco regime will continue to be closely aligned to the country's EU allocated 42,300 metric ton guarantee threshold.

The French and Spanish tobacco companies Seita and Tabacalera merged to form Altadis, a leader in the European tobacco industry.

Although lawsuits filed by smokers against tobacco companies are not very likely to succeed in Spain and Altadis has already won the first case at Spanish Courts, other lawsuits seeking compensation for health injuries or medical expenses are in progress. Altadis is also facing other sorts of lawsuits like the one filed by the company McLane for still maintaining in practice the previous cigarette distribution monopoly in Spain.

Pesetas/\$ average exchange rates: 1997 - 146.41; 1998 - 149.40; 1999 - 156.33; Current - 175

TOBACCO, UNMANUFACTURED

Tobacco,Unmfg.,Flue Cured

PSD Table

Country Commodity	Spain Tobacco,Unmfg.,Flue Cured (HA)(MT)					
	Revised	1998	Preliminary	1999	Forecast	2000
Market Year Begin	Old	New	Old	New	Old	New
		01/1998		01/1999		01/2000
Area Planted	10000	9480	0	9250	0	9250
Beginning Stocks	1999	607	1479	5240	0	1920
Farm Sales Weight Prod	29000	29000	0	29000	0	29000
Dry Weight Production	23780	23780	0	23780	0	23780
U.S. Leaf Imports	11000	12790	0	11700	0	12000
Other Foreign Imports	6000	7263	0	8100	0	5000
TOTAL Imports	17000	20053	0	19800	0	17000
TOTAL SUPPLY	42779	44440	1479	48820	0	42700
Exports	18000	14200	0	22000	0	15000
Dom. Leaf Consumption	7000	6500	0	6500	0	4000
U.S. Leaf Dom. Consum.	10000	12700	0	12700	0	12500
Other Foreign Consump.	6300	5800	0	5700	0	7000
TOTAL Dom. Consumption	23300	25000	0	24900	0	23500
TOTAL Disappearance	41300	39200	0	46900	0	38500
Ending Stocks	1479	5240	0	1920	0	4200
TOTAL DISTRIBUTION	42779	44440	0	48820	0	42700

Tobacco, Unmfg., Burley**PSD Table**

Country	Spain					
	Tobacco, Unmfg., Burley					
Commodity	(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	5000	4740	0	4600	0	4600
Beginning Stocks	1911	910	2207	914	0	410
Farm Sales Weight Prod	12800	12795	0	12800	0	12800
Dry Weight Production	10496	10496	0	10496	0	10496
U.S. Leaf Imports	5800	6453	0	5900	0	6000
Other Foreign Imports	7000	7777	0	4000	0	8000
TOTAL Imports	12800	14230	0	9900	0	14000
TOTAL SUPPLY	25207	25636	2207	21310	0	24906
Exports	7000	5522	0	2000	0	4800
Dom. Leaf Consumption	7000	7500	0	7200	0	7000
U.S. Leaf Dom. Consum.	6000	6500	0	6600	0	6500
Other Foreign Consump.	3000	5200	0	5100	0	5000
TOTAL Dom. Consumption	16000	19200	0	18900	0	18500
TOTAL Disappearance	23000	24722	0	20900	0	23300
Ending Stocks	2207	914	0	410	0	1606
TOTAL DISTRIBUTION	25207	25636	0	21310	0	24906

