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## Tobacco and Products

## Annual

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**Report Highlights:** Cigarette sales reached a record 94.3 billion pieces in 2002. American blends continued to expand, reaching a market share of 80 percent. Leaf tobacco imports declined last year from all sources, especially from the U.S., as Philip Morris continued to phase out its in-country production of its brands produced under license.

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Includes PSD changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
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**Executive Summary**

Cigarette sales reached a record 94.3 billion pieces in 2002, an increase of 1.2 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 80 percent.

Leaf tobacco imports into Spain are declining dramatically due to the on-going reduction in the in-country manufacturing of cigarettes under license. This trend mainly affected U.S. tobacco imports, although imports from other traditional suppliers also declined significantly last year.

The industry expects U.S. tobacco purchases will continue to decline in the next couple of years. Prospects will become even more uncertain in 2005, when the current arrangements for the in-country production of Philip Morris's brands expires. However, purchases of U.S. tobacco leaf "other than blends" will be maintained as they are used in the production of the local brands. For 2003, the local tobacco company expects to purchase 2,800 tons of U.S. flue-cured and burley leaf combined to be used in the production of its own brands.

Spanish leaf tobacco imports from all sources declined to 36,964 tons in 2002. This compares with 47,248 tons in 2001 and 52,445 tons in 2000. In terms of value, they have declined from \$296 million in 2000 to \$187 in 2002. U.S. leaf tobacco imports declined to about 10,400 tons valued at \$92 million last year, down about 20 percent from 2001. The majority of the local tobacco production is exported to other EU markets and some former FSU countries.

Spain's tobacco leaf production will continue to be closely aligned to the country's EU-allocated guarantee thresholds through 2004. Recent EU efforts to reduce support for tobacco production includes a recent Commission measure to devote 3 percent of the 1 billion euro tobacco program to encourage growers to give up tobacco production and to support anti-smoking campaigns.

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

PSD Table						
Country	Spain					
Commodity	Tobacco,Unmfg.,Flue Cured				(HA)(MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[ Old]	Post Estimate[ New]	USDA Official[Ol d]	Post Estimate[N ew]	USDA Official[Ol d]	Post Estimate[N ew]
Market Year Begin		01/2001		01/2002		01/2003
Area Planted	8800	8419	8820	8450		8420
Beginning Stocks	3147	5238	182	5811		3937
Farm Sales Weight Prod	29300	29601	29500	29300		29300
Dry Weight Production	24026	24273	24190	24026		24026
U.S. Leaf Imports	10000	8000	6000	6000		5000
Other Foreign Imports	10500	10000	8500	7600		6500
TOTAL Imports	20500	18000	14500	13600		11500
TOTAL SUPPLY	47673	47511	38872	43437		39463
Exports	20500	22500	20000	20000		19000
Dom. Leaf Consumption	6000	3200	3100	4000		5000
U.S. Leaf Dom. Consum.	10500	8000	6000	6000		5000
Other Foreign Consump.	7600	8000	8000	7800		7100
TOTAL Dom. Consumption	24100	19200	17100	19500		17100
TOTAL Disappearance	44600	41700	37100	39500		36100
Ending Stocks	3073	5811	1772	3937		3363
TOTAL DISTRIBUTION	47673	47511	38872	43437		39463

**Tobacco, Unmfg., Burley**

PSD Table						
Country	Spain					
Commodity	Tobacco, Unmfg., Burley				(HA)(MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[ Old]	Post Estimate[Ne ew]	USDA Official[Ol d]	Post Estimate[Ne w]	USDA Official[O ld]	Post Estimate[Ne ew]
Market Year Begin		01/2001		01/2002		01/2003
Area Planted	4500	4100	4140	3830	0	3680
Beginning Stocks	1744	2224	123	1304	2322	1662
Farm Sales Weight Prod	12500	12049	11950	11900	0	11250
Dry Weight Production	10250	9880	9799	9758	0	9225
U.S. Leaf Imports	5000	5400	5100	4300	0	3500
Other Foreign Imports	8500	4700	5400	4700	0	4400
TOTAL Imports	13500	10100	10500	9000	0	7900
TOTAL SUPPLY	25494	22204	20422	20062	2322	18787
Exports	5000	7000	5000	5500	0	5500
Dom. Leaf Consumption	5500	3700	3600	3900	0	4000
U.S. Leaf Dom. Consum.	5000	5500	5000	4300	0	3500
Other Foreign Consump.	7900	4700	4500	4700	0	4500
TOTAL Dom. Consumption	18400	13900	13100	12900	0	12000
TOTAL Disappearance	23400	20900	18100	18400	0	17500
Ending Stocks	2094	1304	2322	1662	0	1287
TOTAL DISTRIBUTION	25494	22204	20422	20062	0	18787

