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Report Highlights: Cigarette sales are growing in Spain to record levels and so are cigarette imports which are growing rapidly. Blended tobacco, the main United States tobacco exports to Spain, continues to decline due to a cut back in the production of Philips Morris' brands in Spain. Although U.S. unmanufactured tobacco imports in 2001 declined to \$115 million, \$31 million less than in 2000, they still continue to lead by far the Spanish market, with a market share of 50 percent.

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

Cigarette sales in Spain during the year 2001 attained a new 93.8 million piece record level, representing a 2.5 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 78 percent. While sales of American Blend cigarette brands rose 5 percent to 73.2 billion pieces, sales of dark cigarettes declined 5 percent to 20.6 billion pieces.

The tendency of increased cigarette imports 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 2001 declined to 47,248 tons, a 19 percent decline from the preceding year. In addition, cigar dark tobacco imports rose notably due to inventory replenishment.

The value of tobacco leaf imports amounted to \$228 million in 2001, \$27 million less than in 2000, and \$68 million less than in 1999. Imports of U.S. leaf tobacco in 2001 declined once again in terms of volume to about 13,400 metric tons (about 3,300 tons less than in 2000), and also decreased in value to \$115 million, \$31 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 even increased one percentage point to 50 percent in 2001 from the previous year. Other leading tobacco leaf suppliers in 2001 were Cuba (8 percent), Brazil (7 percent), Zimbabwe (4 percent), Philippines (3.5 percent), Turkey (3 percent), Malawi and Dominican Republic (2.6 percent each).

Local production under license of the Philips Morris' brands Marlboro and L&M are being cut back. The local demand for these brands is being covered from other Philip Morris located in other European Union countries or by imports from outside the EU. This is certainly having an impact on unmanufactured tobacco imports into Spain sourced in the United States. Cuts in imports of blended tobacco, the main item of the United States tobacco shipments to Spain, are expected to continue during the next few years.

Current lower retail prices coupled with a policy for tax harmonization within the EU will make cigarette retail prices in Spain to increase in the future.

Spain's tobacco leaf production will continue to be closely aligned to the country's EU allocated guarantee thresholds. In the last EU AgMinister Council, a three-year extension of the threshold system with cuts in aids for low-grade tobacco was approved. In addition, the EU guarantee threshold for Spain was cut moderately for the next three years. The Commission proposal for fixing a deadline for the phasing out of tobacco subsidies, however, was watered down by the Council which approved an statement proposing the study of a progressive elimination of subsidies and finding of alternative incomes for tobacco growers instead.

TOBACCO, UNMANUFACTURED**Tobacco,Unmfg.,Flue Cured**

PSD Table						
Country	Spain					
Commodity	Tobacco,Unmfg.,Flue Cured				(HA)(MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Area Planted	8800	8724	8800	8750	0	8820
Beginning Stocks	3	3	3147	5238	3073	182
Farm Sales Weight Prod	29200	29189	29300	29200	0	29500
Dry Weight Production	23944	23935	24026	23944	0	24190
U.S. Leaf Imports	11100	11100	10000	7300	0	6000
Other Foreign Imports	13100	13100	10500	7800	0	8500
TOTAL Imports	24200	24200	20500	15100	0	14500
TOTAL SUPPLY	48147	48138	47673	44282	3073	38872
Exports	20700	20700	20500	24900	0	20000
Dom. Leaf Consumption	7000	5200	6000	3200	0	3100
U.S. Leaf Dom. Consum.	11000	10000	10500	8000	0	6000
Other Foreign Consump.	6300	7000	7600	8000	0	8000
TOTAL Dom. Consumption	24300	22200	24100	19200	0	17100
TOTAL Disappearance	45000	42900	44600	44100	0	37100
Ending Stocks	3147	5238	3073	182	0	1772
TOTAL DISTRIBUTION	48147	48138	47673	44282	0	38872

