



Required Report - public distribution

Date: 4/23/2001

GAIN Report #SP1017

## Spain

## Tobacco and Products

## Annual

## 2001

Approved by:

**Lloyd Fleck**

**U.S. Embassy**

Prepared by: PerezD

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### Report Highlights:

**Blended tobacco, the main United States tobacco exports to Spain, will be cut substantially over the next few years due to the cancellation of the current licensing arrangement with JTI and the revision of the one with Philip Morris to cut back production in Spain, shifting production to other EU countries. Although last year, United States unmanufactured tobacco imports declined to \$146 million, \$11 million less than in 1999, they still continue to lead by far the Spanish market, with a market share of 49 percent.**

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

Executive Summary .....	1
TOBACCO, UNMANUFACTURED .....	2
Tobacco, Unmfg., Flue Cured .....	2
Tobacco, Unmfg., Burley .....	3
Tobacco, Unmfg., Total .....	6
Production .....	4
Production Table .....	6
Price table .....	6
Consumption .....	7
Trade .....	11
Stocks .....	11
Policy .....	11
Production Policy .....	11
Tariff Changes and Non-Tariff Barriers .....	11
Quality, Safety & Health Regulations .....	11
Marketing .....	11
Marketing Development Opportunities .....	11
TOBACCO, MANUFACTURED .....	12
Cigarettes .....	12
Production .....	14
Consumption .....	14
Price Tables .....	16
Trade .....	17
Tariff Changes and Non-Tariff Barriers .....	17
Quality, Safety & Health Regulations .....	17
Marketing .....	18
Marketing Development Opportunities .....	18

**Executive Summary**

Further reduced smuggling made it possible for legal cigarette sales in Spain during the year 2000 to attain a 91.6 million piece record level, representing a 1.8 percent increase over the preceding year. A continuing tendency among consumers towards American Blend tobacco cigarettes has pushed their share of the market to an unprecedented 76 percent. While sales of American Blend cigarette brands rose 5.1 percent to 70.06 billion pieces, sales of dark cigarettes declined 7.6 percent to 21.52 billion pieces.

The tendency of increased cigarette imports not offset by gains in cigarette exports is shrinking domestic cigarette production. This in turn has led to a significant reduction in tobacco leaf import needs into Spain. Total Spanish leaf tobacco imports in 2000, however, rose to 58,445 tons from a 45,556 metric tons low in the preceding year.

The value of these imports amounted to \$296 million in 2000, \$28 million more than in 1999. Imports of U.S. leaf tobacco in 2000 declined in terms of volume to about 16,800 metric tons (about a thousand tons less than in 1999), and also decreased in value to \$146 million, \$11 million less than in the preceding year. In terms of value, however, the United States continues to be by far the leading supplier of tobacco to Spain. The U.S. share of the market dropped back to 49 percent in 2000 from 59 percent in the previous year. Other leading tobacco leaf suppliers in 2000 were Brazil (9 percent), Zimbabwe, Malawi and Cuba (5 percent each), Turkey (4 percent), Greece and Philippines (3 percent each).

The licensing arrangement under which Altadis was producing several American Blend cigarette brands such as Winston and Marlboro, Camel and L&M brands in Spain (the mainland) are being either canceled or revised to cut back production in Spain. The local demand for these brands is expected to be covered from other Philip Morris and Japan Tobacco Int.'s factories located in other European Union countries or by imports from outside the EU. This will certainly have an impact on unmanufactured tobacco imports into Spain sourced in the United States. Blended tobacco, the main item of the United States tobacco imports is expected to be cut substantially in the next few years.

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.

Altadis has already won three lawsuits brought to the Spanish Courts by smokers.

