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Annual

2004

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Report Highlights:

Brazilian MY 2004 unmanufactured tobacco production is estimated at 890,500 mt, FSW, up 40 percent compared to MY 2003, due to higher area planted and better than average yields in southern Brazil. Prices for the 2004 crop were adjusted upward 27 percent from 2003 in the local currency terms. Total MY 2004 tobacco exports are projected at 564,000 mt, up 21 percent from 2003, due to higher availability of the product and strong competitiveness of the Brazilian product in the international markets. Cigarette production for MY 2004 is projected stable at 96.75 billion pieces. Competition from contraband is still the major constraint limiting domestic production.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
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UNMANUFACTURED TOBACCO

PS&D Unmanufactured Tobacco, Total

Commodity	Tobacco, Unmfg., Total (HA)(MT)						
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official	Estimate	IA Official	Estimate	IA Official	Estimate	[New]
Market Year Begin	01/2002			01/2003		01/2004	MM/YYYY
Area Planted	377000	377000	426400	426400	0	486200	(HA)
Beginning Stocks	176745	176745	149995	149995	108615	108695	(MT)
Farm Sales Weight Prod	674000	674000	636700	636700	0	890500	(MT)
Dry Weight Production	551250	551250	515720	515720	0	757075	(MT)
U.S. Leaf Imports	0	0	0	0	0	0	(MT)
Other Foreign Imports	10525	10525	8150	10800	0	11050	(MT)
TOTAL Imports	10525	10525	8150	10800	0	11050	(MT)
TOTAL SUPPLY	738520	738520	673865	676515	108615	876820	(MT)
Exports	476000	476000	457550	466000	0	564000	(MT)
Dom. Leaf Consumption	102000	102000	99550	91020	0	91950	(MT)
U.S. Leaf Dom. Consum.	0	0	0	0	0	0	(MT)
Other Foreign Consump.	10525	10525	8150	10800	0	11050	(MT)
TOTAL Dom. Consumpti	112525	112525	107700	101820	0	103000	(MT)
TOTAL Disappearance	588525	588525	565250	567820	0	667000	(MT)
Ending Stocks	149995	149995	108615	108695	0	209820	(MT)
TOTAL DISTRIBUTION	738520	738520	673865	676515	0	876820	(MT)

PS&D Unmanufactured Tobacco, Flue Cured

Commodity	Tobacco, Unmfg., Flue Cured (HA)(MT)						
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official	Estimate	IA Official	Estimate	IA Official	Estimate	[New]
Market Year Begin	01/2002			01/2003		01/2004	MM/YYYY
Area Planted	0	237200	0	275000	0	326000	(HA)
Beginning Stocks	0	80670	0	65120	0	34925	(MT)
Farm Sales Weight Prod	0	515000	0	481000	0	705000	(MT)
Dry Weight Production	0	427450	0	396825	0	606300	(MT)
U.S. Leaf Imports	0	0	0	0	0	0	(MT)
Other Foreign Imports	0	6975	0	7290	0	7500	(MT)
TOTAL Imports	0	6975	0	7290	0	7500	(MT)
TOTAL SUPPLY	0	515095	0	469235	0	648725	(MT)
Exports	0	385000	0	374900	0	455250	(MT)
Dom. Leaf Consumption	0	58000	0	52120	0	55000	(MT)
U.S. Leaf Dom. Consum.	0	0	0	0	0	0	(MT)
Other Foreign Consump.	0	6975	0	7290	0	7500	(MT)
TOTAL Dom. Consumpti	0	64975	0	59410	0	62500	(MT)
TOTAL Disappearance	0	449975	0	434310	0	517750	(MT)
Ending Stocks	0	65120	0	34925	0	130975	(MT)
TOTAL DISTRIBUTION	0	515095	0	469235	0	648725	(MT)

PS&D Unmanufactured Tobacco, Burley

Commodity	Tobacco, Unmfg., Burley (HA)(MT)						
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Estimate []A Official [Estimate []A Official [Estimate [New]						
Market Year Begin	01/2002		01/2003		01/2004		MM/YYYY
Area Planted	0	60000	0	74000	0	81500	(HA)
Beginning Stocks	0	88220	0	77520	0	70320	(MT)
Farm Sales Weight Prod	0	115000	0	116000	0	147000	(MT)
Dry Weight Production	0	94300	0	92800	0	124950	(MT)
U.S. Leaf Imports	0	0	0	0	0	0	(MT)
Other Foreign Imports	0	1750	0	1710	0	1750	(MT)
TOTAL Imports	0	1750	0	1710	0	1750	(MT)
TOTAL SUPPLY	0	184270	0	172030	0	197020	(MT)
Exports	0	82000	0	82000	0	100200	(MT)
Dom. Leaf Consumption	0	23000	0	18000	0	19000	(MT)
U.S. Leaf Dom. Consum.	0	0	0	0	0	0	(MT)
Other Foreign Consump.	0	1750	0	1710	0	1750	(MT)
TOTAL Dom. Consumpti	0	24750	0	19710	0	20750	(MT)
TOTAL Disappearance	0	106750	0	101710	0	120950	(MT)
Ending Stocks	0	77520	0	70320	0	76070	(MT)
TOTAL DISTRIBUTION	0	184270	0	172030	0	197020	(MT)

