

# COMMISSION OF THE EUROPEAN COMMUNITIES

COM(81) 674 final

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Possible inclusion of tobacco in the system for the stabilization of export  
earnings (Communication from the Commission to the Council)

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Commission Study with a view to the  
possible inclusion of tobacco in the system for the  
stabilization of export earnings  
(Communication to the Council).

1. A declaration by the ACP States concerning tobacco, annexed to the second Lomé Convention, states that "the possibility of inclusion of tobacco in the STABEX system shall be examined at the first session of the Council of Ministers due to take place after the entry into force of the Convention".

In a separate declaration regarding the same product, the Community says that it "undertakes to consider, within the framework of administration of the Convention, the possibility of including tobacco in the STABEX system within the limits of a quantitative ceiling of exports to the Community, to be fixed at the current level, provided that the introduction of such arrangements does not disturb the Community tobacco market".

At its meeting in Luxembourg on 9 and 10 April this year, the first to be held after the entry into force of the second Lomé Convention, the Council of Ministers called on the Committee of Ambassadors to adopt a position on its behalf regarding the inclusion of tobacco in the list of products covered by the Stabex system on the basis of a report drawn up by the Commission of the European Communities.

2. Export earnings from tobacco are of considerable importance for two ACP States, Malawi and Zimbabwe, and of lesser importance for a third State Tanzania. Those countries export earnings from tobacco, expressed as a percentage of total exports, are as follows for the period 1976-79:

Country	1976	1977	1978	1979
Malawi 1	42.8%	48.1%	55.3%	54.7%
Zimbabwe 2	27.8%	22.4%	22.7%	29.2%
Tanzania 3	4.9%	4.8%	6.1%	3.7%

Moreover, since tobacco-growing requires considerable labour, the importance of the product for the countries concerned can also be appreciated in terms of its incidence on the level of employment in the agricultural sector (see Annex III).

3. In contrast to almost all the other products covered by the system, which originate exclusively from tropical and equatorial regions, tobacco is cultivated in the Member States. The major Community producers are Italy, and Greece, which produce over 120.000 tonnes each (see Annex I for production trends in the ACP and Member States concerned).

Most of the tobacco grown in Europe comes from less-favoured regions such as the Mezzogiorno in Italy, and in particular the Avellino area, which suffered a disastrous earthquake on 23 November 1980, and certain regions of Northern Greece such as Macedonia and Thrace. Since the soil in these areas is particularly arid, there is no sufficiently profitable alternative to the tobacco-growing.

Covered by the Community's common agricultural policy, the organization of the market set up in 1970 (Regulation EEC No 727/70) is based on the following three essential components:

- (a) The price and intervention system is based on the need to provide Community producers, by means of appropriate common provisions, with guarantees

<sup>1</sup> International Financial Statistics, IMF, May 1981.

<sup>2</sup> FAO and Monthly Digest of Statistics.

<sup>3</sup> Annual Trade Report, Ministry of External Trade - Estimate on the basis of provisional figures for 1979.

regarding employment and standard of living equivalent to those which they had previously enjoyed under the national organization of the market.

This has been achieved by means of a market organization which, by its norm price and intervention price system, has particularly favoured the contractual sale of Community production on better terms than third world production.

- (b) The norm price must be determined each year so as to ensure sufficient remuneration for the producers, account being taken of the direction to be given to production by reference to the trend of demand and also the rational management and economic viability of undertakings.
- (c) The intervention price, fixed at a lower level (90%) than the norm price, must reflect the minimum price at which the producers can be assured of selling their tobacco. This is why the intervention agencies (State) have to buy in at the intervention price all the tobacco which is offered to them by the growers, namely the share of production for which purchasers have not been found on the market.

Moreover, in order to facilitate the Contractual Sale of tobacco, a premium is awarded to natural and legal persons purchasing leaf tobacco directly from Community growers and processing it into baled tobacco.

To obtain the premium, the parties concerned must have concluded contracts with growers or bought leaf tobacco at sales by auction.

Since the norm price fixed by the Council is normally higher than the price of comparable tobacco imported from third countries, the premium is a specific incentive which guarantees the freedom of contract on the tobacco market and enables growers to obtain a price very close to the norm price and therefore to enjoy a fair income. It should be noted that the intervention price and the premium are not cumulative.

4. Although the intervention system set up by the Community for European farmers includes a guarantee covering price fluctuations, it does not however contain any particular provision to remedy reductions in earnings due to a fall in quantities resulting from factors such as production hazards, natural disasters and unfavourable economic climate. This is one of the major differences by comparison with the system for stabilizing export earnings, set up when the first Lomé Convention came into force and continued, with substantial improvements, under the second Lomé Convention. For the period 1975 to 1979, most Stabex interventions were carried out precisely in situations where there had been falls in production and exports.