Tobacco, Unmfg., Total

PSD Table

Country Commodity	Spain Tobacco, Unmfg., Total						(HA)(MT) 2000
	Revised	1998	Prelim	1999	Forec ast	2000	
Market Year Begin	Old	New 01/1998	Old	New 01/1999	Old	New 01/2000	
Area Planted	13300	14370	13250	14000	0	14000	
Beginning Stocks	6640	6640	9251	14551	9187	5543	
Farm Sales Weight Prod	42300	42295	42300	42300	0	42300	
Dry Weight Production	34686	34686	34686	34686	0	34686	
U.S. Leaf Imports	19443	19443	19500	17800	0	18200	
Other Foreign Imports	41740	41740	41500	27756	0	33800	
TOTAL Imports	61183	61183	61000	45556	0	52000	
TOTAL SUPPLY	102509	102509	104937	94793	9187	92229	
Exports	19958	19958	22750	24250	0	20100	
Dom. Leaf Consumption	15500	14500	15200	14200	0	11500	
U.S. Leaf Dom. Consum.	19400	19400	19500	19500	0	19200	
Other Foreign Consump.	38400	34100	38300	31300	0	32300	
TOTAL Dom. Consumption	73300	68000	73000	65000	0	63000	
TOTAL Disappearance	93258	87958	95750	89250	0	83100	
Ending Stocks	9251	14551	9187	5543	0	9129	
TOTAL DISTRIBUTION	102509	102509	104937	94793	0	92229	

Production

Spain's tobacco leaf output is consistently approaching the 42,300 metric ton EU guarantee threshold for Spain. A breakout of the guarantee threshold by tobacco types is as follows:

EU Guarantee Threshold for Spain (MT, farm sales basis)	
Group I (Flue cured)	29,900
Group II (Burley non-fermented)	2,470
Group III (Burley fermented and dark air cured)	10,800
- Subtotal Burley	13,270
Group IV (Fire cured)	30
- Total	42,300

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.

Caceres (Extremadura), in the Tietar and Alagon river basins, is the leading producing area for Spanish flue cured and burley tobaccos, accounting for about 80 percent of Spain's tobacco leaf production. Other minor tobacco producing areas include Cordoba, Granada, the Canary Islands and several areas in Northern Spain.

The growing period is normally from early May to September.

Weather

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

Crop Area

Area planted to tobacco in Spain is generally adjusted to meet the 42,300 metric ton EU guarantee threshold. With the exception of asparagus, there are currently no competing crops for tobacco land in Spain.

Inputs

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

Tobacco growers currently have a wide range of varieties resistant to the various diseases affecting tobacco growing in Spain, in particular nematodes, TMV and PYV viruses.

Blue molds and aphids could also be important pests depending on the climatic conditions.

Growers make particularly generous use of fertilizers and pesticides.

Yields

Spanish tobacco yields tend to be rather stable from one year to another. 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 this area.

Crop Quality

Favorable weather conditions in the main producing areas led to normal flue-cured and burley harvests in 1999, in terms of volume and quality.

Production Table

	Tobacco - Spain					
	Area (ha.)			Production (MT)		
	1998	1999	2000	1998	1999	2000
Flue Cured	9,480	9,250	9,250	29,000	29,000	29,000
Burley	4,740	4,600	4,600	12,795	12,800	12,800
D. air c., cigar	150	150	150	500	500	500
Total	14,370	14,000	14,000	42,295	42,300	42,300

Price table

EU premiums for leaf tobacco given for the 1999/00 marketing year remained unchanged from year earlier levels, as follows:

	Euros per Metric Ton
Virginia (Flue cured)	2,709
Burley (Light air-cured)	2,167
Dark air cured	2,167
Kentucky (Fire cured)	2,383

In national currency terms, average grower prices for dried tobacco leaf in 1998 were 502 pesetas/kilogram, and are estimated to have grown 4 percent last year.

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 all types of tobacco leaf decreased last year as a result of smaller manufacturing of tobacco products.

Trade

Lower cigarette production led to a 25 percent reduction in Spanish leaf tobacco imports from 61,183 metric tons in 1998 to 45,556 metric tons last year. In terms of value, they declined 20 percent from \$336 million in 1998 to \$268 last year.

U.S. leaf tobacco imports in 1999 declined in terms of volume by 8.6 percent to 17,775 metric tons and in terms of value by 5 percent to \$157 million, \$9 million less than in the preceding year. In terms of value, the U.S. continues to be by far the leading supplier of tobaccos to Spain. The U.S. share of the market was about 59 percent in 1999, nine percentage points more than in the preceding year. Other leading tobacco leaf suppliers in 1999 were Brazil (10 percent), Cuba (4 percent), Philippines (4 percent), Dominican Republic (3 percent), Turkey, Zimbabwe and Greece (2 percent each).