PS&D Unmanufactured Tobacco, Light Air Cured

Commodity	Unmfg., Light Air Cured (HA)(MT)						
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Estimate []A Official [Estimate []A Official [Estimate [New]						
Market Year Begin	01/2002		01/2003		01/2004		MM/YYYY
Area Planted	0	4800	0	3400	0	3700	(HA)
Beginning Stocks	0	1585	0	2385	0	180	(MT)
Farm Sales Weight Prod	0	8000	0	4700	0	6500	(MT)
Dry Weight Production	0	6800	0	3995	0	5525	(MT)
U.S. Leaf Imports	0	0	0	0	0	0	(MT)
Other Foreign Imports	0	0	0	0	0	0	(MT)
TOTAL Imports	0	0	0	0	0	0	(MT)
TOTAL SUPPLY	0	8385	0	6380	0	5705	(MT)
Exports	0	4000	0	4200	0	3750	(MT)
Dom. Leaf Consumption	0	2000	0	2000	0	1950	(MT)
U.S. Leaf Dom. Consum.	0	0	0	0	0	0	(MT)
Other Foreign Consump.	0	0	0	0	0	0	(MT)
TOTAL Dom. Consumpti	0	2000	0	2000	0	1950	(MT)
TOTAL Disappearance	0	6000	0	6200	0	5700	(MT)
Ending Stocks	0	2385	0	180	0	5	(MT)
TOTAL DISTRIBUTION	0	8385	0	6380	0	5705	(MT)

Production

Production and Crop Area

The Agricultural Trade Office (ATO)/Sao Paulo estimates total Brazilian unmanufactured tobacco production for marketing year (MY) 2004 (January-December) at 890,000 metric tons (mt), farm sales weight (FSW), a 40 percent increase compared to MY 2003, primarily due to higher area planted to tobacco and above average yields in the southern producing region. Total southern production should contribute 858,500 mt (FSW), up 256,800 mt from previous crop, while northeastern Brazil should contribute 32,000 mt (FSW), down 3,000 mt relative to MY 2003.

MY 2004 planted area is estimated at 486,200 hectares (ha), up 14 percent from MY 2003 (426,400 ha.). The increase is solely related to southern Brazil (411,200 ha.). Southern Brazilian tobacco has been strongly competitive in the international markets and the tobacco processors encouraged growers to expand area in order to increase the availability of the product. According to post contacts, the weather conditions favored the plant development resulting in higher than initially projected yields by the industry.

The southern 2003/04 harvest was over in March, but the marketing of the product is delayed. Approximately 80-85 percent of the product has already been marketed, whereas historically the market would be virtually over by the end of June. The delay of the harvest is associated with the higher volume of production and to some retention of the product by the growers, who expected higher prices than those set by the industry.

According to post contacts, the quality of the 2004 southern crop is just fair, due to some weather related problems during leaf development. In addition, curing capacity did not accompany the increment in production, which resulted in some quality problems. A third factor that also affected quality is related to addition of approximately 20,000 new growers to the tobacco integrated production system. Many of them still lack a full knowledge on how to manage the crop, in spite of the technical assistance provided by the tobacco processors.

No industry forecast for the MY 2005 tobacco production has been done, but post contacts report that area is expect to increase by 10 percent and production could reach 900,000 mt, (FSW), since the competitiveness of the Brazilian product overseas still encourages higher crops. The table below shows Brazilian tobacco production estimates for MY 2002, 2003 and 2004 for southern and northeastern Brazil.

Total Brazilian Tobacco Area and Production (1,000 ha, 1,000 mt, FSW).

Region/Type	Production			Area		
	2002	2003	2004	2002	2003	2004
South Brazil	302	352.4	411.2	638	601.7	858.5
Flue Cured, Virginia	237.2	275	326	515	481	705
Burley	60	74	81.5	115	116	147
Light Air Cured	4.8	3.4	3.7	8	4.7	6.5
Northeast Brazil	75	74	75	36	35	32
Cigar Leaf	5	5	5	5.5	5.5	5.5
Cigarette Leaf	34	34	35	12.2	11.8	10.6
Other (Twist)	36	35	35	18.3	17.7	15.9
Total Brazil	377	426.4	486.2	674	636.7	890.5

Source: ATO/Sao Paulo

The number of tobacco growers and curing barns in southern Brazil, as reported by the Brazilian Tobacco Growers Association (AFUBRA), follow. Note that MY 2004 figures show a 11 percent increase in the number of growers eligible to plant tobacco in the integrated system adopted by tobacco processing companies. This system reflects the partnership between growers and tobacco companies, which provide the producers with seeds, fertilizers, pesticides, supplies (plastic bags), and facilitate financing. Companies also offer growers technical assistance and guidance. The increase in the number of tobacco growers for the 2003/04 crop is a result of the tobacco companies' planting strategies, which set the area to be cultivated for each season based on projected requirements, and their selection of the growers to participate.