Pesetas/\$ average exchange rates: 1998 - 149.40; 1999 - 156.33; 2000 - 180.68; Current - 188

**TOBACCO, UNMANUFACTURED**

**Tobacco,Unmfg.,Flue Cured**

PSD Table

Country	Spain					
	Tobacco,Unmfg.,Flue Cured				(HA)(MT)	
Commodity	Revised	1999	Preliminary	2000	Forecast	2001
Market Year Begin	Old	New	Old	New	Old	New
		01/1999		01/2000		01/2001
Area Planted	9250	8695	9250	8800	0	8800
Beginning Stocks	5240	5240	1920	3	4200	3147
Farm Sales Weight Prod	29000	29040	29000	29200	0	29300
Dry Weight Production	23780	23813	23780	23944	0	24026
U.S. Leaf Imports	11700	11700	12000	11100	0	10000
Other Foreign Imports	8100	8050	5000	13100	0	10500
TOTAL Imports	19800	19750	17000	24200	0	20500
TOTAL SUPPLY	48820	48803	42700	48147	4200	47673
Exports	22000	26200	15000	20700	0	20500
Dom. Leaf Consumption	6500	6500	4000	7000	0	6000
U.S. Leaf Dom. Consum.	12700	12700	12500	11000	0	10500
Other Foreign Consump.	5700	3400	7000	6300	0	7600
TOTAL Dom. Consumption	24900	22600	23500	24300	0	24100
TOTAL Disappearance	46900	48800	38500	45000	0	44600
Ending Stocks	1920	3	4200	3147	0	3073
TOTAL DISTRIBUTION	48820	48803	42700	48147	0	47673

**Tobacco, Unmfg., Burley**

PSD Table

Country	Spain		(HA)(MT)			
	Tobacco, Unmfg., Burley		2000		2001	
Commodity	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Area Planted	4600	4370	4600	4500	0	4500
Beginning Stocks	914	914	410	12	1606	1744
Farm Sales Weight Prod	12800	12680	12800	12600	0	12500
Dry Weight Production	10496	10398	10496	10332	0	10250
U.S. Leaf Imports	5900	5900	6000	5500	0	5000
Other Foreign Imports	4000	4100	8000	9400	0	8500
TOTAL Imports	9900	10000	14000	14900	0	13500
TOTAL SUPPLY	21310	21312	24906	25244	1606	25494
Exports	2000	2300	4800	5000	0	5000
Dom. Leaf Consumption	7200	7200	7000	5500	0	5500
U.S. Leaf Dom. Consum.	6600	6600	6500	5500	0	5000
Other Foreign Consump.	5100	5200	5000	7500	0	7900
TOTAL Dom. Consumption	18900	19000	18500	18500	0	18400
TOTAL Disappearance	20900	21300	23300	23500	0	23400
Ending Stocks	410	12	1606	1744	0	2094
TOTAL DISTRIBUTION	21310	21312	24906	25244	0	25494

**Tobacco, Unmfg., Total**

PSD Table

Country Commodity Market Year Begin	Spain		Tobacco, Unmfg., Total		(HA)(MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New 01/1999	Old	New 01/2000	Old	New 01/2001
Area Planted	14000	13225	14000	13450	0	13450
Beginning Stocks	14551	14551	5543	1021	9129	5328
Farm Sales Weight Prod	42300	42220	42300	42250	0	42250
Dry Weight Production	34686	34620	34686	34645	0	34645
U.S. Leaf Imports	17800	17800	18200	16800	0	15200
Other Foreign Imports	27756	27756	33800	41645	0	38300
TOTAL Imports	45556	45556	52000	58445	0	53500
TOTAL SUPPLY	94793	94727	92229	94111	9129	93473
Exports	24250	28706	20100	25983	0	25790
Dom. Leaf Consumption	14200	14200	11500	13000	0	12000
U.S. Leaf Dom. Consum.	19500	19500	19200	16700	0	15700
Other Foreign Consump.	31300	31300	32300	33100	0	34700
TOTAL Dom. Consumption	65000	65000	63000	62800	0	62400
TOTAL Disappearance	89250	93706	83100	88783	0	88190
Ending Stocks	5543	1021	9129	5328	0	5283
TOTAL DISTRIBUTION	94793	94727	92229	94111	0	93473

**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 Havanna)	10,800
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.