Spain's flue-cured strip purchases abroad are mainly sourced from the U.S., Zimbabwe, Argentina and Brasil, while burley strip purchases are mainly imported from the U.S., Malawi, Argentina and Brazil. Spain's imports of Oriental tobaccos are mainly sourced from Turkey, Greece and other Balkan countries.

Other Spanish tobacco imports are basically blends used for the production of the Philip Morris, R.J. Reynolds and BAT cigarette brands. PS&D tables include an estimate of the amount of the different tobacco types contained in these imported blends.

Cuba, the Dominican Republic, Colombia and Brazil are the major suppliers of Altadis' imports of tobacco used for the production of dark cigarettes. Indonesia and the Philippines are the main sources of dark air-cured tobacco for cigars.

Tobacco, Unmfg., Total Imports by Types

Tariff category	Types	Calendar Years		
		1997	1998	1999
		Metric Tons		
2401.10.10	Flue-cured	0	0	2
2401.10.20	Burley	259	1	436
2401.10.30	Maryland	0	0	0
2401.10.41	Fire cured, Kentucky	129	277	403
2401.10.49	Fire cured, other	701	406	130
2401.10.50	Light air cured, other	0	0	0
2401.10.60	Sun cured Oriental	2094	2203	2493
2401.10.70	Dark air-cured	18049	14768	11966
2401.10.80	Flue-cured	0	0	0
2401.10.90	Other	1772	1693	286
-Subtotal non-stemmed		23004	19348	15716
2401.20.10	Flue-cured	9393	13952	7882
2401.20.20	Burley	5860	7073	4459
2401.10.30	Maryland	0	18	0
2401.10.41	Fire cured, Kentucky	0	0	0
2401.20.49	Fire cured, other	14	9	0
2401.10.50	Light air cured, other	1	330	0
2401.10.60	Sun cured Oriental	319	811	2
2401.20.70	Dark air-cured	872	1064	1803
2401.20.80	Flue-cured	9653	12124	10351
2401.20.90	Other	3530	3930	3509
-Subtotal stemmed		29642	39311	28006
2401.30.00	Tobacco refuse	2940	2524	1834
-GRAND TOTAL		55586	61183	45556

Tobacco, Unmfg., Total Exports by Types

Tariff category	Types	Calendar Years		
		1997	1998	1999
		Metric Tons		
2401.10.10	Flue-cured	1841	2347	1468
2401.10.20	Burley	565	1	0
2401.10.30	Maryland	0	0	0
2401.10.41	Fire cured, Kentucky	24	252	232
2401.10.49	Fire cured, other	261	0	4
2401.10.60	Sun cured Oriental	0	0	99
2401.10.70	Dark air-cured	179	449	512
2401.10.80	Flue-cured	119	0	0
2401.10.90	Other	337	32	4
-Subtotal non-stemmed		3326	3081	2319
2401.20.10	Flue-cured	14226	13696	19589
2401.20.20	Burley	813	619	1220
2401.20.49	Fire cured, other	0	0	0
2401.10.60	Sun cured Oriental	0	0	0
2401.20.70	Dark air-cured	0	0	58
2401.20.80	Flue-cured	0	0	2
2401.20.90	Other	300	106	2666
-Subtotal stemmed		15339	14421	23535
2401.30.00	Tobacco refuse	4248	2456	2852
-GRAND TOTAL		22913	19958	28706