**Tobacco, Unmfg., Total**

PSD Table						
Country	Spain					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		01/2001		01/2002		01/2003
Area Planted	13250	12669	13110	12430	0	12250
Beginning Stocks	8099	8099	1250	9360	3708	5301
Farm Sales Weight Prod	42210	42100	41900	41650	0	41000
Dry Weight Production	34612	34522	34358	34153	0	33620
U.S. Leaf Imports	13400	13400	11200	10393	0	8700
Other Foreign Imports	33850	33850	33900	26571	0	26300
TOTAL Imports	47250	47250	45100	36964	0	35000
TOTAL SUPPLY	89961	89871	80708	80477	3708	73921
Exports	35911	35911	27000	30176	0	27000
Dom. Leaf Consumption	7600	6000	8000	8000	0	8000
U.S. Leaf Dom. Consum.	14100	13100	13600	11000	0	8700
Other Foreign Consump.	31100	25500	28400	26000	0	26600
TOTAL Dom. Consumption	52800	44600	50000	45000	0	43300
TOTAL Disappearance	88711	80511	77000	75176	0	70300
Ending Stocks	1250	9360	3708	5301	0	3621
TOTAL DISTRIBUTION	89961	89871	80708	80477	0	73921

**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.

### **Weather**

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

### **Crop Area**

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.

### **Inputs**

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 PYV 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 becoming scarce.

### **Yields**

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.

### **Crop Quality**

The quality of the 2002 harvest was generally good.

## Production Table

	Tobacco - Spain					
	Area (ha.)			Production (MT)		
	2001	2002	2003	2001	2002	2003
Flue Cured	8,419	8,450	8,420	29,601	29,300	29,300
Burley	4,100	3,830	3,680	12,049	11,900	11,250
D. air c., cigar	150	150	150	450	450	450
Total	12,669	12,430	12,250	42,100	41,650	41,000

## 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 market price for dried tobacco leaf received by tobacco growers in 2002 was euro 0.447 per kilogram. Total growers' returns in 2002, market prices and premiums combined, was about euro 3.02 per kilogram.

## 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, but imports of tobacco from other traditional suppliers into Spain also declined significantly last year. Zimbabwe's flue-cured shipments plunged due to this country's current supply problems. Malawi's burley shipments also declined significantly, as did oriental tobacco imports. Dark tobacco imports also declined notably due to weak domestic cigar and dark cigarette markets.

A great part of Spanish tobacco imports, however, is composed of blends used for the production of Philip Morris's cigarette brands. These blends are counted as manufactured tobacco by U.S. trade statistics, but are counted as tobacco leaf by Spanish customs. (This explains why Spanish import 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. The local tobacco company estimates that its total U.S. tobacco purchases will continue to decline. A 18.5 percent decline is expected for 2003 (compared to a cut of 20.9 percent in 2002). However, its purchases of U.S. tobacco leaf other than blends will be maintained as they are used for the production of its leading local brand, Fortuna. In fact, they will increase this year to 2,800 tons of flue-cured and burley leaf combined, which is nearly 1,000 tons more than in 2002.

Spanish leaf tobacco imports from all sources declined to 36,964 tons in 2002. This compares with 47,248 tons in 2001 and 52,445 tons in 2000. In terms of value, they have declined from \$296 million in 2000 to \$187 in 2002. U.S. leaf tobacco imports declined to about 10,400 tons valued at \$92 million in 2002, down about 20 percent from 2001.

Despite the decline in imports, the U.S. market share decreased only one percentage point -- to 49 percent-- in 2002. Other leading tobacco leaf suppliers in 2002 included Cuba (9 percent), France (8 percent), Brazil (4 percent), and Dominican Republic, the Philippines, Germany and the Netherlands (3 percent each).

Leaf tobacco imports into Spain represent a high proportion of the industry's needs (82 percent last year). The local tobacco production is largely exported, to the EU and FSU countries in particular. 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.

