Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Required Report - public distribution

Date: May 8, 2000

GAIN Report #IT0016

Italy

Tobacco and Products

Annual

2000

Approved by:
Elizabeth Berry
U.S. Embassy
Prepared by:
S. Perini

Report Highlights: Italian tobacco leaf production in 2000 is estimated to be 132,300 tons (farm weight), roughly unchanged from 1999 and within Italy's quota. Export levels will remain virtually unchanged with a substantial increase for Flue cured and Oriental tobaccos being offset by declining shipments of Burley. The EU remains Italy's major customer (45%), while Eastern Europe accounts for 17 percent of trade. Exports to the U.S., after the 1999 drop, were unchanged this year. Total imports in 2000 were virtually unchanged but U.S. exports decreased 5 percent, and will decrease further in 2000, as ETI reduces its tobacco stocks to levels more consistent with cigarette production.

Includes PSD changes: Yes
Includes Trade Matrix: No
Annual Report
Rome [IT2], IT0016

SECTION I. SITUATION AND OUTLOOK

Italian tobacco leaf production in 1999 is preliminarily estimated to be 132,300 tons (farm weight), or virtually unchanged from the official figure reported for 1998, and practically at the same level of the national quota fixed by the EU for Italy. Weather conditions in 1999 were not as favorable as those reported in 1998, particularly for Flue cured, due to the excess rains, which occurred in June (in Veneto) and in August (in Umbria). Crop quality was, on the average, satisfactory, with the only exception being Flue cured planted in Umbria, where the rainy summer damaged the crop. Production for 2000 is expected to remain unchanged.

The new Common Agricultural Policy (CAP) for the tobacco sector, approved in 1998, gave more emphasis to quality. If quality does not improve in the coming years, with prices increasing as a result of the improved quality, the previous system will have to be revised again.

Domestic consumption of leaf tobacco decreased by 11 percent in 1999, in line with reduced domestic cigarette output. Italian tobacco exports remained relatively stable last year, as a combined result of a substantial increase for Flue cured and Dark Fire cured, and to a lesser extent, Oriental tobacco, and a reduction for Burley. The EU remains Italy's major customer (45%), followed by Eastern Europe (17 percent). Exports to the U.S., after the dramatic drop reported in 1998, were unchanged.

Italian imports in 1999 remained virtually unchanged, following the substantial growth reported in 1998. Imports from the U.S. declined 5 percent in 1999, and can be expected to decrease in 2000 due to competition from third countries, as well as the overall reduction in domestic cigarette production.

As part of the process of privatization, the state tobacco monopoly has been replaced by ETI, a state controlled company, with the target of becoming a joint stock company two years. The actual problems faced by ETI are the large scale smuggling, indirect advertising from foreign manufacturers and high production (mainly labor) costs.

Italian cigarette production in 1999 decreased by 11 percent, while domestic sales of all cigarettes rose by 5 percent as a result of more severe anti-smuggling controls which has limited the availability of black market cigarettes. Italian imports of cigarettes rose 19% in volume and 16% in value. Most of these are American brands produced elsewhere in the EU under license to avoid the high EU import duty. Italian exports remained negligible.

SECTION II. STATISTICAL TABLES

PS&D TABLES

Tobacco, Unmfg, Total

PSD Table						
Country	Italy					
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	48600	46870	48600	46900	0	46900
Beginning Stocks	141900	136944	148547	140922	153372	152772
Farm Sales Weight Prod	136944	132030	132500	132300	0	132200
Dry Weight Production	119850	112225	112625	112455	0	112370
U.S. Leaf Imports	8958	8958	8800	8552	0	5660
Other Foreign Imports	29807	29807	25500	30293	0	28000
TOTAL Imports	38765	38765	34300	38845	0	33660
TOTAL SUPPLY	300515	287934	295472	292222	153372	298802
Exports	95701	95701	91100	93900	0	94500
Dom. Leaf Consumption	33611	33611	33300	29800	0	31600
U.S. Leaf Dom. Consum.	12156	7200	7200	7000	0	6700
Other Foreign Consump.	10500	10500	10500	8750	0	8700
TOTAL Dom. Consumption	56267	51311	51000	45550	0	47000
TOTAL Disappearance	151968	147012	142100	139450	0	141500
Ending Stocks	148547	140922	153372	152772	0	157302
TOTAL DISTRIBUTION	300515	287934	295472	292222	0	298802