Number of Tobacco Producers, South Brazil

Type	Producers			Barns		
	2002	2003	2004	2002	2003	2004
Rio Grande Sul	77570	86370	96180	79590	86980	100060
VI	60910	65120	73180	79590	86980	100060
BY	15310	20210	21930 --	--	--	--
CO	1350	1040	1070 --	--	--	--
Santa Catarina	51630	57220	59850	38030	40690	46420
VI	31490	34340	37120	38030	40690	46420
BY	19070	22140	21910 --	--	--	--
CO	1070	740	820 --	--	--	--
Parana	23930	27240	34240	14620	15960	20610
VI	13140	14850	18870	14620	15960	20610
BY	9250	11260	13730 --	--	--	--
CO	1540	1130	1640 --	--	--	--
South Brazil	153130	170830	190270	132240	143630	167090
VI	105540	114310	129170	132240	143630	167090
BY	43630	53610	57570 --	--	--	--
CO	3960	2910	3530 --	--	--	--

Source: Brazilian Tobacco Growers Association (AFUBRA).

Note: VI - Flue Cured Virginia, BY - Burley, CO - Galpao Comum.

According to the 2003/04 AFUBRA survey, the average area planted to tobacco on a farm was 2.69 hectares, representing approximately 15.57 percent of the total area of the farm. The table below shows the patterns of land utilization on a typical farm in southern Brazil. As reported by AFUBRA, all other activities are mainly for family subsistence. The survey, as shown below, also points out the number of tobacco growers by size of farm. Approximately 19.8 percent of the growers do not have a property of their own, and 36.7 percent of the growers have fewer than 10 hectares, indicating that the tobacco crop is mainly planted by small growers.

Average farm size and crop area, South Brazil, 2003/04 crop.

Specification	Area (ha)	%
Tobacco	2.694	15.57%
Annual crops	5.706	32.98%
Grazing area	3.252	18.80%
Forestry	4.550	26.30%
Other	1.098	6.35%
Total	17.3	100.00%

Source: Brazilian Tobacco Growers Association (AFUBRA)

Tobacco Producers and Size of Farms, South Brazil, 2003/04

Size (ha)	Producers	%
0	37620	19.77%
01 to 10 ha	69790	36.68%
11 to 20 ha	50725	26.66%
21 to 30 ha	20393	10.72%
31 to 50 ha	8656	4.55%
more than 50 ha	3086	1.62%
Total	190270	100.00%

Source: Brazilian Tobacco Growers Association (AFUBRA)

Inputs

The level of input utilization for the southern 2003/04 crop remained at normal levels as with previous crops, using a lower volume of nitrogen to control the alkaloid content in the nicotine.

Yields

Tobacco yields for southern and northeastern Brazil, as well as tobacco yields by variety for southern Brazil follow. Southern tobacco yields for MY 2004 are estimated at 2,088 kilogram (kg) per hectare, favored by weather conditions and good crop management.

Tobacco Yields by Type (kg/ha, FSW).

Type	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Flue Cured, VI	1806.0	1820.0	2104.0	1575.0	2141.0	2246.0	2050.0	2171.2	1749.1	2162.6
Flue Cured, AM	1800.0	2000.0	2000.0	--	--	--	--	--	--	--
Burley	1293.0	1522.0	1754.0	1393.0	1739.0	1826.0	1816.3	1916.7	1567.6	1803.7
Light Air	1500.0	1667.0	1800.0	1142.9	2000.0	2333.0	1925.0	1666.7	1382.4	1756.8
Cigar Leaf	1667.0	1500.0	667.0	1000.0	1100.0	1100.0		1100.0	1100.0	1100.0
Cigarette Leaf	960.0	571.0	593.0	438.0	500.0	500.0		358.8	347.1	302.9
Twist tobacco	857.0	806.0	613.0	544.0	662.0	662.0		508.3	505.7	454.3

Note: VI - Virginia, AM - Amarelinho.

Tobacco Yields, South and
Northeast Region (kg/ha, FSW)

Year	South	Northeast
1995	1,700	946
1996	1,758	746
1997	2,023	608
1998	1,527	528
1999	2,053	616
2000	2,160	616
2001	2,003	476
2002	2,113	480
2003	1,707	473
2004	2,088	427

Weather Patterns

The tables below show rainfall and temperature data as reported by AFUBRA for the Santa Cruz do Sul region, one of the major tobacco producing regions in southern Brazil state of Rio Grande do Sul (RS), according to AFUBRA.

