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Argentina

Tobacco and Products

Annual

2000

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Report Highlights:

Argentine tobacco production for 2000 is expected to be 110,800 MT, higher than earlier projected. Good weather and larger plantings in Salta and Jujuy and excellent weather in Misiones will result in a larger exportable volume. Leaf prices dropped again in 2000 mainly due to Brazil's strong competition and to higher cigarette industry costs as taxes on cigarette sales increased. Domestic consumption is flat and exports are expected at 66,000 MT, the second highest level since last year's record exports. Preliminary planting projections for MY2001 indicate a similar acreage as in MY2000.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Buenos Aires [AR1], AR

SECTION I. SITUATION AND OUTLOOK

Production

Argentine total unmanufactured tobacco production for MY2000 is projected at 110,800 metric tons (MT, farm sales weight), higher than our previous forecast. A larger planted area in Salta and Jujuy and good weather in most producing provinces has resulted in larger export surpluses and thus more downward pressure on the local tobacco market.

Regarding flue cured tobacco, production is estimated at 64,400 MT, higher than in 1999, and in contrast to previously smaller estimates for this crop due to a weak international demand. However, farmers in Salta and Jujuy, the two leading flue cured producing provinces, planted more than expected and favorable weather pushed yields slightly above 2,000 kilograms per hectare. Last February a hail storm destroyed approximately 700 hectares in Salta. Production of flue cured in Misiones province is phasing out because of its lower quality, high cost of production and small volume. Average production was normally about 2,000 MT, but this year it is expected to decline to 700 MT as result of reduced planting.

The quality of the Argentine 2000 flue cured crop is average, but with a significantly improved classification and presentation at the farm. Following are the average prices received by the farmers from the buyers by this time of the year (over 95 percent of the crop bought).

Table 1. Average Farm Prices for Flue Cured

Province	$ Buyer '00	$ Buyer '99	Dif. '00/'99
Salta	1.15	1.36	-15.4%
Jujuy	1.11	1.33	-16.5%

The main reason for such a drop (already in 1999 prices fell approximately 7 percent from 1998) is the strong pressure that Brazilian production puts on the Argentine market. Brazilian flue cured is considered to be of better quality, well presented, somewhat cheaper (current average price is about $1.06 per kilo, partly due to last year's strong devaluation) and has a huge volume (seven times bigger than the Argentine flue cured production) which represents a strong attraction for foreign buyers. Therefore, dealers first buy in Brazil and then come to Argentina. Another reason for this year's price drop was the effect of a tax increase on cigarettes which the government enforced in the first days of 2000. The cost of higher taxes was absorbed in a large proportion by the cigarette manufacturers, which saw their income shrink and thus had to cut costs wherever they could.

It is expected that farmers will receive a similar price support from the Special Tobacco Fund as last year, although it is likely that the total fund be reduced from about $180 million to $160 million as announced by the new government. Under the current situation, the most efficient producers might be able to obtain a slight positive return, but the rest will definitely loose money. Although some producers will continue to quit producing tobacco, it still remains one of the best crop alternatives for farms of such small size.

Float system seedbeds are slowly being adopted by farmers, and it is expected that in 3-4 years time the vast majority of farmers will be using them.

Burley production for MY2000 is estimated at 37,700 MT, higher than earlier expected, mainly due to the excellent weather in Misiones province. Output in that province is expected at 28,000 MT, while in Tucuman approximately 9,700 MT will be produced.

In Misiones the crop began with dry weather, but from December onward sunshine and rain occurred almost every week. The quality of the leaf is excellent and although there is more output than previously expected there would not been too many problems to export the surplus. In Tucuman province, where most of the production is for domestic use, producers during the first months of 2000 suffered excess rain and in some cases serious flooding. Leaf quality is average.

As in flue cured, prices for Burley tobacco declined again. Most sources agree that Brazil's predominance in the region sets limits to Argentina's tobacco prices. The following table shows the current average prices per kilo paid until late April 2000 (over 95 percent of Tucuman's output and 50 percent of Misiones' crop purchased)

Table 2. Burley Prices

Province	$ Buyer '00	$ Buyer '99	Dif. '00/'99
Misiones	1.17	1.39	-15.8%
Tucuman	0.90	1.02	-11.8%

Even though prices in 2000 were significantly lower than last year, producers in Misiones had better returns because of higher yields. In Tucuman, things were different, as there were lower prices and lower yields. Only the most efficient producers will be able to break even.