Tobacco, Unmfg, Flue Cured

PSD Table						
Country	Italy					
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	19300	19156	19300	19200	0	19200
Beginning Stocks	52160	52160	55745	52553	57395	53951
Farm Sales Weight Prod	52000	48244	49000	48300	0	48300
Dry Weight Production	44200	41008	41650	41055	0	41055
U.S. Leaf Imports	5032	5032	5000	5372	0	3700
Other Foreign Imports	14050	14050	12000	13572	0	12000
TOTAL Imports	19082	19082	17000	18944	0	15700
TOTAL SUPPLY	115442	112250	114395	112552	57395	110706
Exports	20286	20286	18000	23601	0	22000
Dom. Leaf Consumption	28211	28211	27900	25000	0	25800
U.S. Leaf Dom. Consum.	4100	4100	4000	4000	0	4000
Other Foreign Consump.	7100	7100	7100	6000	0	6000
TOTAL Dom. Consumption	39411	39411	39000	35000	0	35800
TOTAL Disappearance	59697	59697	57000	58601	0	57800
Ending Stocks	55745	52553	57395	53951	0	52906
TOTAL DISTRIBUTION	115442	112250	114395	112552	0	110706

Tobacco, Unmfg, Burley

PSD Table						
Country	Italy					
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	12000	10918	12000	11000	0	1100
Beginning Stocks	43738	43738	44356	41409	39376	44021
Farm Sales Weight Prod	48200	44733	45200	44900	0	44900
Dry Weight Production	40970	38023	38420	38165	0	38165
U.S. Leaf Imports	3418	3418	3000	2332	0	1300
Other Foreign Imports	8441	8441	7000	9189	0	9000
TOTAL Imports	11859	11859	10000	11521	0	10300
TOTAL SUPPLY	96567	93620	92776	91095	39376	92486
Exports	46761	46761	48000	42374	0	43000
Dom. Leaf Consumption	2300	2300	2300	2000	0	2700
U.S. Leaf Dom. Consum.	2450	2450	2400	2200	0	2000
Other Foreign Consump.	700	700	700	500	0	500
TOTAL Dom. Consumption	5450	5450	5400	4700	0	5200
TOTAL Disappearance	52211	52211	53400	47074	0	48200
Ending Stocks	44356	41409	39376	44021	0	44286
TOTAL DISTRIBUTION	96567	93620	92776	91095	0	92486

Unmfg, Light Air

PSD Table						
Country	Italy					
Commodity	Unmfg., Light Air 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	800	807	800	800	0	800
Beginning Stocks	2178	2178	2515	2546	2845	2852
Farm Sales Weight Prod	1800	1837	1800	1800	0	1800
Dry Weight Production	1530	1561	1530	1530	0	1530
U.S. Leaf Imports	500	500	500	549	0	360
Other Foreign Imports	0	0	0	0	0	0
TOTAL Imports	500	500	500	549	0	360
TOTAL SUPPLY	4208	4239	4545	4625	2845	4742
Exports	93	93	100	273	0	500
Dom. Leaf Consumption	1100	1100	1100	1000	0	1100
U.S. Leaf Dom. Consum.	500	500	500	500	0	400
Other Foreign Consump.	0	0	0	0	0	0
TOTAL Dom. Consumption	1600	1600	1600	1500	0	1500
TOTAL Disappearance	1693	1693	1700	1773	0	2000
Ending Stocks	2515	2546	2845	2852	0	2742
TOTAL DISTRIBUTION	4208	4239	4545	4625	0	4742

Unmfg, Oriental

PSD Table						
Country	Italy					
Commodity	Tobacco, Unmfg., Oriental				(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	5000	4756	4900	4700	0	4800
Beginning Stocks	16031	16031	19173	20989	22998	23861
Farm Sales Weight Prod	11000	13137	10500	13200	0	13200
Dry Weight Production	9350	11166	8925	11220	0	11220
U.S. Leaf Imports	8	8	0	0	0	0
Other Foreign Imports	5331	5331	5000	6293	0	6000
TOTAL Imports	5339	5339	5000	6293	0	6000
TOTAL SUPPLY	30720	32536	33098	38502	22998	41081
Exports	9447	9447	8000	12791	0	13000
Dom. Leaf Consumption	400	400	400	400	0	500
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	1700	1700	1700	1450	0	1500
TOTAL Dom. Consumption	2100	2100	2100	1850	0	2000
TOTAL Disappearance	11547	11547	10100	14641	0	15000
Ending Stocks	19173	20989	22998	23861	0	26081
TOTAL DISTRIBUTION	30720	32536	33098	38502	0	41081