Rainfall data - Santa Cruz do Sul, RS (mm)

Month	1999	2000	2001	2002	2003	2004	Avg 94/03
January	165	122	238	112	131	123	161.7
February	188	108	205	121	366	96	200.8
March	42	236	177	219	121	31	121.5
April	168	132	289	192	186	131	160.7
May	182	132	31	186	62	--	114.2
June	132	309	123	251	241	--	180.1
July	241	125.5	207	247	173	--	183.2
August	84.5	116.5	73	189	69	--	139.4
September	171	175	338	311	91.5	--	175.2
October	201	207	76	478	279	--	210.5
November	106	184	148	245	166	--	133.0
December	118	97	99	196	293	--	165.0
Total	1,798.5	1,944.0	2,004.0	2,747.0	2,178.5	381.0	1,945.30

Source: Brazilian Tobacco Growers Association (AFUBRA).

Temperature Data - Santa Cruz do Sul, RS (degree Celsius).

Month	2001			2002			2003			2004			Average 94/03		
	Max	Min	Avg	Max	Min	Avg	Max	Min	Avg	Max	Min	Avg	Max	Min	Avg
January	29.5	21.9	25.7	32.3	21.4	26.9	32.7	21.8	27.3	32.2	22.3	27.3	32.8	20.9	26.9
February	31.5	23.7	27.6	30.2	20.4	25.3	32.0	22.8	27.4	31.8	20.7	26.3	31.0	20.8	25.9
March	32.1	23.4	27.8	32.0	23.5	27.8	29.8	22.0	25.9	30.9	19.8	25.4	30.3	19.7	25.0
April	26.7	18.7	22.7	25.9	18.5	22.2	26.2	17.6	21.9	28.1	19.5	23.8	26.0	16.2	21.1
May	21.4	14.3	17.9	23.8	16.8	20.3	22.9	14.5	18.7	--	--	--	22.5	13.4	17.9
June	22.1	13.5	17.8	19.2	12.1	15.7	21.2	14.8	18.0	--	--	--	19.6	10.9	15.2
July	19.6	12.2	15.9	18.4	11.6	15.0	18.7	12.0	15.4	--	--	--	18.8	10.7	14.7
August	25.3	15.7	20.5	21.4	14.0	17.7	21.2	11.0	16.1	--	--	--	22.0	12.2	17.1
September	23.4	15.6	19.5	21.5	12.8	17.2	23.2	13.7	18.5	--	--	--	22.9	13.4	18.1
October	27.7	18.8	23.3	25.5	18.4	22.0	25.6	17.8	21.7	--	--	--	25.5	16.3	20.9
November	28.9	18.9	23.9	28.2	19.4	23.8	27.2	19.4	23.3	--	--	--	29.0	18.1	23.6
December	30.3	20.1	25.2	29.6	20.9	25.3	31.5	19.8	25.7	--	--	--	31.8	19.9	25.9
Total	26.5	18.1	22.3	25.7	17.5	21.6	26.0	17.3	21.7	30.8	20.6	25.7	26.0	16.0	21.0

Source: Brazilian Tobacco Growers Association (AFUBRA).

Cost of Production

The cost of production breakdown in U.S. dollar terms for MY 2003 (2002/03 crop) and MY 2004 (2003/04 crop) for flue cured Virginia follows, as reported by AFUBRA. Total MY 2004 costs were 79 percent higher in dollar terms compared to MY 2003. The increase is partially explained by the 18 percent appreciation of the local currency, the Real, from October 2002 to October 2003, when the surveys were conducted. However, part of the increase reflects real increments to all variables included in the cost structure. Note that input costs increased by 96 percent in dollar terms (60 percent increase in Reais), whereas labor costs increased by 70 percent (39 percent in Reais).

Estimated Production Costs, Flue Cured Virginia (US\$/ha).

Item	2002/2003	2003/2004
Variable Costs	1,217.22	2,176.87
Labor	683.04	1,160.97
Livestock	16.74	28.09
Machinery & Implement	17.01	27.85
Infrastructure	17.13	30.82
Inputs	298.59	584.45
Firewood	106.44	184.27
Production Insurance	42.07	66.63
Funrural (Social Tax)	33.65	51.87
Electric Energy	2.56	3.57
Financing Costs	--	38.35
Fixed Costs	113.32	202.31
Liming	8.78	15.70
Depreciation		
Machinery/Livestock	39.93	33.16
Implement	20.10	78.29
Infrastructure	44.52	75.16
Total Costs	1,330.54	2,379.18
Assumed yield (Kg/Ha)	2,139.00	2,085.00
Ave. Variable Cost (US\$/Kg)	0.57	1.04
Ave. Total Cost (US\$/Kg)	0.62	1.14

Source: Brazilian Tobacco Growers Association (AFUBRA).

ROE:R\$ 3.65/US\$ for 2002/03 (Oct 31, 2002), R\$ 2.98/US\$ for 2003/04 (Oct 31, 2003).