Bearing in mind production conditions in the Community on the one hand, and the high guarantee level proposed by the Stabex system on the other, certain Member States of the EEC are reluctant to include a product such as tobacco in the Stabex system.

5. Such an extension would in effect mean granting, outside the Community, an automatic guarantee limited to the quantity of production from which Community tobacco producers do not benefit.
6. In its declaration on tobacco, the Community suggests the possibility of including tobacco " within the limits of a quantitative ceiling of exports to the Community, to be fixed at the current level."

A more detailed examination of this formula reveals its risks from the point of view of the Stabex system. Past experience has shown that the results achieved in the processing of dossiers, in particular the speed with which compensation can be made as soon as earnings have dropped, depend essentially on the system's automatic mechanism being respected. The application of the formula expressed above could create an unfortunate precedent, by setting up a kind of "à la carte" mechanism where each product would be considered according to its own particular

features and this would then seriously affect the concept of an automatic mechanism for the application of the system.

7. To these difficulties can be added a further one, due to the structure of the world tobacco market. Apart from State monopolies, demand is oligopoly-based, with seven or eight companies covering 80% of the market (1).

Apart from iron ore, which will soon be dropped from the list of products covered by the system, there is another product, ylang-ylang, for which demand has much the same features. But this is such a marginal product, and the situation of the major seller is so desperate, that an exception has been made.

For tobacco, however, the possibilities of collusion, and consequently the system being triggered off improperly must be seen against the magnitude of the amounts in question. Such possibility should be considered all the more carefully since one of the main ACP exporting States has decided in the near future to start reducing its Tobacco-growing areas.

8. It would be pointless to deny that the instability of export earnings from tobacco causes Malawi, Zimbabwe and, to a lesser extent, Tanzania the same difficulties as all abrupt fluctuations in earnings, in particular those affecting the tropical agricultural products covered by Stabex.

There are, however, (two major obstacles) to the inclusion of tobacco in the list of Stabex products:

- the incompatibility with a common agricultural policy whose aim, among others, is to encourage the use of Community tobacco over and above imported tobacco and which for this purpose provides a system of premiums to buyers of Community tobacco, since it is impossible to achieve the same preference with adequate protection at the border (customs duties consolidated in GATT, total exemption from duties within the framework of Lomé, S.G.P.);
- the economic dimension of the product and the oligopoly basis of demand for it.

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(1) Doc. CNUCED TD/B/C.1/205

In the light of the foregoing, it would seem that a solution to the problem of the fluctuating earnings of ACP tobacco-exporting States cannot be found within the Stabex system.

Free access to the Community market for tobacco originating in the ACP States, as provided for by (the second Lomé Convention), must be considered the maximum advantage possible since this is a product which is subject to the rules governing the common agricultural policy.

MALAWI

Tonnes

Year	FLUE	BURLEY	FIRE S	FIRE N	SUN/AIR	ORIENTAL	TOTAL
1977	19 585	10 170	586	18 011	2 922	568	51 841.361
1978	20 850	10 583	1,042	15 360	3 224	568	51 627.724
1979	25 155	14 902	1,223	11.064	1 627	446	54 416.178
1980	26 626	17 690	820	9 000	1 155	350	55 641.697

TANZANIA

Tonnes

Production Year	Flue Cured (Virginia)	Fire Cured (Dark)	Burley (Air Cured)	TOTAL
1970/71	8 816	3 155	-	11 971
1971/72	10 558	2 504	7	13 069
1972/73	10 736	1 855	11	12 652
1973/74	15 277	2 985	12	18 274
1974/75	11 930	2 259	23	14 212
1975/76	14 548	4 546	50	19 144
1976/77	14 600	3 697	31	18 328
1977/78	14 319	2 668	33	17 213
1978/79	13 204	3 997	40	17 236

Source : TAT

ZIMBABWEProduction by type of tobacco 1970-1980

Tonnes

Year	Flue-Cured	Oriental	Burley	TOTAL
1970	51 507	136	3 126	54 769
1971	59 866	140	5 445	65 451
1972	60 892	140	5 320	66 352
1973	67 980	140	5 832	73 952
1974	71 601	140	3 798	75 539
1975	83 920	90	2 775	86 785
1976	110 533	100	2 182	112 815
1977	83 374	50	1 698	85 122
1978	82 969	52	2 140	85 161
1979	111 687	13	2 778	114 482
1980	124 500	40	2 700	127 240

Source : Zimbabwean Tobacco Association

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GREECE

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## 1. PRODUCTION OF RAW TOBACCO