Tobacco, Unmfg, Dark Air & Sun Cured

PSD Table						
Country	Italy					
Commodity	Unmfg.,Dark Air & Sun 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	8500	8235	8500	8200	0	8100
Beginning Stocks	15205	15205	18859	15619	22284	20514
Farm Sales Weight Prod	21000	17188	18500	17100	0	17000
Dry Weight Production	17850	14610	15725	14535	0	14450
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	1980	1980	1500	1252	0	1000
TOTAL Imports	1980	1980	1500	1252	0	1000
TOTAL SUPPLY	35035	31795	36084	31406	22284	35964
Exports	14376	14376	12000	9392	0	10000
Dom. Leaf Consumption	800	800	800	700	0	800
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	1000	1000	1000	800	0	700
TOTAL Dom. Consumption	1800	1800	1800	1500	0	1500
TOTAL Disappearance	16176	16176	13800	10892	0	11500
Ending Stocks	18859	15619	22284	20514	0	24464
TOTAL DISTRIBUTION	35035	31795	36084	31406	0	35964

Tobacco, Unmfg, Dark Fire Cured

PSD Table						
Country	Italy					
Commodity	Unmfg., Dark Fire 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	3000	2998	3100	3000	0	3000
Beginning Stocks	7632	7632	7899	7806	8474	7573
Farm Sales Weight Prod	7000	6891	7500	7000	0	7000
Dry Weight Production	5950	5857	6375	5950	0	5950
U.S. Leaf Imports	0	0	300	286	0	300
Other Foreign Imports	5	5	0	0	0	0
TOTAL Imports	5	5	300	286	0	300
TOTAL SUPPLY	13587	13494	14574	14042	8474	13823
Exports	4738	4738	5000	5469	0	6000
Dom. Leaf Consumption	800	800	800	700	0	700
U.S. Leaf Dom. Consum.	150	150	300	300	0	300
Other Foreign Consump.	0	0	0	0	0	0
TOTAL Dom. Consumption	950	950	1100	1000	0	1000
TOTAL Disappearance	5688	5688	6100	6469	0	7000
Ending Stocks	7899	7806	8474	7573	0	6823
TOTAL DISTRIBUTION	13587	13494	14574	14042	0	13823

Tobacco, Mfg, Cigarettes

PSD Table						
Country	Italy					
Commodity	Tobacco, Mfg., Cigarettes				(MIL PCS)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Filter Production	48381	48381	48100	43065	0	44500
Non-Filter Production	2300	2300	2200	2000	0	2000
TOTAL Production	50681	50681	50300	45065	0	46500
Imports	43164	43164	44000	50492	0	49000
TOTAL SUPPLY	93845	93845	94300	95557	0	95500
Exports	309	309	300	235	0	300
Domestic Consumption	93536	93536	94000	95322	0	95200
TOTAL DISTRIBUTION	93845	93845	94300	95557	0	95500

Tobacco, Mfg, Smoking & Cut

PSD Table						
Country	Italy					
Commodity	Mfg., Smoking and Cut				(MT)	
	Revised	1998	Preliminar y	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Pipe Production	135152	135152	130000	39152	0	40000
Cigarette Production	0	0	0	0	0	0
TOTAL Production	135152	135152	130000	39152	0	40000
Imports	576838	576838	600000	452900	0	450000
TOTAL SUPPLY	711990	711990	730000	492052	0	490000
Exports	18390	18390	20000	0	0	0
Domestic Consumption	693600	693600	710000	492052	0	490000
TOTAL DISTRIBUTION	711990	711990	730000	492052	0	490000

TRADE TABLES

Table I Italy: Tobacco Leaf Exports, Quantity & Value

	1998		1999	
	MT	Bill. Lire	MT	Bill. Lire
FLUE CURED	20,286	91.7	23,601	91.8
Belgium-Lux	615	3.3	2,137	8.5
Netherlands	899	4.7	897	3.8
Germany	1,439	7.4	1,197	5.1
U.K.	6,286	29.5	3,985	20.3
Greece	1,286	4.6	1,630	5.1
Switzerland	584	2.6	496	2.3
Egypt	272	1.1	2,351	7.4
U.S.	59	0.2	569	2.1
Russia	605	2.5	658	1.1
Romania	973	2.9	2,344	6.3
Algeria	470	1.7	1,150	4.7