Prices

The tobacco price negotiation for the 2003/04 crop between southern producers and tobacco companies did not reach a mutually satisfactory outcome. Since no agreement had been reached during the meetings between both parties, the industry set a 27 percent increase in local currency, the Real, for producers prices compared to the previous crop price. The major agricultural entities, such as AFUBRA, and agricultural federations of southern states pressed for a higher increase (53 percent), claiming the labor costs, in addition to input costs increased significantly.

The Brazilian Tobacco Trade Association (SINDIFUMO) reports that 6 percent of the 27 percent increase was actually incorporated in the 2002/03 crop price; in order to support

growers who were penalized by weather related problems and the resulting lower availability of the product. Note that though growers did not achieve their initial price targets, the current price paid by the industry guarantees a good mark-up for tobacco growers.

Representatives of the small producers movement -- "Movimento dos Pequenos Agricultores ", MPA -- embraced the cause and created some conflict camping in the industrial area of Santa Cruz do Sul, where several tobacco companies are located and invading SINDIFUMO headquarters. MPA has also advised growers not to market their crop, because prices will increase if they hold out longer. However, both SINDIFUMO and AFUBRA report that prices are not expected to change. Tobacco prices by grade for MY 2004 and the average prices received by producers for MY 2003 and 2004 follow.

Producer Prices for South Tobacco by Grade - 2004.

Virginia		Virginia		Burley	Comum
Grade	US\$/Kg	Grade	US\$/Kg	US\$/Kg	US\$/Kg
T01	1.67 C L 1	1.33 T 1	1.49		
T02	1.41 C L 2	1.08 T 2	1.30	0.70	
T03	1.20 C L 3	0.71 T2L	1.03	0.69	
TR1	1.29 C R 1	1.18 T 3	0.93		
TR2	0.89 C R 2	0.84 T3L	0.81		
TR3	0.52 C R 3	0.53 T K	0.59	0.49	
TL1	1.08 C 2 K	0.67 B 1	1.54		
TL2	0.84 C 3 K	0.39 B1L	1.39		
TL3	0.48 X O 1	1.48 B 2	1.32	0.87	
TK2	0.64 X O 2	1.24 B2L	1.16	0.86	
TK3	0.36 X O 3	1.02 B 3	1.05	0.70	
B01	1.75 X L 1	1.18 B3L	0.87	0.68	
B02	1.52 X L 2	0.96 B K	0.75	0.58	
B03	1.22 X L 3	0.57 C 1	1.50		
BR1	1.37 X R 1	1.11 C1L	1.38		
BR2	1.00 X R 2	0.68 C 2	1.31	0.99	
BR3	0.67 X R 3	0.40 C2L	1.16	0.96	
BL1	1.33 X 2 K	0.49 C 3	1.02	0.83	
BL2	1.08 X 3 K	0.31 C3L	0.84	0.78	
BL3	0.67 G 2	0.64 C K	0.75	0.64	
B2K	0.84 G 3	0.16 X 1	1.39		
B3K	0.42 S C	0.16 X1L	1.33		
C01	1.68 S T	0.10 X 2	1.19	0.78	
C02	1.48	X2L	1.11	0.75	
C03	1.19	X 3	0.93		
Source: Brazilian Tobacco Growers Association (AFUBRA).		X3L	0.84		
Note: Exchange rate: R\$ 2.90/US\$ 1 (March 31, 2004)		X K	0.67	0.53	
		N	0.27	0.28	
		G	0.12	0.19	

Average South Tobacco Producer Prices by Type (US\$/kg).

Type	2003	2004	% CHNG
Flue-cured Virginia	1.17	1.50	28.2%
Burley	1.02	1.30	27.5%
Light air-cured (Galpao)	0.66	0.91	37.9%
Average Price	1.14	1.46	28.1%

Source: Brazilian Tobacco Growers Association (AFUBRA).

Note: R\$ 3.36/US\$ (March 31, 2003), R\$ 2.90/US\$ (March 31 2004) .

Other

Farm sales weight (FSW) data in this report are converted to dry weight based on the following conversion factors.

Type	%
Flue cured	86
Burley/Light air cured	85
Cigar leaf	80
Dark cigarette Leaf/Twist	60

Consumption

Total unmanufactured tobacco consumption for MY 2003 has been revised downward to 101,820 mt, a 10 percent reduction compared to previous MY, due to lower domestic consumption of cigarettes. Total MY 2004 unmanufactured tobacco consumption is estimated at 103,000 metric tons, due to relatively stable consumption of cigarettes.

Note that tobacco consumption data in this report are based on cigarette production plus an estimate for twist tobacco and cigars. The conversion factor used is 0.8 grams of unmanufactured tobacco per cigarette consumed.

Utilization Patterns

Flue cured and light air cured tobaccos are used to manufacture most cigarettes in Brazil. Burley is used mainly in blends to improve the taste of domestic cigarettes.

Trade

Exports

Total Brazilian unmanufactured tobacco exports for MY 2003 (January-December) has been revised upward to 466,000 mt tons, up 8,450 mt compared to our previous estimate, based on updated information from the Brazilian Secretariat of Foreign Trade (SECEX).