In both provinces, producers have started to work with float system seedbeds. Although the acreage is still small, it is expected to grow rapidly in the next few years. In Misiones some farmers are implementing a no-till planting system to control soil erosion and make more efficient use of water.

Consumption

Total domestic consumption of tobacco in 2000 is forecast to remain unchanged as a reflection of a similar demand for tobacco products. Flue cured is the type most demanded, followed by Burley. Use of Creole types (primarily dark air and sun cured) continue to decline as a reflection of consumers' preference for American blend cigarettes.

There are still some doubts on how the increase of taxes on cigarettes will impact the volume of sales throughout the year. Preliminary studies indicate that total consumption in the first few months has fallen marginally. This would be as result of having the industry absorb most of the tax increase so as not to increase the final price of cigarettes.

The two large cigarette companies continue to fight for each little bit of the market. Although there are no official figures, Massalin Particulares (subsidiary of Philip Morris) accounts for roughly 60 percent of the market and Nobleza Piccardo (British and American Tobacco) the balance.

Trade

Argentine tobacco exports in 2000 are forecast at 66,000 MT, the second highest level, after last year's record of 71,750 MT. Relatively high output, stable domestic demand and growing imports result in fairly good volumes for export. Dealers and cooperatives do not want to remain with stocks and the fact that they are paying cheaper prices for the tobacco allows them to market products faster. Argentine FOB values are estimated to drop approximately 5 percent in 2000.

Exports of unmanufactured tobacco in 1999 totaled $165 million, of which the US accounted for 25.6 percent, followed by Germany with 18.3 percent, Belgium 10.9 percent and Paraguay 6 percent.

Flue cured exports for 2000 are forecast at 39,000 MT, lower than in 1999 as result of a smaller carry in. The US is expected to continue to be the largest buyer, followed by a few European countries. There is a trend showing that Argentine tobacco exports are growing to markets where price is a more important factor than quality.

Burley exports for 2000 are projected at 19,000 MT, the highest ever. Although production in Misiones is estimated to be larger than expected, the very good leaf quality and competitive prices would allow an easy marketing. In 1999, the US was by far the largest market and it is expected to remain that way in 2000.

Imports of tobacco in 2000 are expected to continue to grow slowly. Local cigarette manufacturers are increasing the use of foreign tobacco in their blends. Imports in 1999 were record at 6,800 MT, of which 5,200 MT was flue cured, mainly brought in from Brazil.

Current import duties are 17 percent for tobacco and 23 percent for most tobacco products. Trade between Mercosur members is duty free. Export rebates are currently at 5.4 percent for tobacco and 10 percent for tobacco products.

Stocks

Although tracking stocks in Argentina is very difficult as most cigarette manufacturers and exporters are reluctant to provide this information and furthermore most dealers only care if tobacco is committed or uncommitted instead of physically in the warehouse or not, sources are somewhat contradictory as some indicate that stocks will drop, but others believe that as there is more production than expected of flue cured in Salta and Jujuy and burley in Misiones. Thus, in their view, more tobacco will probably remain warehoused by the end of 2000.

SECTION II. STATISTICAL TABLES

PSD Table						
Country	Argentina					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Planted	79000	79000	69000	69000	59000	57300
Beginning Stocks	36550	36550	50650	50650	45750	42800
Farm Sales Weight Prod	116500	116500	113400	113400	103800	110800
Dry Weight Production	98100	98100	93400	93400	85500	91200
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	4000	4000	6000	6800	6500	7500
TOTAL Imports	4000	4000	6000	6800	6500	7500
TOTAL SUPPLY	138650	138650	150050	150850	137750	141500
Exports	52400	52400	68000	71750	56000	66000
Dom. Leaf Consumption	31600	31600	30300	29500	29800	28800
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	4000	4000	6000	6800	6500	7500
TOTAL Dom. Consumption	35600	35600	36300	36300	36300	36300
TOTAL Disappearance	88000	88000	104300	108050	92300	102300
Ending Stocks	50650	50650	45750	42800	45450	39200
TOTAL DISTRIBUTION	138650	138650	150050	150850	137750	141500