	1998		1999	
	MT	Bill. Lire	MT	Bill. Lire
LIGHT AIR CURED, BURLEY	29,169	139.3	24,478	114.8
Netherlands	2,508	13.0	2,663	13.4
Germany	6,117	34.7	7,195	37.8
France	716	5.3	754	4.1
Belgium	2,459	11.9	1,951	9.3
U.K.	697	3.6	607	3.0
Romania	194	0.4	283	0.7
U.S.	1,849	8.1	2,139	10.8
Japan	1,064	6.1	601	3.4
Algeria	2,044	6.4	1,600	5.6
Egypt	5,367	23.8	1,602	6.4
Czech Repub.	372	1.4	418	2.1

	1998		1999	
	MT	Bill. Lire	MT	Bill. Lire
LIGHT AIR CURED, MARYLAND	93	0.3	273	1.2
Germany	0	0	229	1.1
LIGHT AIR CURED, OTHER	167	0.4	167	0.1
U.S.	69	0.1	0	0

	1998		1999	
	MT	Bill. Lire	MT	Bill. Lire
FIRE CURED, KENTUCKY	4,346	18.2	5,449	24.7
Netherlands	2,174	11.2	3,367	18.4
Egypt	826	2.1	807	2.0
U.S.	364	1.4	350	1.3
FIRE CURED, OTHER	392	1.5	20	0.1
U.S.	113	0.2	0	0
SUN CURED, ORIENTAL	5116	0	4,861	14.2
U.S.	471	1.2	0	0
Latvia	746	2.2	516	1.2
Egypt	0	0	521	1.3
Ukraine	187	0.5	229	0.6
Romania	217	0.5	583	1.6
Russia	991	2.9	1,247	4.1
Poland	746	2.2	475	1.2

	1998		1999	
	MT	Bill. Lire	MT	Bill. Lire
DARK AIR CURED	14,376	36.6	9,932	22.2
U.S.	2,162	5.0	2,334	5.5
Egypt	2,591	6.4	1,630	4.0
Algeria	5,177	12.9	2,776	7.1
Tunisia	2,625	6.6	1,239	2.7
Mexico	317	1.3	394	0.8
OTHERS	5,707	41.9	7,930	54.3
Ivory Coast	1,359	10.9	1,922	12.8
U.S.	0	0	73	0.3
Poland	1,439	10.7	1,840	11.7
U.K.	1,513	11.8	2,351	18.6
WASTE	17,425	11.8	17,729	12.3
France	4,452	3.0	5,449	3.2
Germany	2,775	1.5	1,747	1.2
U.K.	1,339	1.7	1,783	1.7
U.S.	50	0.1	43	0.1
Bulgaria	0	0	170	0.1
Russia	4,908	3.0	5,024	3.5
TOTAL TOBACCO LEAF EXPORTS	98,984	345.5	93,900	335.7

Source: Central Institute of Statistics

TABLE II Italy: Tobacco Leaf Imports, Quantity & Value

	1998		1999	
	MT	Bill. Lire	MT	Bill. Lire
FLUE CURED	19,082	149.2	18,944	148.1
U.S.	5,032	54.9	5,372	51.1
Brazil	2,739	24.6	2,747	18.1
Greece	900	3.2	819	2.1
Spain	0	0	880	1.8
Zimbabwe	3,464	8.9	1,837	13.4
U.K.	3	0	321	1.4
Portugal	983	9.3	744	2.5
LIGHT AIR CURED, BURLEY	198	0.8	9,001	70.0
U.K.	554	1.8	146	0.8
Zimbabwe	9,882	72.1	237	1.4
U.S.	72	0.4	1,990	28.6
Greece	192	1.2	1,031	3.7
Malawi	2,168	30.9	1,990	13.2
Brazil	21	0.1	59	0.5
Thailand	881	6.4	180	1.0
Spain	397	3.8	84	0.2
LIGHT AIR CURED, MARYLAND	345	1.6	549	7.9
U.S.	90	0.3	549	7.9

	1998		1999	
	MT	Bill. Lire	MT	Bill. Lire
LIGHT AIR CURED, OTHER	0	0	0	0
FIRE CURED, KENTUCKY	5	0	286	6.1
U.S.	0	0	286	6.1
FIRE CURED, OTHER	0	0	0	0
SUN CURED, ORIENTAL	5,339	49.2	6,293	60.9
U.K.	0	0	125	1.2
Greece	1,790	19.0	2,246	25.3
Turkey	2,028	14.4	2,005	14.7
Macedonia	545	5.4	774	7.8
DARK AIR CURED	992	1.8	800	2.2
Algeria	664	1.6	600	1.6
OTHERS	988	13.1	452	7.8
Netherlands	536	8.9	432	7.7
Turkey	349	2.5	0	0
Belgium	103	1.7	0	0
WASTE	1,997	3.0	2,520	3.6
U.S.	1,250	1.7	342	0.5
Brazil	547	0.9	439	0.7
Zimbabwe	79	0.1	1,013	1.1
TOTAL TOBACCO LEAF IMPORTS	38,765	295.4	38,845	306.6