After Italy and Greece, Spain is the third largest EU tobacco producing country. Caceres (Extremadura), in the Tietar and Alagon river basins, is the leading producing area for Spanish flue cured and burley tobaccos, accounting for about 85 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. A wet spring, however, led to delays in transplanting which in turn led to a late harvest.

#### 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 PVY viruses. Blue molds and aphids could also be important pests depending on the climatic conditions. Growers make particularly generous use of fertilizers and pesticides.

Recently increased input prices, fuel and fertilizers in particular, have caused tobacco growing costs to rise notably. Labor is also becoming scarce.

#### 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

Quality for the 2000 tobacco harvest was generally good. Compared to the previous year, improved cleanness and uniformity of the harvested tobaccos are reported.

## Production Table

	Tobacco - Spain					
	Area (ha.)			Production (MT)		
	1999	2000	2001	1999	2000	2001
Flue Cured	8,695	8,800	8,800	29,040	29,200	29,300
Burley	4,370	4,500	4,500	12,680	12,600	12,500
D. air c., cigar	150	150	150	500	450	450
Total	13,215	13,450	13,450	42,220	42,250	42,250

## Price Table

EU premiums for leaf tobacco given for the 2000/01 marketing year remained unchanged from year earlier levels, 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

The average grower price for dried tobacco leaf in 1999 was 392 pesetas/kilogram (about 114 U.S. cents per pound). In national currency terms, this represents a 18 decline from year earlier levels.

## **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 is decreasing due to cut backs in manufacturing of tobacco products.

## **Trade**

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

A great part of Spanish tobacco imports, however, is composed of blends used for the production of the Philip Morris, JTI and BAT cigarette brands. PS&D tables include an estimate of the amount of the different tobacco types contained in these imported blends.

Concerning dark tobaccos, 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 for cigar wrapper leaf.

Unmanufactured tobacco import needs are declining due to reduced domestic production of cigarettes. During the 2000, however, tobacco leaf imports rebounded from a low in the preceding year which was due an inventory reduction.

Spanish leaf tobacco imports rose from 45,556 metric tons in 1999 to 52,445 metric tons last year. In terms of value, they rose 10 percent from \$268 million in 1999 to \$296 in 2000.

As was the case in 1999, U.S. leaf tobacco imports declined last year. In terms of volume, they declined to about 16,800 metric tons, about one thousand metric tons less than in 1999. In terms of value, they declined seven percent to \$146 million. Despite the decline, the United States continues to be by far the leading supplier of tobaccos to Spain. In terms of value, the U.S. share of the market dropped from 59 percent in 1999 to 49 percent in 2000, dropping back to the level of two years earlier. With Malawi and Zimbabwe gaining market share over the preceding year, other leading tobacco leaf suppliers to Spain in 2000 were Brazil (9 percent), Zimbabwe, Malawi and Cuba (5 percent each), Turkey (4 percent), Greece and Philippines(3 percent each).

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 (90 percent of its needs in 2000). There are currently four tobacco leaf dealers Spain. Cetarsa, a company owned by the state and Altadis, is the main operator for domestically produced tobaccos, followed by Agroexpansion/Dimon, World Wide Tobacco/Standard and Taes/Universal Leaf.

**Tobacco, Unmfg., Total Imports by Types**

Tariff category	Types	Calendar Years		
		1998	1999	2000
		Metric Tons		
2401.10.10	Flue-cured, Virginia	0	2	39
2401.10.20	Burley	1	436	438
2401.10.30	Maryland	0	0	0
2401.10.41	Fire cured, Kentucky	277	403	376
2401.10.49	Fire cured, other	406	130	287
2401.10.50	Light air cured, other	0	0	0
2401.10.60	Sun cured Oriental	2203	2493	4083
2401.10.70	Dark air-cured	14768	11966	10051
2401.10.80	Flue-cured, other	0	0	0
2401.10.90	Other	1693	286	391
-Subtotal non-stemmed		19348	15716	15665
2401.20.10	Flue-cured, Virginia	13952	7882	7880
2401.20.20	Burley	7073	4459	9638
2401.10.30	Maryland	18	0	0
2401.10.41	Fire cured, Kentucky	0	0	1
2401.20.49	Fire cured, other	9	0	8
2401.10.50	Light air cured, other	330	0	0
2401.10.60	Sun cured Oriental	811	2	228
2401.20.70	Dark air-cured	1064	1803	1483
2401.20.80	Flue-cured, other	12124	10351	12713
2401.20.90	Other	3930	3509	5155
-Subtotal stemmed		39311	28006	37106
2401.30.00	Tobacco refuse	2524	1834	5674
-GRAND TOTAL		61183	45556	58445