Tobacco, Unmfg., Burley

PSD Table						
Country	Spain					
Commodity	Tobacco, Unmfg., Burley				(HA)(MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Area Planted	4500	4355	4500	4350	0	4140
Beginning Stocks	12	12	1744	2224	2094	123
Farm Sales Weight Prod	12600	12576	12500	12560	0	11950
Dry Weight Production	10332	10312	10250	10299	0	9799
U.S. Leaf Imports	5500	5500	5000	6000	0	5100
Other Foreign Imports	9400	9400	8500	4100	0	5400
TOTAL Imports	14900	14900	13500	10100	0	10500
TOTAL SUPPLY	25244	25224	25494	22623	2094	20422
Exports	5000	5000	5000	8600	0	5000
Dom. Leaf Consumption	5500	5000	5500	3900	0	3600
U.S. Leaf Dom. Consum.	5500	5500	5000	6000	0	5000
Other Foreign Consump.	7500	7500	7900	4000	0	4500
TOTAL Dom. Consumption	18500	18000	18400	13900	0	13100
TOTAL Disappearance	23500	23000	23400	22500	0	18100
Ending Stocks	1744	2224	2094	123	0	2322
TOTAL DISTRIBUTION	25244	25224	25494	22623	0	20422

Tobacco, Unmfg., Total

PSD Table						
Country	Spain					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Area Planted	13450	13229	13450	13250	0	13110
Beginning Stocks	1021	1021	5328	8099	5283	1250
Farm Sales Weight Prod	42250	42215	42250	42210	0	41900
Dry Weight Production	34645	34616	34645	34612	0	34358
U.S. Leaf Imports	16800	16800	15200	13400	0	11200
Other Foreign Imports	41645	41645	38300	33850	0	33900
TOTAL Imports	58445	58445	53500	47250	0	45100
TOTAL SUPPLY	94111	94082	93473	89961	5283	80708
Exports	25983	25983	25790	35911	0	27000
Dom. Leaf Consumption	13000	11700	12000	7600	0	8000
U.S. Leaf Dom. Consum.	16700	15700	15700	14100	0	13600
Other Foreign Consump.	33100	32600	34700	31100	0	28400
TOTAL Dom. Consumption	62800	60000	62400	52800	0	50000
TOTAL Disappearance	88783	85983	88190	88711	0	77000
Ending Stocks	5328	8099	5283	1250	0	3708
TOTAL DISTRIBUTION	94111	94082	93473	89961	0	80708

Production

Spain's tobacco leaf output is consistently approaching the EU guarantee threshold for Spain whose total amount has been recently cut back and the groups re-oriented towards market demand, as follows:

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 Havanna)	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 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.

Crop Area

Area planted to tobacco in Spain 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.

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.

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 2001 tobacco harvest was generally good.

Production Table

	Tobacco - Spain					
	Area (ha.)			Production (MT)		
	2000	2001	2002	2000	2001	2002
Flue Cured	8,724	8,750	8,820	29,189	29,200	29,500
Burley	4,355	4,350	4,140	12,576	12,560	11,950
D. air c., cigar	150	150	150	450	450	450
Total	13,229	13,250	13,110	42,215	42,210	41,900

Price Table

EU premiums for leaf tobacco will remain unchanged through the 2004 year, 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 2000 was Euros 3.07 per kilogram (about \$1.28 per pound). In dollar terms, this represented an increase of 12 percent 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 both flue-cured and burley tobacco leaf is decreasing due to cut backs in cigarette manufacturing.

Trade

Spain's flue-cured strip purchases abroad are mainly sourced from the United States, Zimbabwe, Argentina and Brazil, 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 cigarette brands. These blends are counted as manufactured tobacco by U.S. trade statistics whereas they are counted as tobacco leaf by Spanish customs. This explains why Spanish imports statistics of U.S. tobacco leaf are much larger than U.S. statistics. 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 and cigars. 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. Spanish leaf tobacco imports declined 19 percent from 52,445 metric tons in 2000 to 47,248 last year. In terms of value, they declined 23 percent from \$296 million in 2000 to \$228 in 2001. In addition, while imports of dark tobacco leaf increased notably due largely to inventory replenishment, imports of flue-cured and burley leaf declined.