Import Trade Matrix

Country	Spain			
Commodity	Tobacco, Unmfg., Total			
Time period	CY	Units:	MT	\$Million
Imports for:	1998		1999	1999
U.S.	19443	U.S.	17775	157
Others		Others		
Brazil	11046	Brazil	8274	26
Cuba	7636	Cuba	4075	12
India	4695	Dominican R.	2765	8
Dominican Rep.	2589	Zimbabwe	2057	6
Turkey	2081	Colombia	1867	4
Zimbabwe	1943	Philippines	1773	12
Argentina	1784	Turkey	1322	6
Colombia	1750	Greece	1101	5
Philippines	1365	Switzerland	565	5
Malawi	1287	Indonesia	477	1
Total for Others	36176		24276	85
Others not Listed	5564		3505	26
Grand Total	61183		45556	268

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. The last reform to the regime was approved last year which includes measures to increase quality and incentives to abandon production. In addition, production controls are enhanced. Current production thresholds are maintained through the year 2001.

Tariff Changes and Non-Tariff Barriers

As part of the Uruguay Round Agreement, the EU is phasing down import duties on tobacco leaf imported from countries outside the EU. Below are the 2000 rates which represent around 4 percent reduction from the 1999 levels:

1. Flue-cured Virginia type, light air-cured Burley type, light air-cured Maryland type, fire-cured Kentucky type and "other":

From 1/1 to 6/30: 19.2 percent AD VALOREM (Minimum 23 Euros per 100 kg/net, Maximum 25 Euros per 100 kg/net).

From 7/1 to 12/31: 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":

From 1/1 to 6/30: 11.7 percent AD VALOREM (Minimum 23 Euros per 100 kg/net, Maximum 58 Euros per 100 kg/net).

From 7/1 to 12/31: 11.2 percent AD VALOREM (Minimum 22 Euros per 100 kg/net, Maximum 56 Euros per 100 kg/net)

Quality, Safety & Health Regulations

As indicated in the cigarette section and as part of the harmonization of Spanish legislation with the rest of the EU, the Government issued a regulation dated June 3, 1992 establishing new tobacco products labeling requirements and maximum tar content of cigarettes. In addition, the regulation bans smoking in commercial domestic flights of less than 90 minutes.

Marketing

Marketing Development Opportunities

Manufacturing of American blend types of cigarettes, is expected to sustain tobacco imports sourced from the U.S. during 2000 at about 19,200 metric tons.

TOBACCO, MANUFACTURED**Cigarettes****PSD Table**

Country Commodity	Spain					
	Tobacco, Mfg., Cigarettes (MIL PCS)					
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Filter Production	69241	76084	74820	71553	0	68460
Non-Filter Production	1570	1711	1680	1610	0	1540
TOTAL Production	70811	77795	76500	73163	0	70000
Imports	12000	15465	17000	21294	0	25000
TOTAL SUPPLY	82811	93260	93500	94457	0	95000
Exports	5000	3360	3500	4515	0	5000
Domestic Consumption	77811	89900	90000	89942	0	90000
TOTAL DISTRIBUTION	82811	93260	93500	94457	0	95000

Import Trade Matrix

Country	Spain			
Commodity	Tobacco, Mfg., Cigarettes			
Time period	CY	Units:	MT	\$ Million
Imports for:	1998		1999	1999
U.S.	433	U.S.	478	6
Others		Others		
Germany	6983	Germany	15795	327
Holland	5144	U.K.	3088	59
U. K.	2779	Holland	1555	22
France	428	France	501	6
Belgium	127	Denmark	365	2
Denmark	96	Portugal	141	2
Austria	20	Belgium	114	2
Sweden	9	Austria	15	0.1
Italy	6	Switzerland	7	0.1
		Italy	7	0.2
Total for Others	15592		21588	420.4
Others not Listed	3		3	0.6
Grand Total	16028		22069	427

Export Trade Matrix

Country	Spain			
Commodity	Tobacco, Mfg., Cigarettes			
Time period	CY	Units:	MT	\$ Million
Exports for:	1998		1999	1999
U.S.	756	U.S.	2792	22
Others		Others		
France	749	France	672	16
Portugal	746	Portugal	335	4
Belgium	511	Belgium	296	3
Andorra	278	Andorra	97	2
Algeria	157	Guinea	84	1
Morocco	107	Morocco	69	2
Guinea	72	Turkey	59	0.4
Tanzania	48	Namibia	31	0.2
Slovenia	43	Algeria	31	1
Gibraltar	36	Tanzania	24	0.1
Total for Others	2747		1698	29.7

Others not Listed	139	189	1.3
Grand Total	3642	4679	53

Production

Spanish cigarette production is declining reflecting increased cigarette imports which do not offset gains in cigarette exports.