**Tobacco, Unmfg., Total Exports by Types**

Tariff category	Types	Calendar Years		
		1998	1999	2000
		Metric Tons		
2401.10.10	Flue-cured, Virginia	2347	1468	524
2401.10.20	Burley	1	0	3423
2401.10.30	Maryland	0	0	0
2401.10.41	Fire cured, Kentucky	252	232	69
2401.10.49	Fire cured, other	0	4	44
2401.10.60	Sun cured Oriental	0	99	2
2401.10.70	Dark air-cured	449	512	222
2401.10.80	Flue-cured, other	0	0	0
2401.10.90	Other	32	4	7
-Subtotal non-stemmed		3081	2319	4291
2401.20.10	Flue-cured, Virginia	13696	19589	10060
2401.20.20	Burley	619	1220	964
2401.20.30	Maryland	0	0	80
2401.20.49	Fire cured, other	0	0	3
2401.10.60	Sun cured Oriental	0	0	0
2401.20.70	Dark air-cured	0	58	0
2401.20.80	Flue-cured, other	0	2	0
2401.20.90	Other	106	2666	7828
-Subtotal stemmed		14421	23535	18935
2401.30.00	Tobacco refuse	2456	2852	2757
-GRAND TOTAL		19958	28706	25983

**Import Trade Matrix**

Country	Spain			
Commodity	Tobacco, Unmfg., Total			
Time period	CY	Units:	MT	\$Million
Imports for:	1999		2000	2000
U.S.	17775	U.S.	16757	146
Others		Others		
Brazil	8274	Brasil	8841	27
Cuba	4075	Zimbabwe	6607	14
Dominican R.	2765	Malawi	5687	15
Zimbabwe	2057	Cuba	5648	15
Colombia	1867	Turkey	2815	13
Philippines	1773	Colombia	2048	4
Turkey	1322	Greece	1937	10
Greece	1101	Domin. R.	1451	4
Switzerland	565	Argentina	1413	5
Indonesia	477	Germany	765	5
Total for Others	24276		37212	112
Others not Listed	3505		4476	38
Grand Total	45556		58445	296

**Export Trade Matrix**

Country	Spain			
Commodity	Tobacco, Unmfg., Total			
Time period	CY	Units:	MT	\$Million
Exports for:	1999		2000	2000
U.S.	839	U.S.	559	1
Others		Others		
Romania	4687	Ukraine	3813	12
U.K.	3040	U.K.	3761	6
Germany	2397	Germany	3146	5
Belgium	2056	Russia	2450	6
Ukraine	1867	Poland	2085	7
Russia	1515	Italy	1860	2
Italy	1388	Holland	1486	3
Poland	1354	Belgium	1184	2
Holland	1101	Singapore	944	2
Turkey	1074	Austria	503	1
Total for Others	0		21232	46
Others not Listed	7388		4192	9
Grand Total	8227		25983	56

## **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 in 1998 which includes measures to increase quality and incentives to abandon production. In addition, production controls were enhanced. The production thresholds are to be maintained through the year 2001.

### **Tariff Changes and Non-Tariff Barriers**

Current tariff have remained unchanged Since mid last year, 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)

### **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**

Cut backs in manufacturing of American blend types of cigarettes under licence are expected to reduce tobacco imports sourced from the United States during 2001 to 15,200 metric tons, 1,600 metric tons less than in the preceding year. Further reductions are expected for the future.