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

Tariff category	Types	Calendar Years		
		2000	2001	2002
		Metric Tons		
2401.10.10	Flue-cured, Virginia	39	571	790
2401.10.20	Burley	438	10	0
2401.10.30	Maryland	0	30	0
2401.10.41	Fire cured, Kentucky	376	185	235
2401.10.49	Fire cured, other	287	247	315
2401.10.50	Light air cured, other	0	10	8
2401.10.60	Sun cured Oriental	4,083	3,536	857
2401.10.70	Dark air-cured	10,051	13,902	12,996
2401.10.80	Flue-cured, other	0	0	0
2401.10.90	Other	391	211	315
-Subtotal non-stemmed		15,665	18,702	15,516
2401.20.10	Flue-cured, Virginia	7,880	5,543	2,639
2401.20.20	Burley	9,638	6,667	5,532
2401.10.30	Maryland	0	0	0
2401.10.41	Fire cured, Kentucky	1	6	0
2401.20.49	Fire cured, other	8	1	0
2401.10.50	Light air cured, other	0	6	0
2401.10.60	Sun cured Oriental	228	227	1,679
2401.20.70	Dark air-cured	1,483	1,517	949
2401.20.80	Flue-cured, other	12,713	6,225	4,625
2401.20.90	Other	5,155	3,898	3,231
-Subtotal stemmed		37,106	24,090	18,655
2401.30.00	Tobacco refuse	5,674	4,456	2,793
-GRAND TOTAL		58,445	47,248	36,964

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

Tariff category	Types	Calendar Years		
		2000	2001	2002
		Metric Tons		
2401.10.10	Flue-cured, Virginia	524	1,346	833
2401.10.20	Burley	3,423	1,417	814
2401.10.30	Maryland	0	29	0
2401.10.41	Fire cured, Kentucky	69	0	0
2401.10.49	Fire cured, other	44	46	4
2401.10.60	Sun cured Oriental	2	1	34
2401.10.70	Dark air-cured	222	177	20
2401.10.80	Flue-cured, other	0	0	0
2401.10.90	Other	7	35	0
-Subtotal non-stemmed		4,291	3,051	1,705
2401.20.10	Flue-cured, Virginia	10,060	17,936	17,527
2401.20.20	Burley	964	5,267	5,672
2401.20.30	Maryland	80	0	0
2401.20.49	Fire cured, other	3	0	0
2401.20.60	Sun cured Oriental	0	0	0
2401.20.70	Dark air-cured	0	23	3
2401.20.80	Flue-cured, other	0	0	0
2401.20.90	Other	7,828	4,588	160
-Subtotal stemmed		18,935	27,814	23,362
2401.30.00	Tobacco refuse	2,757	5,046	5,109
-GRAND TOTAL		25,983	35,911	30,176

Import Trade Matrix						
Country	Spain					
Commodity	Tobacco, Unmfg., Total					
Time period	CY	Units:	CY		Units:	\$Million
Imports for:	2001	Metric Tons	2002		2001	2002
U.S.	13,430	U.S.	10,393	U.S.	115	92
Others		Others				
Cuba	7,059	Cuba	6,764	Cuba	18	16
Brasil	6,100	France	3,161	France	3	15
Zimbabwe	4,211	Brazil	3,047	Turkey	7	8
Malawi	2,631	Colombia	1,793	Brasil	17	7
Dominican R.	2,472	Malawi	1,683	Philippines	8	6
Turkey	1,717	Dominican R.	1,678	Dominican R.	6	6
Colombia	1,547	Turkey	1,616	Greece	5	5
Greece	1,360	Greece	1,073	Malawi	6	4
Philippines	1,054	Germany	893	Colombia	3	4
France	941	Philippines	882	Zimbabwe	9	1
Total for Others	29,092		22,590		82	72
Others not Listed	4,726		3,981		31	23
Grand Total	47,248		36,964		228	187

Export Trade Matrix						
Country	Spain					
Commodity	Tobacco, Unmfg., Total					
Time period	CY	Units:	CY		Units:	\$Million
Exports for:	2001	MetricTons	2002		2001	2002
U.S.	143	U.S.	915	U.S.	0.4	2
Others		Others				
Germany	6446	Belgium	6538	France	4	15
Italy	3322	France	4417	Belgium	6	13
U.K.	3125	U.K.	3270	Germany	17	6
Belgium	3039	Germany	2780	U.K.	5	6
Russia	2351	Italy	2047	Italy	5	3
France	2185	Russia	1645	Turkey	3	2
Ukraine	1728	Singapore	1495	Netherlands	3	1
Tunisia	1719	Ireland	893	Russia	3	1
Netherlands	1582	Turkey	869	Ukraine	6	0
Turkey	1532	Netherlands	504	Tunisia	5	0
Total for Others	0		24458		57	47
Others not Listed	8739		4803		10.6	15
Grand Total	8882		30176		68	64

## 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.

### 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**

Cutbacks in manufacturing of American blend types of cigarettes under licence are expected to reduce tobacco imports sourced from the United States during 2003 to 8,700 tons, some 1,700 tons less than in the preceding year. Further reductions are expected for 2004. For 2005, an additional severe cut in U.S. imports may occur if Philip Morris decides not to produce cigarettes under license in Spain; the existing contract agreements expire at the end of 2004 at the latest.