Year	Tonnes
1969-1971	88.000
1977	120.000
1978	127.000
1979	123.000

Source : FAO

## 2. PRODUCTION BY TYPE (based on 1979 harvest)

Production Areas	Quantity purchased
1. BASMA	25 042
a) zone (1)	24 215
b) zone (2)	827
2. KATERINI & BASHI BAGLI	11 786
a) Katerini	11 558
b) Bashi Bagli	228
3. KABA KOULAK CLASSIC	21 335
4. KABA KOULAK NON CLASSIC	14 032
a) zone (1)	8 413
b) zone (2)	5 619
5. MYRODATA ACRINION	6 139
6. ZICHNOMYRODATA	1 133
7. TSEBELIA	20 847
a) zone (1)	15 464
b) zone (2)	5 042
c) zone (3)	341
8. MAVRA	5 584
a) zone (1)	4 889
b) zone (2)	695
9. BURLEY	17 450
a) zone (1)	14 595
b) zone (2)	2 855
TOTAL	123 348

Source:  
National Tobacco  
Board of Greece

TOBACCO PRODUCTION IN ITALY  
(in tonnes)

"FLUE CURED" VIRGINIA

Year	1978	16.085	on ha	9 405
"	1979	22.500	" "	10 200
"	1980	21.000	" "	10 400

BURLEY

Year	1978	45.476	on ha	14 216
"	1979	53.860	" "	14 493
"	1980	50.000	" "	15 000

KENTUCKY

Year	1978	8.872	on ha	6 075
"	1979	10.423	" "	6 270
"	1980	9.000	" "	5 800

MARYLAND

Year	1978	3.469	on ha	1 139
"	1979	3.253	" "	985
"	1980	3.500	" "	1 000

PARAGUAY

Year	1978	3.659	on ha	2 823
"	1979	3.864	" "	2 652
"	1980	3.200	" "	2 650

HAVANNA

Year	1978	4.997	on ha	2 485
"	1979	7.000	" "	3 821
"	1980	8.200	" "	4 000

BENEVENTANO

Year 1978	748	on ha	704
" 1979	378	" "	333
" 1980	400	" "	250

BADISCHER G.

Year 1978	624	on ha	321
" 1979	523	" "	286
" 1980	500	" "	300

ROUND TIP

Year 1978	570	on ha	329
" 1979	526	" "	316
" 1980	500	" "	300

XANTI

Year 1978	7.555	on ha	6 768
" 1979	8.535	" "	6 738
" 1980	8.500	" "	6 750

PERUSTITZA

Year 1978	6.208	on ha	5 098
" 1979	8.262	" "	5 314
" 1980	8.000	" "	5 000

ERZEGOVINA

Year 1978	11.248	on ha	8 655
" 1979	14.527	" "	8 422
" 1980	12.000	" "	8 500

Source: Ministry for Agriculture and Forestry

IMPORTS OF RAW TOBACCO INTO EEC (9)ORIGINATING IN ACP STATES CONCERNED

YEAR	TANZANIA		MALAWI		ZIMBABWE	
	Quantity (tonnes)	Value (1000ECM)	Quantity (tonnes)	Value (1000ECM)	Quantity (tonnes)	Value (1000ECM)
1975	7 699	15 034	23 283	39 656	1	2
1976	9 515	19 628	21 038	44 579	-	-
1977	7 547	14 559	21 802	48 704	-	-
1978	15 659	35 303	37 436	89 306	-	-
1979	10 656	24 689	30 707	64 455	...	...

EXPORTS - GREECE

Country of destination	1977		1978		1979	
	Quantity (tonnes)	Value 1000\$	Quantity (tonnes)	Value 1000\$	Quantity (tonnes)	Value 1000\$
EEC Member States	12 043	31 534	24 229	72 972	18 089	59 514
Belgium	1 358	3 577	2 864	8 637	2 312	7 524
France	1 263	2 538	2 431	6 311	1 382	2 777
Germany	7 708	19 664	14 472	44 183	11 661	38 942
Denmark	46	167	117	370	146	555
Italy	858	3 352	1 719	5 906	1 284	5 291
United Kingdom	161	455	93	263	299	977
Netherlands	649	1 781	2 533	7 302	934	3 158
Ireland	-	-	-	-	71	290
Exports to all destinations	53 087	154 120	70 466	217 950	55 279	192 252

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EXPORTS - GREECETOBACCO EXPORTS IN 1980

(Provisional figures)

Country of destination	Quantity (tonnes)	Value 1000\$
EEC Member States	18 664	60 524
Germany	10 767	34 291
France	2 308	5 333
Italy	1 579	6 294
Belgium-Luxembourg	2 010	6 898
Netherlands	1 915	7 415
Denmark	33	71
United Kingdom	52	222
Exports to all destinations	69 633	213 560