ATO/Sao Paulo forecasts total unmanufactured tobacco exports for MY 2004 at 564,000 mt, a 21 percent raise compared to the 2003 estimate, due to higher availability of the product and the firm competitiveness of the Brazilian product overseas. Attractive prices associated with good quality product are the key factors sustaining growing exports. Brazil has consolidated a new position in the market, increasing its market share before occupied by the U.S. and Zimbabwe. The Far East and Eastern Europe remain the major markets with rising demand.

The tables below show total Brazilian unmanufactured tobacco exports for MY 2002, 2003 and 2004 (January-May) by type of product (see Policy for NCM descriptions) and by country of destination, as reported by SECEX.

Unmanufactured Tobacco Exports (MT, 1,000 USD\$ FOB) .

NCM	2002		2003		2004 1/	
	Quantity	Value	Quantity	Value	Quantity	Value
24011010	0	0	0	0	0	0
24011020	916	6,521	1,212	8,311	228	1,733
24011030	8,020	17,248	5,070	11,941	2,268	4,293
24011040	59	151	266	827	39	108
24011090	5,342	11,310	5,149	10,080	2,753	4,089
24012010	0	0	0	0	0	0
24012020	492	1,570	773	3,132	118	262
24012030	280,465	737,416	282,857	792,060	89,271	260,478
24012040	56,957	150,297	62,278	170,736	21,755	60,635
24012090	3,431	9,840	2,960	9,098	664	1,736
24013000	109,180	43,316	105,415	46,279	26,197	11,509
Total	464,862	977,670	465,981	1,052,465	143,292	344,843

Source: Brazilian Secretariat of Foreign Trade (SECEX).

1/ January-May

Unmanufactured Tobacco Exports (MT, 1,000 USD\$ FOB)

Partly/wholly stemmed, leaf, flue cured Virginia (NCM 2401.20.30)

Destination	MY 2002		MY 2003		MY 2004 1/	
	Quantity	Value	Quantity	Value	Quantity	Value
United States	34,372	97,160	37,934	114,966	18,222	57,612
Germany	28,209	85,206	29,907	90,746	9,727	29,795
Belgium	17,992	42,814	14,931	41,670	8,250	26,334
Philippines	7,921	18,741	9,269	22,857	6,440	18,051
Indonesia	4,675	9,678	4,858	11,785	6,711	18,043
Russia	19,446	39,739	20,233	49,746	4,445	11,030
Netherlands	9,162	25,026	17,233	47,436	3,494	10,137
South Africa	8,400	18,206	12,042	28,896	2,603	7,098
United Kingdom	17,063	43,683	11,696	31,510	2,244	6,206
Ukraine	7,600	18,089	6,175	14,057	2,286	6,188
Others	125,625	339,073	118,579	338,391	24,848	69,985
Total	280,465	737,416	282,857	792,060	89,271	260,478

Source : Brazilian Secretariat of Foreign Trade (SECEX)

1/January- May

Unmanufactured Tobacco Exports (MT, 1,000 USD\$ FOB)

Partly/wholly stemmed, leaf, Burley (NCM 2401.20.40)

Destination	MY 2002		MY 2003		MY 2004 1/	
	Quantity	Value	Quantity	Value	Quantity	Value
United States	21,967	60,744	22,121	63,467	4,248	13,808
Belgium	5,240	11,573	4,331	11,184	3,312	9,708
Germany	5,816	15,720	6,928	19,610	3,139	8,578
Turkey	220	543	2,939	7,517	1,661	4,571
Russia	1,476	3,586	1,969	4,583	1,678	4,230
Netherlands	1,299	3,523	2,133	5,624	1,467	3,911
Philippines	2,561	6,925	1,959	4,839	1,198	2,969
Colombia	0	0	0	0	731	1,754
Poland	1,102	2,922	575	1,506	549	1,230
Italy	1,777	2,971	1,397	3,086	415	1,165
Others	15,498	41,790	17,927	49,320	3,358	8,709
Total	56,957	150,297	62,278	170,736	21,755	60,635

Source : Brazilian Secretariat of Foreign Trade (SECEX)

1/January-May

Unmanufactured Tobacco Exports (MT, 1,000 USD\$ FOB)

Tobacco Waste/Refuse (NCM 2401.30.00)

Destination	MY 2002		MY 2003		MY 2004 1/	
	Quantity	Value	Quantity	Value	Quantity	Value
Russia	16,732	5,016	15,905	6,221	4,533	1,277
United States	25,686	7,169	26,524	8,250	3,193	1,514
Ukraine	6,291	1,565	4,197	1,440	2,598	870
Germany	9,688	4,075	5,504	2,758	2,014	991
Belgium	4,974	2,238	4,836	2,453	1,624	781
Ireland	1,049	516	1,624	792	1,431	709
United Kingdom	8,996	4,450	7,243	3,394	1,429	761
Austria	495	238	1,847	970	1,366	604
Portugal	1,210	430	307	160	1,210	609
Australia	485	214	1,342	851	749	402
Others	33,573	17,404	36,085	18,989	6,050	2,989
Total	109,180	43,316	105,415	46,279	26,197	11,509