Source: Central Institute of Statistics

TABLE III Italy: Total Tobacco Trade, Quantity and Value by Major Country of Destination/Origin in 1999

IMPORTS	MT	BILL. LIRE	USD MILLION *
TOTAL	38,845	306.6	168.6
Spain	1,164	2.7	1.5
Netherlands	2,311	31.7	17.4
Greece	4,113	31.2	17.2
Portugal	1,346	4.6	2.5
Other EU	884	5.8	3.2
Total EU	9,818	76.0	41.8
Turkey	2,006	14.7	8.1
U.S.	8,552	94.2	51.8
Zimbabwe	3,807	15.9	8.7
Brazil	3,245	19.3	10.6
Malawi	1,991	13.2	7.3
Macedonia	774	7.8	4.3
Other Countries	9,372	65.5	36.0
* [1.00 USD=1,818 Lire]			

EXPORTS	MT	BILL. LIRE	USD MILLION*
TOTAL	93,900	335.7	184.6
France	7,204	10.6	5.8
Belgium	4,099	18.5	10.2
Netherlands	7,423	37.1	20.4
Germany	10,302	44.8	24.7
U.K.	8,726	43.7	24.0
Greece	2,423	5.4	3.0
Other EU	2,440	7.7	4.2
Total EU	42,617	167.8	92.3
Switzerland	1,148	5.6	3.1
Russia	8,015	12.0	6.6
Poland	2,951	14.2	7.8
Romania	3,210	8.7	4.8
Ukraine	1,233	2.8	1.5
Tunisia	1,860	4.5	2.5
Egypt	6,996	21.3	11.7
Algeria	5,526	17.5	9.6
Uruguay	1,794	4.8	2.6
U.S.	5,508	20.1	11.1
Japan	1,437	8.3	4.6
Other countries	10,605	48.1	26.4
* [1.00 USD=1,818 Lire]			

TABLE IV Italy: Cigarette Foreign Trade Quantity & Value

	1998		1999	
	MT	Bill. Lire	MT	Bill. Lire
IMPORTS				
Total	43,164	1,901.3	50,492	2,201.8
France	324	12.5	343	13.3
Netherlands	38,151	1,687.5	46,344	2,027.9
Germany	4,375	188.0	3,495	147.4
Belgium-Lux	15	1.0	0	0
Switzerland	7	0.5	3	0.8
Others	292	11.8	307	12.4
Source: Central Institute of Statistics				

SECTION III. NARRATIVE ON SUPPLY, DEMAND, POLICY, & MARKETING

PRODUCTION

GENERAL

Italian tobacco output in 1999 is preliminarily and unofficially estimated at 132,300 tons (farm weight), or virtually unchanged from the official figure reported by AIMA (the State Market Intervention Agency) for 1998, and practically at the same level of the national quota fixed for Italy by the EU (around 132,500 tons). The official production figure for 1998, however, does not include some 10,700 tons produced in excess of the various varieties' quotas: this amount is not part of the AIMA official production statistic, which includes only the quantities which received premiums, after the needed compensations among the different tobacco producers. The above amount, probably the lowest quality of the crop, is not included in our PSD's tables since it is assumed to have been disposed of by the producers as the low price paid (without subsidy) does not make it economical to harvest.

Weather conditions in 1999, have not been as favorable as those reported in 1998. In particular, the Flue cured crop was badly affected by adverse weather in both the Umbria and Veneto regions. In Umbria, there was also unfavorable weather in the summer with excess rain and relatively cold temperatures which damaged crop quality. In Veneto, a rainy June caused a marginal drop in crop yields. In southern Italy, on the other hand, weather has been more favorable to the crop, excluding some delays of the sprouting after the trans-planting operations caused by the hot temperatures reported in June.

CROP AREA

AIMA, the only official source for tobacco production information in Italy, usually calculates tobacco planted area only after the production figures are finalized. Thus, the estimates for 1999 by variety are not yet available. However, unofficial sources indicate stable numbers for all the major varieties, with only minor adjustments, after the 3 percent decline reported in 1998. The following table shows the breakdown of Italian tobacco area by region and variety for the 1998 crop (latest available data).