## TOBACCO, MANUFACTURED

### Cigarettes

PSD Table						
Country	Spain					
Commodity	Tobacco, Mfg., Cigarettes				(MIL PCS)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		01/2001		01/2002		01/2003
Filter Production	61712	60884	58200	61587	0	59300
Non-Filter Production	1388	1370	1100	1165	0	1200
TOTAL Production	63100	62254	59300	62752	0	60500
Imports	34788	35004	40000	35941	0	38400
TOTAL SUPPLY	97888	97258	99300	98693	0	98900
Exports	4013	4149	5300	4384	0	4600
Domestic Consumption	93875	93109	94000	94309	0	94300
TOTAL DISTRIBUTION	97888	97258	99300	98693	0	98900

Import Trade Matrix						
Country	Spain					
Commodity	Tobacco, Mfg., Cigarettes					
Time period	CY	Units:	CY		Units:	\$Million
Imports for:	2001	Metric Tons	2002		2001	2002
U.S.	1	U.S.	5	U.S.	0.02	0.06
Others		Others				
Germany	32100	Germany	31077	Germany	558	602
U.K.	5211	Holland	5258	Holland	27	103
Holland	1936	U.K.	3579	U.K.	101	59
France	400	Portugal	560	Portugal	4	10
Portugal	189	France	449	France	6	7
Denmark	133	Denmark	103	Denmark	3	3
Belgium	132	Austria	91	Belgium	3	1
Italy	64	Belgium	79	Austria	0.3	1
Austria	31	Un. Ar. Em.	29	Un. Ar. Em.	0	0.3
		Senegal	27	Senegal	0	0.3
Total for Others	0		41252		702.3	786.6
Others not Listed	38		55		5.68	1.34
Grand Total	39		41312		708	788

Export Trade Matrix						
Country	Spain					
Commodity	Tobacco, Mfg., Cigarettes					
Time period	CY	Units:	CY		Units:	\$Million
Exports for:	2001		2002		2001	2002
U.S.	1966	U.S.	1187	U.S.	21	12
Others		Others				
France	1106	France	1434	France	23	23
S. Korea	465	Italy	809	Italy	0	11
Andorra	71	Djibouti	468	Djibouti	0	4
Belgium	68	Andorra	76	Andorra	2	2
Germany	42	Guinea	48			
Panama	40	Czech Rep.	37			
Czech Rep.	38	Portugal	28			
Guinea	30	S. Korea	20			
Portugal	27	Tanzania	28			
Tanzania	19	Morocco	10			
Total for Others	1906		2958		25	40
Others not Listed	897		895		15	22
Grand Total	4769		5040		61	74

## **Production**

Spanish cigarette production is expected to decline as a result of the agreement between Philip Morris and Altadis to cut back production of the L&M brand by one billion pieces annually during the years 2001-2003 (from 7.2 billion to 4.2 billion) and the Marlboro brand by 1.5 billion pieces annually during the years 2002-2004 (from 7.1 billion to 2.6 billion ).

Moreover, the future of these licensing arrangements remains uncertain, since Philip Morris will likely decide to supply the entire Spanish market with cigarettes produced in another European country. Altadis has already completed its restructuring plan and cost cutting operations in Spain, closing eight older factories while building of two modern production centers in Alicante and Cantabria.

## **Consumption**

In 2002, the Spanish cigarette market increased 1.2 percent from a year earlier, to 94.3 billion pieces. The trend toward consumption of American blend types cigarettes at the expense of dark tobacco cigarettes continued. Thus, while sales of American blend type cigarettes increased 4 percent to 75.6 billion pieces, sales of dark cigarettes declined 8.45 percent to 18.7 billion pieces. In terms of market share, American blend types cigarettes reached a record 80 percent, while dark tobacco cigarettes further declined to 20 percent.

There are a number of reasons cigarette sales have reached record levels during the past several years. Spain is a major tourist destination. Since Spanish retail prices for tobacco products are lower than most other EU countries, foreign tourists tend to take home generous supplies of cigarettes. Spain is also attracting immigrants, who tend to come from countries where per capita consumption is high. In addition, the Spanish government has succeeded in reducing cigarette smuggling into Spain, which has boosted legal sales; contraband is now estimated to represent less than two percent of the market.