**TOBACCO, MANUFACTURED****Cigarettes**

PSD Table

Country	Spain					
	Tobacco, Mfg., Cigarettes (MIL PCS)					
Commodity	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin	01/1999		01/2000		01/2001	
Filter Production	71553	71553	68460	69982	0	68949
Non-Filter Production	1610	1610	1540	1574	0	1551
TOTAL Production	73163	73163	70000	71556	0	70500
Imports	21294	21294	25000	25175	0	26000
TOTAL SUPPLY	94457	94457	95000	96731	0	96500
Exports	4515	4515	5000	5133	0	5500
Domestic Consumption	89942	89942	90000	91598	0	91000
TOTAL DISTRIBUTION	94457	94457	95000	96731	0	96500

**Import Trade Matrix**

Country	Spain			
Commodity	Tobacco, Mfg., Cigarettes			
Time period	CY	Units:	MT	\$Million
Imports for:	1999		2000	2000
U.S.	478	U.S.	136	3
Others		Others		
Germany	15795	Germany	19504	336
U.K.	3088	U.K.	4451	74
Holland	1555	Holland	1104	16
France	501	France	353	5
Denmark	365	Portugal	281	4
Portugal	141	Denmark	119	3
Belgium	114	Switzerland	93	1
Austria	15	Belgium	21	
Switzerland	7	Austria	16	
Italy	7	Luxembourg	8	
Total for Others	0		25950	439
Others not Listed	3		6	1
Grand Total	481		26092	443

**Export Trade Matrix**

Country	Spain			
Commodity	Tobacco, Mfg., Cigarettes			
Time period	CY	Units:	MT	\$Million
Exports for:	1999		2000	2000
U.S.	2792	U.S.	2926	27
Others		Others		
France	672	France	1331	22
Portugal	335	Portugal	281	3
Belgium	296	Belgium	223	3
Andorra	97	Angola	115	1
Guinea	84	Andorra	74	2
Morocco	69	Morocco	58	2
Turkey	59	Guinea	57	1
Namibia	31	Egypt	37	1
Algeria	31	S. Korea	36	1
Tanzania	24	Latvia	28	1
Total for Others	1698		2240	37
Others not Listed	189		153	1
Grand Total	4679		5319	65

## **Production**

Spanish cigarette production continues to decline as a result of increased cigarette imports which do not offset gains in cigarette exports.

Altadis, the recently created tobacco company which is a result of the merger of the two local French and Spanish tobacco companies Seita and Tabacalera, ranks third in Western Europe. In Spain, Altadis is currently undergoing restructuring and cost cutting operations, with the closing down of eight factories and the building of two modern production centers in Alicante and Cantabria.

Altadis and Philip Morris have agreed to revise their contract under which Altadis has been producing Marlboro and L&M brands in Spain under license. The contract revision is due to the need of compliance with the EU legislation on competence. The revised accord establishes that the licensing arrangement for the Marlboro and L&M brands will continue through the 2004 and 2003 years, respectively, one year earlier than what was set in previous arrangements.

The revised accord also establishes that, beginning with the year 2001 and through the year 2003, Altadis will cut back production of the L&M brand by one billion pieces annually from last year's demand level of 7.2 billion pieces. In addition, beginning with the year 2002, production of the Marlboro brand will be cut back by 1.5 billion pieces from the current production level of 7.1 million pieces. This means that Altadis will produce 4.2 billion pieces of the L&M brand in the year 2003 and 2.6 million pieces of the Marlboro brand in the year 2004, down 42 percent and 63 percent, respectively, from current production levels. The future of this licensing arrangements for Spain remains uncertain, since Philip Morris may decide to supply the entire Spanish market with cigarettes produced in other European country.

This is in addition to the licensing arrangement between Altadis and Japan Tobacco Int. which was discontinued last year. Altadis had been producing Winston, Camel, and Gold Coast brands in Spain to supply the domestic market.

In 1999, American Blend cigarette production under license in Spain amounted to 16.1 billion pieces, representing a 22 percent of the total Altadis' cigarette production in Spain.