The Spanish-French tobacco company Altadis has a licensing arrangement with Philip Morris to produce Marlboro and L&M brands, through the years 2,005 and 2,004, respectively. In addition, under a joint venture arrangement with R.J. Reynolds, Altadis is producing Winston, Camel, and Gold Coast brands through this year.

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

Despite relatively large tobacco crops produced under the umbrella of EU Council Regulation No. 2075/92, Spain is still highly dependent on imports of high quality leaf tobacco (70 percent of its needs in 1999).

Consumption

Spanish cigarette market in 1999 remained practically unchanged from a year earlier. However, sales of American blend type cigarettes rose 3.3 percent to 66.6 billion pieces at the expense of sales of dark cigarettes which declined 8.4 percent to 23.3 billion pieces. The tendency of larger consumption of American blend types cigarettes at the expense of dark cigarettes continued. In 1999, the American blend types cigarettes share of the market rose a further 2 points to 74 percent. This compares with only 50 percent a decade ago.

Recent increases in cigarette prices had fueled smuggling, particularly of the most expensive American blend cigarette brands such as Winston and Marlboro. Government's successful actions against smuggling, however, have reduced sales of smuggled cigarettes to an estimated 4.4 percent of the American blend cigarette market last year, an historical level. This reduction in smuggling activity has contributed to sustain legal cigarette sales in Spain last year that otherwise would have declined due to increased health awareness.

Below are data on marketing share by type and brand of cigarettes.

Cigarette types	Percent		
	1996	1997	1998
- High price group	25	24	26
- Medium price group	34	35	36
--Low price group	10	10	10
-American blend cigarettes	69	69	72
-Dark cigarettes	31	31	28

Total	100	100	100
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Cigarette brand shares of the market in the last two years:

American-blend cigarettes			Dark cigarettes		
	Percent			Percent	
	1998	1999		1998	1999
“Fortuna”	28	29	“Ducados”	74	75
“Marlboro”	17	18	“B.N.”	8	7
“LM”	13	11	“Celtas”	6	5
“Winston”	5	5	“Habanos”	4	4
“Goal Coast”	3	2	“Coronas”	2	2
“Chesterfield”	9	10	“Reales”	2	1
“Lucky Strike”	5	5	“Rex”	2	2
“Nobel”	4	5	“Kruger”	1	1
“Camel”	4	4	“Condal”	1	2
“Golden Am.”	1	1	“Kaiser”	-	-
Other	11		Other	0	1
Total	100		Total	100	100

Market shares of cigarettes for tobacco companies:

	1997	1998	1999**
	Percent		
Altadis	53	50	48
* Philip Morris	25	30	32
* R.J. Reynolds	10	9	9
* BAT	4	4	4
CITA	3	3	3
Other	5	4	4
Total	100	100	100

* Under licensing arrangements with Altadis.

** Preliminary

Price Tables

While the tax level applied in Spain on cigarettes (about 72 percent of retail prices) is now practically aligned with the EU average, retail prices are still well below the EU average. Retail cigarette prices in Spain are therefore very likely to increase in the future. Price rises could be at least 20 percent in the coming years.

Consumer prices for tobacco products are annually published in the State Gazette. However, while prices for domestically produced tobacco items are fixed by the manufacturing company, those of imported tobacco products are fixed by importers.