ITALY: 1998 Tobacco Area by Region and Variety (1,000 Hectares)						
	Flue Cured	Light Air Cured	Dark Air Cured	Dark Fire Cured	Oriental	Total
Veneto	6.4	0.9		0.3		7.6
Tuscany	1.7	0.1	0.1	0.8		2.7
Umbria	8.5			0.2		8.7
Latium	0.5	0.6	0.3	0.3		1.7
Abruzzi	1.0				0.6	1.6
Campania		9.9	7.7	1.4	0.1	19.1
Apulia	0.4		0.1		4.1	4.6
Other Regions	0.7	0.2				0.9
TOTAL	19.2	11.7	8.2	3.0	4.8	46.9

Source: AIMA

As can be seen from the above table, about 41 percent of tobacco area in Italy is concentrated in the Campania region, where light air cured and dark air cured tobaccos prevail. Umbria and Veneto are the two most important producers of Flue cured tobacco. Tobacco area in Italy is likely to remain fairly stable over the coming years, with the potential for a marginal recovery (after the continued decline reported in past years) for Oriental tobaccos.

YIELDS

Yields for 1999 are estimated to have remained at the same levels of those reported in 1998, given the stability of both area and production. Official national average figures for the 1998 crop (latest available data) are as follows:

Variety	MT/hectare
Flue Cured	2.52
Burley	4.10
Maryland	2.28
Dark Air Cured	2.09
Dark Fire Cured	2.30
Oriental	2.76
Total	2.82

CROP QUALITY

The quality of the 1999 tobacco crop, as mentioned above, was generally satisfactory, except for the Flue cured crop harvested in Umbria.

PRODUCTION POLICY

Based on the recent (July 1998) CAP reform for the tobacco sector, production quotas have been changed only marginally, as reported below:

ITALIAN QUOTAS (Metric Tons)			
	1997 and 1998	1999	2000 and 2001
Flue Cured	48,222	48,240	48,500
Light Air Cured	47,040	46,848	47,000
Dark Air Cured	18,170	18,200	17,900
Dark Fire Cured	6,820	7,173	6,965
Oriental Tobaccos	12,500	12,000	10,100
Katerini	-	48	1,500
Total Italy	132,752	132,509	131,965

As reported last year, while the total quota for Italy has remained virtually unchanged, some minor adjustments have been made by the EU among the different varieties in order to better reflect production trends. The only noticeable variation was represented by the inclusion of the Katerini tobacco, a Greek variety, which was to mainly be planted in Apulia, partially replacing the traditional Oriental tobaccos due to its much higher production premiums. In 1999, however Katerini tobacco plantings have been minimal.

The new CAP for the tobacco sector is designed to give more emphasis to quality rather than volume which has traditionally been the major basis of income for the tobacco farmers. The current premium system, on the other hand has been tied to a substantial quality improvement of the crop, which should be reflected in a real increase of the prices actually paid by the packers to the growers in the coming year. The premiums fixed by the EU for the 1999 through 2001 crop years are as follows:

	1999
Variety	EURO's/Kilo
Flue Cured	2.98062
Light Air Cured	2.38423
Dark Fire Cured	2.38423
Fire Cured	2.62199
Oriental Tobaccos	2.38423
Katerini	3.50395

[1.00 EURO=1,937 Lire=$.92, at current rate of exchange]

The premiums are very generous and, in most cases, represent the major share of the producers' income. Grower prices from the packers in 1998 declined substantially for Flue cured, due to the lower demand from both ETI (the former Tobacco Monopoly) and the leading manufacturing plants located in northern Europe. Prices of the other varieties, on the other hand, remained practically unchanged, or slightly increased, as shown below (source: AIMA):

Grower Prices (Lire/Kilogram)				
	1995 crop	1996 crop	1997 crop	1998 crop
Flue cured	582	1,226	1,417	1,193
Light Air Cured	154	339	353	392
Dark Air Cured	67	101	169	183
Dark Fire Cured	1,397	2,135	2,534	2,541
Oriental	94	157	379	430

[1.00 USD=1,629 Lire in 1995, 1,534 Lire in 1996, 1,703 Lire in 1997 and 1,737 in 1998]

No official price data are yet available for the 1999 crop. However, our trade contacts indicate a further price drop for Flue cured, due to continued weak demand, particularly in northern Europe which usually buys the best quality leaves produced in Veneto. Prices of Burley, on the contrary, are reported to have risen slightly, thanks to the good export demand, particularly in eastern Europe and northern Africa. The strong demand (both on the export and domestic sides) also favored Dark fire cured tobacco, with prices averaging 5 to 10 percent higher than in the previous year. No substantial price variation is reported for Dark air cured and Oriental tobaccos.