PSD Table						
Country	Argentina					

Commodity	Tobacco,Unmfg.,Flue Cured				(HA)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Planted	44000	44000	35500	35500	30700	31500
Beginning Stocks	16000	16000	33000	33000	21700	20900
Farm Sales Weight Prod	82400	82400	61100	61100	57750	64400
Dry Weight Production	71500	71500	53000	53000	50000	55700
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	2000	2000	5000	5200	6000	6000
TOTAL Imports	2000	2000	5000	5200	6000	6000
TOTAL SUPPLY	89500	89500	91000	91200	77700	82600
Exports	35600	35600	48000	49000	34000	39000
Dom. Leaf Consumption	18900	18900	16300	16100	15300	15300
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	2000	2000	5000	5200	6000	6000
TOTAL Dom. Consumption	20900	20900	21300	21300	21300	21300
TOTAL Disappearance	56500	56500	69300	70300	55300	60300
Ending Stocks	33000	33000	21700	20900	22400	22300
TOTAL DISTRIBUTION	89500	89500	91000	91200	77700	82600

PSD Table						
Country	Argentina					

Commodity	Tobacco, Unmfg., Burley				(HA)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Planted	26700	26700	24000	24000	20200	20000
Beginning Stocks	10000	10000	10500	10500	16500	15300
Farm Sales Weight Prod	28600	28600	40900	40900	36000	37700
Dry Weight Production	23400	23400	33400	33400	29400	30700
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	1600	1600	500	1000	1000	1000
TOTAL Imports	1600	1600	500	1000	1000	1000
TOTAL SUPPLY	35000	35000	44400	44900	46900	47000
Exports	12800	12800	16000	17700	18000	19000
Dom. Leaf Consumption	10100	10100	11400	10900	10900	10900
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	1600	1600	500	1000	1000	1000
TOTAL Dom. Consumption	11700	11700	11900	11900	11900	11900
TOTAL Disappearance	24500	24500	27900	29600	29900	30900
Ending Stocks	10500	10500	16500	15300	17000	16100
TOTAL DISTRIBUTION	35000	35000	44400	44900	46900	47000

Export Trade Matrix			
Country	Argentina		

Commodity	Tobacco, Unmfg., Total		
Time period	CY	Units:MT	
Exports for:	1998		1999
U.S.	14274	U.S.	20265
Others		Others	
Germany	8861	Germany	12712
Paraguay	4534	Belgium	7101
Brazil	3192	Paraguay	4817
Belgium	2817	Egypt	3767
UK	2638	Algeria	3008
France	2416	UK	2667
Canada	1837	France	2561
Spain	1782	Russia	2004
Algeria	1506	Uruguay	1331
Uruguay	1384	Ukraine	1326
Total for Others	30967		41294
Others not Listed	7121		10198
Grand Total	52362		71757

Export Trade Matrix			
Country	Argentina		

Commodity	Tobacco,Unmfg.,Flue Cured		
Time period	CY	Units:	
Exports for:	1999		2000
U.S.	9838	U.S.	
Others		Others	
Germany	10436		
Belgium	6856		
Paraguay	4426		
Egypt	3610		
UK	2666		
France	1915		
Ukraine	1326		
Algeria	1308		
Brazil	1013		
Greece	821		
Total for Others	34377		0
Others not Listed	4785		
Grand Total	49000		0

Export Trade Matrix			
Country	Argentina		

Commodity	Tobacco, Unmfg., Burley		
Time period	CY	Units:	
Exports for:	1999		2000
U.S.	10292	U.S.	
Others		Others	
Germany	2251		
Netherlands	1098		
Russia	756		
Portugal	541		
Turkey	499		
Japan	409		
Bulgaria	321		
Dominican Rep.	235		
Greece	182		
Belgium	164		
Total for Others	6456		0
Others not Listed	952		
Grand Total	17700		0