## **Consumption**

Spanish cigarette market in 2000 rose two percent from a year earlier. However, while sales of American blend type cigarettes rose 5.1 percent to 70.06 billion pieces, sales of dark cigarettes which declined 7.6 percent to 21.5 billion pieces. The tendency of larger consumption of American blend types cigarettes at the expense of dark cigarettes continued. In 2000, the American blend types cigarettes share of the market rose a further 2 points to 76 percent. This compares with only 50 percent a decade ago.

Increases in cigarette prices 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 2.6 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.

	Percent		
1. Cigarette types	1998	1999	2000
-American blend cigarettes	69	72	76
-Dark cigarettes	31	28	24
Total	100	100	100

2. American-blend cigarettes

	Percent		
Brand	1988	1999	2000
"Fortuna"	28	29	27
"Marlboro"	17	18	20
"LM"	13	11	10
"Chesterfield"	9	10	11
"Winston"	5	5	5
"Lucky Strike"	5	5	5
"Nobel"	4	5	5
"Camel"	4	4	4
"Goal Coast"	3	2	2
"Golden Am."	1	1	1
Other	11	10	10
Total	100	100	100

3. Concerning dark cigarettes, "Ducados" is the leading brand sold in Spain, accounting for nearly 76 percent of the dark cigarette market last year. Other dark cigarette brands are "B.N" and "Celtas", with market shares of seven and five percent last year, respectively.

## 4. Tobacco companies:

As shown below, Philip Morris' brands continued to gain market share in Spain to the detriment of the local brands produced by Altadis.

	1998	1999	2000
	Percent		
Altadis	50	48	45
Philip Morris	30	29	31
Japan Tobacco Int.	9	8	8
BAT/Rotmans	4	6	6
CITA	3	5	5
Other	4	4	5
Total	100	100	100

## Price Tables

While the tax level applied in Spain on cigarettes (about three fourths of retail prices) is practically aligned with the EU average, retail prices are still 15 percent below the EU average. Retail cigarette prices in Spain are therefore very likely to continue to rise in the future.

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

	1999	2000	2001
	pesetas/package		
Dark cigarettes, filter-tipped			
- "Ducados"	200	200	205
American blend, filter-tipped			
- High price group			
- "Marlboro", "Winston"	365	375	385
- Camel	330	330	325
- "Chesterfield", "Lucky Strike"	310	310	325
- Medium price group			
- "Fortuna", "LM", "Nobel"	275	280	295
Low price group			
- "Gold Coast", "Viceroy"	260	265	280
- "Coronas "	220	220	245

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.

Pesetas/\$ average exchange rates: 1998 - 149.40; 1999 - 156.33; 2000 - 180.68 Current - 188.00

## **Trade**

Cigarette imports continue to rise due to increased access and distribution of duty-free EU brands and lower duties on non-EU brands. Besides increased sales of the top Spanish brand Fortuna which are taking place in France, Spanish cigarette exports are also expected to continue to grow due to the Altadis group's presence in many countries with growth potential such as Poland, and Asia.

### **Tariff Changes and Non-Tariff Barriers**

Current import duties on tobacco products imported into Spain are as follows:

#### Import Duties - Current Year 2001

Percent

Cigarettes	57.60
Cigars	26.00
Smoking and cut	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. Maximum nicotine content is established at 1.3 milligrams per cigarette. Tar content was 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 six 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 have so far ruled in favor of Altadis in three cases brought by smokers. However, other cases are underway, like the one brought by an association of laryngectomized people.

## **Marketing**

During the fall of 1999, the French and Spanish tobacco companies SEITA and TABACALERA merged 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 in 1999 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). Despite this restriction, recently created companies are selling tobacco through internet.

Through its subsidiary Logista, Altadis holds practically the totality of cigarette distribution in Spain. An independent distributing company McLane is already distributing cigars in Spain and has filed a lawsuit against Altadis to break the its cigarette distribution monopoly.

### **Marketing Development Opportunities**

Market development opportunities for cigarettes and other U.S. tobacco products made in the United States are limited due to high tariffs. Spain imported \$3 million worth of U.S. cigarettes last year, half of the value in the preceding year.