Retail prices in Spain for leading cigarette brands are as follows:

	1998	1999	2000
	pesetas/package		
Dark cigarettes, filter-tipped			
- "Ducados"	190	200	200
American blend, filter-tipped			
- High price group			
- "Marlboro"	350	365	375
- Camel	325	330	330
- "Chesterfield and "Lucky Strike"	295	310	310
- Medium price group			
- "Fortuna", "Nobel"	265	275	280
- "LM"	250	275	280
Low price group			
- "Gold Coast", "Viceroy"	250	260	265
- "Coronas "	-	220	220

Pesetas/\$ average exchange rates: 1997 - 146.41; 1998 - 149.40; 1999 - 156.33; Current - 175

Trade

Cigarette imports continue due to increased access and distribution of EU brands and lower duties on non-EU brands. Cigarette exports are also expected to grow further due to the Altadis group's commitment to boost sales of the top Spanish brand Fortuna outside its domestic market.

Tariff Changes and Non-Tariff Barriers

As part of the Uruguay Round Agreement, the EU is phasing down import duties on tobacco products imported from countries outside the EU, as follows:

	Import duties			
	1999		2000	
	1/1-6/30	7/1-12/31	1/1-6/30	7/1-12/31
	Percent			
Cigarettes	68.40	63.00	63.00	57.60
Cigars	34.70	30.30	30.30	26.00
Smoking and cut	88.90	81.90	81.90	74.90

Quality, Safety & Health Regulations

To align Spanish legislation with that of other EU countries, the GOS issued a regulation on tobacco labeling dated June 3, 1992, that includes tar and nicotine limitations and new health warnings. The regulation also includes a ban on smoking in domestic flights of less than 90 minutes. Nicotine maximum content is established at 1.3 milligrams per cigarette. Tar content is limited to 15 milligrams per cigarette beginning in 1993, with a mandatory reduction to 12 milligrams as of 1998. Besides the current warning "Smoking seriously injures your health", packages must now bear one of 6 new health warnings.

The above is in addition to previous anti-smoking legislation which banned smoking in public transportation, health and educational centers, theaters and movies, elevators and official public facilities.

Spanish Courts ruled in favor of Altadis in a case brought by a Spanish smoker. Besides having not proven relationship between tobacco smoking and the plaintiff's illness, the judge diminished charges of negligence against Altadis and determined that there was no contractual relationship between tobacco manufacturers and consumers. Like other European countries, lawsuits against tobacco companies are not likely to succeed in the Spanish Courts. However, three other cases brought by smokers are underway and an association of affected smokers and a regional government has announced the filing of more lawsuits.

Marketing

During the fall of 1999, the merge of the French and Spanish tobacco companies SEITA and TABACALERA took place to form ALTADIS, a leader in the European tobacco industry. Altadis operates an extensive distribution network, including 52,000 outlets in Spain, 35,000 in France and 13,000 in Portugal. The enlarged group has a significant presence in approximately 20 countries worldwide, with sales outside Spain and France representing about one third of combined revenues.

Altadis distributes the great majority of all tobacco products sold on the Spanish market. Retail sales are made through tobacco shops (estancos) which belong to the Government. Sales are also made in public places through Government-controlled vending machines, and also in bars and newsstands which are supplied by the estancos.

A new Tobacco Market Regulation which was issued last year calls for the dismantling of the existing monopoly on the manufacturing and the wholesale importing and distributing of tobacco products from non-EU countries. A government license is, however, required for importing or distributing these tobacco products. Retail sales, however, continue to be restricted to the government's network of tobacco shops (estancos).

Through its subsidiary Logista, Altadis still holds practically the totality of cigarette distribution in Spain. An independent tobacco distributing company McLane has filed a lawsuit against Altadis to break this monopoly situation.

Marketing Development Opportunities

Although market development opportunities for cigarettes and other U.S. tobacco products made in the U.S. are limited due to high tariffs and the fact that most major U.S. cigarette brands are currently manufactured under license by Altadis, Spain imported \$6 million worth of U.S. cigarettes last year, \$2 million less than in 1998.