Imports of U.S. leaf tobacco in 2001 declined once again in terms of volume to about 13,400 metric tons (about 3,300 tons less than in 2000), and also decreased in value to \$115 million, \$31 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 even increased one percentage point to 50 percent in 2001 from the previous year. Other leading tobacco leaf suppliers in 2001 were Cuba (8 percent), Brazil (7 percent), Zimbabwe (4 percent), Philippines (3.5 percent), Turkey (3 percent), Malawi and Dominican Republic (2.6 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 (89 percent of its needs in 2001). 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		
		1999	2000	2001
		Metric Tons		
2401.10.10	Flue-cured, Virginia	2	39	571
2401.10.20	Burley	436	438	10
2401.10.30	Maryland	0	0	30
2401.10.41	Fire cured, Kentucky	403	376	185
2401.10.49	Fire cured, other	130	287	247
2401.10.50	Light air cured, other	0	0	10
2401.10.60	Sun cured Oriental	2,493	4,083	3,536
2401.10.70	Dark air-cured	11,966	10,051	13,902
2401.10.80	Flue-cured, other	0	0	0
2401.10.90	Other	286	391	211
-Subtotal non-stemmed		15,716	15,665	18,702
2401.20.10	Flue-cured, Virginia	7,882	7,880	5,543
2401.20.20	Burley	4,459	9,638	6,667
2401.10.30	Maryland	0	0	0
2401.10.41	Fire cured, Kentucky	0	1	6
2401.20.49	Fire cured, other	0	8	1
2401.10.50	Light air cured, other	0	0	6
2401.10.60	Sun cured Oriental	2	228	227
2401.20.70	Dark air-cured	1,803	1,483	1,517
2401.20.80	Flue-cured, other	10,351	12,713	6,225
2401.20.90	Other	3,509	5,155	3,898
-Subtotal stemmed		28,006	37,106	24,090
2401.30.00	Tobacco refuse	1,834	5,674	4,456
-GRAND TOTAL		45,556	58,445	47,248

Tobacco, Unmfg., Total Exports by Types

Tariff category	Types	Calendar Years		
		1999	2000	2001
		Metric Tons		
2401.10.10	Flue-cured, Virginia	1,468	524	1,346
2401.10.20	Burley	0	3,423	1,417
2401.10.30	Maryland	0	0	29
2401.10.41	Fire cured, Kentucky	232	69	0
2401.10.49	Fire cured, other	4	44	46
2401.10.60	Sun cured Oriental	99	2	1
2401.10.70	Dark air-cured	512	222	177
2401.10.80	Flue-cured, other	0	0	0
2401.10.90	Other	4	7	35
-Subtotal non-stemmed		2,319	4,291	3,051
2401.20.10	Flue-cured, Virginia	19,589	10,060	17,936
2401.20.20	Burley	1,220	964	5,267
2401.20.30	Maryland	0	80	0
2401.20.49	Fire cured, other	0	3	0
2401.20.60	Sun cured Oriental	0	0	0
2401.20.70	Dark air-cured	58	0	23
2401.20.80	Flue-cured, other	2	0	0
2401.20.90	Other	2,666	7,828	4,588
-Subtotal stemmed		23,535	18,935	27,814
2401.30.00	Tobacco refuse	2,852	2,757	5,046
-GRAND TOTAL		28,706	25,983	35,911

Import Trade Matrix				
Country	Spain			
Commodity	Tobacco, Unmfg., Total			
Time period	CY	Units:	MT	\$Million
Imports for:	2000		2001	2001
U.S.	16757	U.S.	13430	115
Others		Others		
Brasil	8841	Cuba	7059	18
Zimbabwe	6607	Brasil	6100	17
Malawi	5687	Zimbabwe	4211	9
Cuba	5648	Malawi	2631	6
Turkey	2815	Dominican R.	2472	6
Colombia	2048	Turkey	1717	7
Greece	1937	Colombia	1547	3
Dominican R.	1451	Greece	1360	5
Argentina	1413	Philippines	1054	8
Germany	765	France	941	3
Total for Others	37212		29092	82
Others not Listed	4476		4726	31
Grand Total	58445		47248	228

Export Trade Matrix				
Country	Spain			
Commodity	Tobacco, Unmfg., Total			
Time period	CY	Units:	MT	\$Million
Exports for:	2000		2001	2001
U.S.	559	U.S.	143	0.4
Others		Others		
Ukraine	3813	Germany	6446	17
U.K.	3761	Italy	3322	5
Germany	3146	U.K.	3125	5
Russia	2450	Belgium	3039	6
Poland	2085	Russia	2351	3
Italy	1860	France	2185	4
Holland	1486	Ukraine	1728	6
Belgium	1184	Tunisia	1719	5
Singapore	944	Netherlands	1582	3
Austria	503	Turkey	1532	3
Total for Others	21232		27029	57

Others not Listed	4192		8739	10.6
Grand Total	25983		35911	68

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 the last EU AgMinister Council, a three-year extension of the threshold system with cuts in aids for low-grade tobacco was approved. The EU guarantee threshold for Spain was cut 1 percent to 41,872 metric tons for the year 2002 and to 40,991 metric tons for the years 2003 and 2004. The Commission proposal for fixing a deadline for the phasing out of tobacco subsidies, however, was watered down by the Council which approved a statement proposing studying a progressive elimination of subsidies and finding of alternative incomes for tobacco growers.