Spain has a high rate of smokers in its population (33.1 percent according to OECD data)

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

	Percent		
	2000	2001	2002
1. Cigarette types			
-American blend cigarettes	76	78	80
-Dark cigarettes	24	22	20
Total	100	100	100

2. American-blend cigarettes

Brand	Percent		
	2000	2001	2002
"Fortuna"	27	25	24
"Marlboro"	20	19	20
"LM"	10	9	8
"Chesterfield"	11	12	13
"Winston"	5	4	3
"Lucky Strike"	5	5	5
"Nobel"	5	6	6
"Camel"	4	6	7
"Gold Coast"	2	2	2
Other	11	12	12
Total	100	100	100

3. Among dark cigarettes, "Ducados" is the leading brand sold in Spain, accounting for nearly 77 percent of the dark cigarette market last year. Other dark cigarette brands include "BN" , "Habanos", "Celtas" and "Coronas Negro".

## 4. Tobacco companies:

As shown below, Altadis continued to lose market share to Philip Morris and JT Int. last year.

	2000	2001	2002
	Percent		
Altadis	48	45	42
Philip Morris	29	31	33
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 41 percent market share last year. It was followed by Altadis (30 percent) and JT Int. (12 percent). In the dark cigarette market, last year Altadis held a 88-percent market share followed by CITA (12 percent).

## Price Tables

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

	2001	2002	2003
	Euros/package		
Dark cigarettes, filter-tipped			
- "Ducados"	1.23	1.50	1.70
American blend, filter-tipped			
- High price group			
- "Marlboro", "Winston"	2.31	2.40	2.50
- Camel	1.95	1.95	2.15
- "Chesterfield", "Lucky Strike"	1.95	2.15	2.15
- Medium price group			
- "Fortuna", "LM", "Nobel"	1.77	1.95	1.95
Low price group			
- "Gold Coast", "Viceroy"	1.68	1.56	1.75
- "Coronas "	1.56	1.56	1.65

Legal retail prices for tobacco products are published annually 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 pack of Marlboros costs euro 2.50 in Spain, compared to euro 3.37 in Germany, euro 3.90 in France and euro 7.20 in the U.K.

These large differences in retail prices reflect the different tax levels currently applied within the EU. Thus, although the rates of excise tax applied are closely aligned (about 58 percent of retail prices), the resulting tax rate in terms of euros per 1,000 cigarettes on the premium Marlboro brand is currently euro 71.41 in Spain, compared to euro 115.03 in France. The leading domestic brand, Fortuna, is currently taxed at euro 56.56 in Spain.

In order to reduce the large disparities in tobacco taxation within the EU, last year 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 significantly in the next few years.

\$/Euro average exchange rates: 2000 - 0.92; 2001 - 0.89; 2002 - 0.946; Current - 1.10

## Trade

Cigarette imports continue to rise due to increased access and distribution of duty-free EU brands. Spanish cigarette exports are growing due largely to Altadis' plans to promote its leading Fortuna brand in several markets. On the French market, the brand has expanded significantly over the past several years, reaching a 1.8 percent market share. In Italy, the brand was launched in May of 2002, reaching a 1.2 percent market share by last December.

### Tariff Changes and Non-Tariff Barriers

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

Import Duties - Current Year 2003	
	Percent
Cigarettes	57.60
Cigars	26.00
Smoking and cut	74.90

The very high level of these duties precludes imports of these products from outside the EU.

## Quality, Safety & Health Regulations

To align Spanish legislation with that of other EU countries, the Spanish government 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 effective on September 30, 2002, 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, packs will include a list of ingredients in cigarettes. The terms "light," "low-nicotine," "mild" and similar terms are banned.

The Health Ministry, in conjunction with regional governments, has recently approved a plan to ban smoking in all work places in Spain and to raise the minimum age permitted to purchase tobacco to 18 years (from 16 currently).

Although several law suits are underway (six individuals and four groups of affected smokers), so far there have been no unfavorable judgements against the tobacco companies in Spanish courts. The industry believes that litigation risk is much lower in Spain than in the U.S.

## 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 new 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 1999 Tobacco Market Regulation called for the dismantling of the monopoly on the manufacture,

wholesaling, importing and distribution of tobacco products from non-EU countries. Despite this regulation, Altadis, through its subsidiary Logista, continues to control practically all cigarette distribution in Spain. An independent distribution company, McLane (which is already distributing cigars in Spain) has filed a lawsuit against Altadis to break its monopoly on cigarette distribution.

There are also government requirements on marketing cigarettes. A government license is required to import or distribute tobacco products and retail sales continue to be restricted to the government's network of tobacco shops (*estancos*).

### **Marketing Development Opportunities**

Given the very high EU tariffs on tobacco products and Spain's tightly controlled distribution system, market development opportunities for cigarettes and other U.S. tobacco products manufactured in the United States are generally limited.