As mentioned last year, EU premiums are broken down into a fixed element and a variable element based on the quality of the tobacco. For Italy the percentage of the variable element, which increases over the 1999-2001 period, has been fixed as follows:

	1999	2000	2001
Flue Cured	20	25	35
Light Air Cured	20	25	35
Dark Air Cured	20	25	40
Fire Cured	20	25	32
Sun Cured	25	35	45

PRODUCTION TABLE						
	AREA (Hectares)			**PRODUCTION (Metric Tons, Farm Weight)**		
	1998	1999	2000	1998	1999	2000
Flue Cured	19,156	19,200	19,300	48,244	48,300	48,300
Light Air Cured	11,725	11,800	11,800	46,570	46,700	46,700
Dark Air Cured	8,235	8,200	8,100	17,188	17,100	17,000
Fire Cured	2,998	3,000	3,000	6,891	7,000	7,000
Oriental	4,756	4,700	4,800	13,137	13,200	13,200
TOTAL	46,870	46,900	46,900	132,030	132,300	132,200

Sources: AIMA, AgMinCoun

CONSUMPTION

Domestic tobacco leaf consumption (assumed to equal manufactured tobacco output) declined by 11 percent in 1999, due to both a continued strong reduction in output of domestically produced cigarettes (-15 percent compared to 1998), and the need of ETI to reduce unsold stocks. ETI (formerly the Tobacco Monopoly) has gradually reduced its purchases of domestic tobacco, which cover only a marginal share of the domestic crop (no more than 13 to 15 percent of the total). In 1999 ETI bought some 14,700 tons (dry weight) of Italian tobacco, of which about 40 percent was Flue cured, 30 percent Burley, 8 percent Maryland, and the remainder broken down among the other varieties. The remaining portion of domestic consumption is used for production of cigarettes under license or goes into stocks.

TRADE

Total Italian tobacco exports in 1999 remained relatively stable or declined only marginally (-3 percent for the total), as can be seen in the trade tables. Exports to the United States (totaling 5,508 tons) were virtually unchanged from 1998, although some minor increases are reported for Burley and Dark air cured tobacco, used for filling purposes. Other major importers of Italian tobacco were northern African countries (mainly Egypt, Algeria and Tunisia), which absorbed on the whole about 14,400 tons in 1999, followed by some Latin American countries (like Uruguay), and Japan. Prospects for the 1999 crop, to be shipped in 2000, are not favorable for Flue cured, due to the reduced import demand from northern Europe, while shipments of the other major varieties are expected to remain in line with last year's levels.

The most important export market in 1999 remained the EU, absorbing 45 percent of total Italian tobacco shipments in volume and 50 percent in value. Exports to Eastern Europe, on the other hand, were about 16,000 tons, or 2,000 tons more than in 1998, but some 20,000 tons less than the level reached in 1997, due mainly to the increase in domestic production reported in Bulgaria and Romania.

More specifically, exports of Flue cured, after the dramatic drops reported in both 1997 and 1998, partially recovered in 1999 (+16 percent in volume), although total value remained unchanged. Exports of medium-to-low quality Flue cured increased to eastern Europe (mainly to Romania) and northern Africa (particularly to Egypt and Algeria), while shipments of the best quality tobacco, traditionally directed to northern Europe, dropped . Exports of Oriental tobaccos, too, recovered only in part, after the sharp decline reported in 1998, reflecting marginal increases to eastern Europe. Shipments of Burley, on the other hand, declined by 14 percent, mainly consequent to the decreased import demand from northern African countries. Exports of Dark Fire cured continued to grow, increasing 25 percent in 1999, thanks to expanded sales to Dutch cigar manufacturers.

In 1999, overall Italian tobacco imports remained virtually unchanged in volume, but rose by 4 percent in value. Trade figures include imports of cheap tobacco leaves, processed in Italy and then transhipped (official data for transhipments is not available but it is assumed that the tobacco is destined for countries in Eastern Europe and North Africa). The imports also include the quantities of tobacco blends that are imported by ETI (generally from northern Europe) to produce foreign cigarettes under license. While total imports of Flue cured were unchanged, those of Burley declined by 9 percent, and those of Oriental tobacco rose by 18 percent. Among the non-EU countries, the U.S., Brazil, Zimbabwe and Malawi were the major suppliers, along with Turkey and Macedonia, exporting mainly oriental tobaccos to the Monopoly.