Tariff Changes and Non-Tariff Barriers

Current tariff have remained unchanged from 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)

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 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, Raleigh, North Carolina (phone number 919 782 51 51) or its authorized offices.

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

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. The regulation also bans smoking in commercial domestic flights of less than 90 minutes. In addition, EU Directive 2001/37, which sets minimum requirements for the production, labeling and trade of tobacco products within the EU, will be applicable this year

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 2002 to 11,200 metric tons, 2,200 metric tons less than in the preceding year. Further reductions are expected for the future.

TOBACCO, MANUFACTURED**Cigarettes**

PSD Table						
Country	Spain					
Commodity	Tobacco, Mfg., Cigarettes				(MIL PCS)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Filter Production	69982	69982	68949	61712	0	58200
Non-Filter Production	1574	1574	1551	1388	0	1100
TOTAL Production	71556	71556	70500	63100	0	59300
Imports	25175	25175	26000	34788	0	40000
TOTAL SUPPLY	96731	96731	96500	97888	0	99300
Exports	5133	5133	5500	4013	0	5300
Domestic Consumption	91598	91598	91000	93875	0	94000
TOTAL DISTRIBUTION	96731	96731	96500	97888	0	99300

Import Trade Matrix

Country	Spain			
Commodity	Tobacco, Mfg., Cigarettes			
Time period	CY	Units:	MT	\$Million
Imports for:	2000		2001	2001
U.S.	136	U.S.	1	0.2
Others		Others		
Germany	19504	Germany	31927	558
U.K.	4451	U.K.	5192	101
Holland	1104	Holland	1930	27
France	353	France	399	6
Portugal	281	Portugal	189	4
Denmark	119	Denmark	130	3
Switzerland	93	Belgium	111	3
Belgium	21	Italy	63	1
Austria	16	Austria	31	0.3
Luxembourg	8			
Total for Others	25950		39972	703.3
Others not Listed	6		32	4.5
Grand Total	26092		40005	708

Export Trade Matrix

Country	Spain			
Commodity	Tobacco, Mfg., Cigarettes			
Time period	CY	Units:	MT	\$Million
Exports for:	2000		2001	2001
U.S.	2926	U.S.	1966	20
Others		Others		
France	1331	France	1106	19
Portugal	281	S. Korea	484	4
Belgium	223	Andorra	71	2
Angola	115	Belgium	68	2
Andorra	74	Germany	42	0.4
Morocco	58	Panama	40	0.4
Guinea	57	Czech Rep.	39	0.4
Egypt	37	Guinea	30	0.4
S. Korea	36	Portugal	27	0.3
Latvia	28	Morocco	6	0.3
Total for Others	2240		1913	29.2
Others not Listed	153		737	11.8

Grand Total 5319 4616 61

Production

Spanish cigarette production continues to decline as a result of increased cigarette imports.

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.

As explained in last year's report, Altadis and Philip Morris revised 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.

Consumption

Spanish cigarette market in 2001 rose nearly 2.5 percent from a year earlier. The tendency of larger consumption of American blend types cigarettes at the expense of dark cigarettes continued. Thus, while sales of American blend type cigarettes rose 5 percent to 73.2 billion pieces, sales of dark cigarettes which declined 5 percent to 20.6 billion pieces. In 2001, the American blend types cigarettes share of the market rose a further 2 points to 78 percent, whereas the share of dark tobacco cigarettes declined from 24 to 22 percent.

Reduced smuggling coupled with the fact that Spain is a key tourist country with lower tobacco retail prices and a high rate of smokers (33.1 percent according to recent OECD data) are factors explaining the increase in cigarette sales to record levels in Spain during the past several years.

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

	Percent		
	1999	2000	2001
1. Cigarette types			
-American blend cigarettes	72	76	78
-Dark cigarettes	28	24	22

Total	100	100	100
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2. American-blend cigarettes

Brand	Percent		
	1999	2000	2001
"Fortuna"	29	27	25
"Marlboro"	18	20	19
"LM"	11	10	9
"Chesterfield"	10	11	12
"Winston"	5	5	4
"Lucky Strike"	5	5	5
"Nobel"	5	5	6
"Camel"	4	4	6
"Goal Coast"	2	2	2
Other	11	11	12
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 "BN" , "Celtas" and "Coronas Negro", with market shares last year of 6 percent for the first one and five percent each for the last two brands.