Source : Brazilian Secretariat of Foreign Trade (SECEX)

1/January-May

Imports

The ATO/Sao Paulo estimate for MY 2003 total unmanufactured tobacco imports has been revised upward to 10,800 mt, a 2,650 mt increase compared to previous projections, based on official trade data. ATO/Sao Paulo forecasts total unmanufactured tobacco imports for MY 2004 at 11,050 mt. Total Brazilian unmanufactured tobacco imports for MY 2002, 2003 and 2004 (January-May) by type of product (see Policy for NCM descriptions), as reported by SECEX, follow.

Unmanufactured Tobacco Imports (MT, 1,000 USD\$ FOB) .

NCM	2002		2003		2004 1/	
	Quantity	Value	Quantity	Value	Quantity	Value
24011010	0	0	0	0	45	59
24011020	0	0	226	219	110	76
24011030	131	249	0	0	0	0
24011040	123	365	669	2,399	21	113
24011090	1,796	2,902	2,352	5,318	1,280	3,852
24012010	0	0	0	0	0	0
24012020	9	33	0	0	8	25
24012030	3,799	9,938	3,344	8,473	1,659	3,927
24012040	1,623	3,949	1,041	3,091	793	2,586
24012090	951	3,230	111	213	0	0
24013000	2,092	318	3,059	360	919	111
Total	10,525	20,984	10,802	20,072	4,835	10,748

Source: Brazilian Secretariat of Foreign Trade (SECEX).

1/ January-May

Stocks

Unmanufactured tobacco ending stocks for MY 2004 are forecast at 209,820 mt, up 101,125 mt compared to MY 2003, due to the higher availability of the product. Actual stock data are not available.

Policy

The MERCOSUL Common External Tariff Schedule follows. MERCOSUL is a trade pact among Brazil, Argentina, Uruguay and Paraguay.

Brazilian Unmanufactured Tobacco - Common External Tariffs

NCM	Description	Tariff
	Not stemmed, leaf	
2401.10.10	Not dried/fermented	14
2401.10.20	Wrapper, dried/ferm.	14
2401.10.30	Dried, Flue cured, Virginia type	14
2401.10.40	Dried, volatile content over 0.2%	10
2401.10.90	Others	14
	Partly/Wholly stemmed, leaf	
2401.20.10	Not dried/fermented	14
2401.20.20	Wrapper, dried/ferm.	14
2401.20.30	Dried, Virginia type	14
2401.20.40	Dried, Burley type	14
2401.20.90	Other	14
2401.30.00	Tobacco refuse	14

Source: Brazilian Secretariat of Foreign Trade (SECEX).

MANUFACTURED TOBACCO CIGARETTES**PS&D Manufactured Tobacco, Cigarettes**

Commodity	Tobacco, Mfg., Cigarettes (MIL PCS)						UOM
	2002 USDA Official	Revised Estimate	2003 Official	Estimate	2004 Official	Forecast Estimate	
Market Year Begin	01/2002	01/2002	01/2003	01/2003	01/2004	01/2004	MM/YYYY
Filter Production	106685	106685	101580	96705	0	96750	(MIL PCS)
Non-Filter Production	0	0	0	0	0	0	(MIL PCS)
TOTAL Production	106685	106685	101580	96705	0	96750	(MIL PCS)
Imports	180	180	120	245	0	250	(MIL PCS)
TOTAL SUPPLY	106865	106865	101700	96950	0	97000	(MIL PCS)
Exports	1365	1365	1500	1950	0	2000	(MIL PCS)
Domestic Consumption	105500	105500	100200	95000	0	95000	(MIL PCS)
TOTAL DISTRIBUTION	106865	106865	101700	96950	0	97000	(MIL PCS)

Production

ATO/Sao Paulo has adjusted downward the MY 2003 Brazilian cigarette production estimate to 96.7 billion pieces, a 9 percent decrease compared to MY 2002 figure, based on a reduction in the domestic consumption. Total MY 2004 Brazilian cigarette production is forecast stable at 96.75 billion pieces.

Consumption

The ATO/Sao Paulo estimate for MY 2003 Brazilian cigarette consumption has been revised downward to 95 billion pieces, a 9 percent reduction from the previous MY, based on recent industry information. Cigarette consumption for MY 2004 is forecast to remain stable at 95 billion pieces. The reduction in consumption is explained by the increase in retail prices due to the high taxes applied to the product (see table) and higher cost of production, particularly the cost of the raw material (tobacco). Decreased purchasing power in 2003, due to macroeconomic problems also led to lower consumption.

Smuggled cigarettes, especially from Paraguay, and cigarettes from small companies which do not pay taxes and can afford marketing their products at significantly lower prices compared to domestic sales, represent the major concern for Brazilian cigarette companies. It's estimated that this unfair competition represented 35 billion units in 2003. Note that this volume is not included in the official numbers.