Imports from the United States totaled 8,552 tons in 1999, or 5 percent lower than in 1998, and were valued at 94.2 billion lire ($51.8 million), or virtually unchanged from the previous year. U.S. shipments of Flue cured increased by 7 percent, while those of Burley declined 8 percent. Imports of Maryland were 10 percent larger than in 1998, while those of Dark Fire Cured totaled 286 tons, compared to the minimal level of 1998. Total imports from the U.S., however, are expected to drop significantly in 2000, due to the newly applied purchasing policy from ETI, aimed at reducing their huge tobacco stocks to levels more consistent to their actual cigarette production volume. Furthermore, declining consumption of domestic brand cigarettes limits the use of U.S., as well as other origin, tobaccos.

ETI sources indicate the following purchases from the United States:

	Metric Tons 1999 CROP	2000 CROP (preliminary)
Flue Cured	3,700	3,400
Burley	1,300	1,300
Maryland	500	360
Kentucky	300	260
TOTAL	5,800	5,320

In the medium term, U.S. exports to Italy are likely to remain low, due to both strong competition from other suppliers (mainly Brazil for Flue cured), and the continuously eroding market share of domestic cigarettes.

STOCKS

After the dramatic declines reported in the past years (consequent to the continued growing exports), domestic tobacco stocks are now expanding, in line with the reduced domestic consumption and stagnant exports. The figures included in our PSD tables include stocks both of ETI (which are supposedly declining) and all the tobacco packers.

MARKETING

As said above, ETI has replaced the Tobacco Monopoly as the only tobacco manufacturer in Italy as part of the privatization process designed to make the sector more efficient and market oriented. In this first stage, the body has been changed from its status of a government agency into a state controlled company, with the target of becoming a joint stock company in two years. The actual problems faced by ETI, and formerly by the Monopoly, are connected to large scale smuggling (despite the severe anti-smuggling legislation), indirect advertising carried out by foreign manufacturers (which pulls sales from domestic brands), and excess manufacturing facilities and labor costs.

CIGARETTES

PRODUCTION

Italian cigarette production in 1999 totaled 45,065 tons, of which 29,754 tons were domestic brands (-15 percent) and 15,311 tons were foreign brands produced by the Monopoly under license (-3 percent).

CONSUMPTION

CIGARETTE SALES IN ITALY DURING 1990/1999										
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Domestic Brands	46.9	43.2	42.9	40.0	38.8	37.9	35.5	33.5	32.1	31.3
Foreign Brands	44.0	45.9	45.3	48.6	50.5	52.0	53.9	55.7	58.9	64.6
Total Sales	90.9	89.1	88.2	88.6	89.3	89.9	89.4	89.2	91.0	95.9

Source: Tobacco Monopoly

As can be seen from the table above, the long term decline in sales of domestic brands continued through 1999, when their market share dropped to only 33 percent. The market share of foreign brands is actually larger than officially reported because of significant sales of smuggled cigarettes, estimated at over 17,000 tons in 1998. The increase of total cigarette sales in 1999, however, does not reflect an actual expansion of smoking, but rather an increase in legal sales due to a more severe anti-smuggling program. The government of Italy has been stepping up its efforts at intercepting cigarettes smuggled in by boat from eastern Europe which has resulted in several violent clashes between the police and the smugglers who use heavily armored vehicles to transport the contraband.

According to a recent private study, the number of smokers in Italy last year was about 12.7 million, with an average consumption of 15 cigarettes per day.

PRICES

Cigarette prices in Italy are fixed by law. A general price increase has been fixed by the Italian authorities in July 1999. Therefore the price of the leading Italian domestic brand (MS) has been increased to 4,000 Lire per pack ($1.90), while that of the most popular foreign brand (Marlboro) is 5,600 Lire per pack ($2.67). On average, 74 percent of the retail price is represented by taxes, 10 percent by retailers' commissions, 15 percent by manufacturers' incomes and the remaining 1 percent wholesalers' remunerations.

TRADE

As can be seen from the trade table, Italian cigarette imports in 1999 further rose by 19 percent in volume and 16 percent in value. As usual, most imports came from the Netherlands and Germany, where American brands are produced under license to avoid the very high EU import duty. As a result of the WTO agreement, this duty has been reduced, however, to 63 percent (ad valorem) for the period January-June 2000 and will be further cut to 57.6 percent as of July 1, 2000. Italian exports, on the other hand, remained negligible.