4. Tobacco companies:

As shown below, Altadis continued to lose market share to the benefit of Philip Morris and other companies such as JT Int. last year.

	1999	2000	2001
	Percent		
Altadis	48	45	43
Philip Morris	29	31	32
Japan Tobacco Int.	8	8	10
BAT	6	6	6
CITA	5	5	4
Other	4	5	5
Total	100	100	100

Philip Morris continues to lead the American-blend cigarette market, holding a 40 percent market share last year. It

was followed by Altadis (31 percent) and JT Int. (12 percent). In the dark cigarette market, Altadis held last year a 87 percent market share followed by CITA (13 percent).

Price Tables

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

	2000	2001	2002
	Euros/package		
Dark cigarettes, filter-tipped			
- "Ducados"	1.20	1.23	1.50
American blend, filter-tipped			
- High price group			
- "Marlboro", "Winston"	2.25	2.31	2.40
- Camel	1.98	1.95	n/a
- "Chesterfield", "Lucky Strike"	1.86	1.95	2.15
- Medium price group			
- "Fortuna", "LM", "Nobel"	1.68	1.77	1.95
Low price group			
- "Gold Coast", "Viceroy"	1.59	1.68	1.56
- "Coronas "	1.32	1.56	n/a

Retail prices for tobacco products are annually published in the State Gazette. Those prices are fixed by manufacturers and importers for domestically produced brands and imported brands, respectively.

Retail prices in Spain are still well below certain other EU countries. A Marlboro package costs currently in Spain Euro 2.40, compared to Euro 3.60 in France, Euro 3.16 in Germany and Euro 3.20 in both Austria and Belgium.

Different retail prices makes taxes vary significantly within the EU. Thus, although the rates of excise tax applied are closely aligned (ranging between 72 percent and 76 percent of retail prices for the countries mentioned above), the tax on the premium Marlboro brand is currently Euro 68.70 per 1,000 cigarettes in Spain, compared to Euro 106.21 in France. The leading Spanish Fortuna brand is currently subject to Euro 53.86 tax.

In order to reduce the high disparities in tobacco taxation within the EU, last February the Ecofin approved a minimum excise tax of Euro 60 and 64 per 1,000 cigarettes for the EU-15 to be applied as from July 2002 and July 2006, respectively. For the two most affected countries, Spain and Greece, however, the implementation dates were postponed to January 2005 and January 2008, respectively.

As a result, Spanish retail prices will increase in coming years.

\$/Euro average exchange rates: 1999 - 1.06; 2000 - 0.92; 2001 - 0.89; Current - 0.89

Trade

Cigarette imports continue to rise due largely to increased access and distribution of duty-free EU brands. Despite the increase in sales of the top Spanish brand Fortuna in France and Altadis' plans to promote this brand in several markets, Spanish cigarette exports declined last year.

Tariff Changes and Non-Tariff Barriers

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

Import Duties - Current Year 2002

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.

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.

EU Directive 2001/37 which became in force on January 1, 2002 must be transposed into national legislation no later than September 2002. The directive paves the way for the removal of any internal trade barrier by setting minimum requirements for the production, labeling and trade of tobacco products. Cigarette package warnings will be more visible and more direct, i.e., the current warning "Smoking seriously injures your health" will be replaced by "Smoking kills", "Smoking may kill" or "Smoking seriously injures your health and that of people close to you". In addition, consumers will be informed about the ingredient lists of cigarettes. The terms light, low-nicotine, mild and similar terms are banned.

Although several cases are underway, there has been so far no unfavorable judgements against the tobacco companies in Spain. The industry believes that the litigation risk is much lower in Spain than in the U.S. as key factors are distinguishing Europe and the U.S. in this issue.

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 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. A first judgement unfavorable to Altadis has just occurred. The company, however, has announced to appeal.

Marketing Development Opportunities

Market development opportunities for cigarettes and other U.S. tobacco products made in the United States are generally limited due to high tariffs. Moreover, increased U.S. prices and lower availability are causing imports of U.S. cigarettes into Spain to decline, practically disappearing last year from a value of \$3 million in 1999.