Taxes Applied to Cigarettes

Item	%
Manufactured Product Tax (IPI) 1/	33.17
Domestic Interstate Movement Tax - Industry (ICMS)	22.18
Domestic Interstate Movement Tax - Retail (ICMS)	2.82
Control Seal	2.94
COFINS	3.54
Social Insurance (PIS)	0.90
Total Taxes	65.55
Industry Mark-Up	21.85
Retail Mark-Up	8.45
Tobacco Grower Mark-Up	4.15
1/ Average Tax	100.00

Note that IPI varies from 31.82 to 35 percent, depending on the type of cigarette.

Source: Tobacco Industry Syndicate (Sindifumo).

Prices

Retail cigarette prices per pack of 20 pieces vary between R\$ 1,60 and R\$ 4,00 for Souza Cruz (British American Tobacco) and R\$ 1.60 and R\$ 3.50 for Philip Morris products, depending on the brand. The companies readjusted the prices on May 3 and 10, 2004, respectively.

Trade

Exports

Total MY 2003 Brazilian cigarette exports are estimated at 1.95 billion pieces, up 585 million pieces relative to MY 2002, based on recent information from post contacts. Total Brazilian cigarette exports for MY 2004 are projected stable at 2 billion pieces. Total Brazilian manufactured tobacco exports for MY 2002, 2003 and 2004 (January-May) by country of destination, as reported by SECEX, follow.

Manufactured Tobacco Exports (Million, MT & 1,000 USD\$ FOB) 1/.

Destination	2002			2003			2004 1/		
	Units	Weight	Value	Units	Weight	Value	Units	Weight	Value
United States	1,289	1,572	8,721	1,857	2,484	14,147	846	1,269	6,895
Angola	1	11	60	2	21	129	0	0	1
South Africa	0	0	0	0	0	0	0	0	0
Latvia	45	41	323	9	8	65	0	0	0
Israel	16	23	132	0	0	0	0	0	0
Finland	8	8	23	0	0	0	0	0	0
Netherlands Antilles	0	0	1	0	0	0	0	0	0
Canada	0	0	1	0	0	0	0	0	0
Argentina	0	0	1	0	0	0	0	0	0
Costa Rica	0	0	0	0	0	0	0	0	0
Others	5	0	1	81	101	427	0	0	0
Total	1,363	1,657	9,264	1,949	2,614	14,768	846	1,269	6,896

Source : Brazilian Secretariat of Foreign Trade (SECEX)

1/January- May

Imports

Total Brazilian manufactured tobacco imports for MY 2002, 2003 and 2004 (January-May) by country of origin, as reported by SECEX, follow.

Manufactured Tobacco Exports (Million, MT & 1,000 USD\$ FOB) 1/.
Cigarettes (NCM 2402.20.00).

Destination	2002			2003			2004 1/		
	Units	Weight	Value	Units	Weight	Value	Units	Weight	Value
United States	119	29	1,127	106	31	1,276	27	13	576
United Kingdom	13	3	111	7	2	79	2	1	26
Cuba	43	7	65	114	4	248	0	0	6
France	3	1	19	3	1	25	0	0	8
China	2	1	34	2	1	39	0	0	10
Japan	0	0	0	0	0	0	0	0	1
Germany	0	0	1	12	0	1	0	0	0
Indonesia	0	0	0	1	0	18	0	0	0
Others	0	0	0	2	2	34	2	3	48
Total	181	41	1,357	244	40	1,686	30	15	628

Source : Brazilian Secretariat of Foreign Trade (SECEX)

1/January- May

Policy

The MERCOSUL Common External Tariff Schedule follows. As mentioned MERCOSUL is a trade union of Brazil, Argentina, Uruguay and Paraguay.

Brazilian Manufactured Tobacco - Common External Tariffs.

NCM	Description	Tariff
2402.10.00	Cigars and Cigarillos	20
2402.20.00	Cigarettes	20
2402.90.00	Others	20

Source: Brazilian secretariat of Foreign Trade (SECEX).

Exchange Rate

Exchange Rate (R\$/US\$1.00 - official rate, last day of period)

Month	2000	2001	2002	2003	2004
January	1.80	1.97	2.42	3.53	2.94
February	1.77	2.04	2.35	3.56	2.91
March	1.75	2.16	2.32	3.35	2.91
April	1.81	2.22	2.36	2.89	2.94
May	1.82	2.36	2.52	2.97	3.13
June	1.80	2.30	2.84	2.87	3.11
July	1.78	2.43	3.43	2.97	--
August	1.82	2.55	3.02	2.97	--
September	1.84	2.67	3.89	2.92	--
October	1.91	2.71	3.65	2.86	--
November	1.98	2.53	3.59	2.95	--
December	1.96	2.32	3.53	2.89	--

Source: Gazeta Mercantil.