Summary by types of tobacco

Oriental-type tobacco	53 525	177 893
Burley	16 092	35 658
Virginia	16	9
<b>TOTAL</b>	<b>69 633</b>	<b>213 560</b>

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EXPORTS - ITALYEXPORTS OF ITALIAN TOBACCO

(in tonnes)

Type	Year	to EEC .	Outside EEC
"Light air cured" (Burley)	1977	9 778	21 485
	1978	13 150	22 801
	1979	15 936	28 653
"Flue cured" (Virginia and Maryland)	1977	1 786	3 125
	1978	1 951	2 281
	1979	3 442	3 639
"Sun cured" (Oriental)	1977	3 393	7 552
	1978	3 168	6 955
	1979	3 818	13 636
"Fire cured" (Kentucky)	1977	2 773	3 188
	1978	3 172	4 590
	1979	2 368	2 911
"Dark air cured" (Havanna, Badish, Paraguay)	1977	729	1 147
	1978	396	1 012
	1979	339	844

GREECE

(based on 1979 harvest)

Types Production Areas	Number of growers	Area Cultivated in Stremas (1 strema=1000m <sup>2</sup> )	Number of Labour days per strema
1. BASMA	29 291	209 168	39
a) zone (1)	27 636	199 229	39
b) zone (2)	1 655	9 936	39
2. KATERINI & BASHI BAGLI	7 250	78 565	
a) Katerini	7 065	76 795	27,5
b) Bashi Bagli	185	1 770	33
3. KABA KOULAK CLASSIC	17 975	188 077	22,6
4. KABA KOULAK NON CLASSIC	14 434	118 053	
a) zone (1)	9 042	68 582	25
b) zone (2)	5 392	49 471	23,5
5. MYRODATA AGRINION	6 153	45 037	27
6. ZICHNOMYRODATA	1 104	7 616	25
7. TSEBELIA	20 098	170 186	
a) zone (1)	13 782	122 556	25
b) zone (2)	5 934	45 167	25
c) zone (3)	382	2 463	25
8. MAVRA	7 296	57 424	
a) zone (1)	6 545	52 502	18
b) zone (2)	751	4 922	18
9. BURLEY	3 173	58 490	
a) zone (1)	2 453	48 329	16,5
b) zone (2)	720	10 161	25
TOTAL	106 774	932 636	-

Flue-cured Tobacco Production : Costs and Returns per ha  
Production Year 1979/80, Marketing Year 1980/81

	Smallholder Production	
Yield kg per ha	750	
Producer Price : Sh per kg	10.50	
Realisation : Sh	7,875	
Production Cost	Labour Days	Input Cost :Sh
Firewood cutting and transport	35	
Soedbed preparation, sowing, watering	45	
Land preparation, ridging etc.	95	
Fertiliser application	4	
Soedling transplantation	50	
Wooding, re-ridging	55	
Topping and Suckering	25	
Harvesting	125	
Curing	21	
Grading and baling	120	
Barn construction and maintenance	25	
NPK: 750 kg per ha at Sh 2.20 per kg (including 8.5% TRDB interest)		1,790
Thiodan dust: 12 kg per ha at Sh 5.20 per kg + 10% transport + 8.5% interest		75
Barn flues: 20 units x 3 at Sh 45.00 + 10% transport + 8.5% interest (econ. life : 3 years)		358
Watering cans: 2 per ha at Sh 45.00 + 10% transport + 8.5% interest (econ. life : 3 years)		36
Empty drum: 2 per ha at Sh 50.00 + 10% transport + 8.5% interest (econ. life : 3 years)		40
Hand tools: hoe (Sh 25.00), axe (Sh 18.00), panga (Sh 16.00), knife (Sh 17.50) (econ. life, tobacco use only 5 years).		30
Total Production Cost : Sh	600	2,329
Gross Margin : Sh		5,546
Return per Labour Day : Sh		9.24

Note : These are the costs of a peasant producing above average yields

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Fire-cured Tobacco Production : Costs and Returns per ha  
Production Year 1979/80, Marketing Year 1980/81

		Smallholder Production	
Yield : kg per ha	650		
Producer Price : Sh per ha	6.25		
Realisation : Sh	4,063		
Production Cost	Labour Days	Input Cost : Sh	
Firewood cutting and transport	30		
Seedbed preparation, sowing, watering	50		
Land preparation	90	464	
Seedling transplanting	50		
Field cultivation	80		
Harvesting	80		
Tying tobacco to sticks	15		
Curing, grading, marketing	65		
Barn and tying shed construction and maintenance	40		
Sulphate of ammonial : 250 kg per ha at Sh 1.71 per kg + TRDB interest at 8.5%		464	
Thiodan dust: 12 kg per ha at Sh 2.50 per kg + 10% transport + 8.5% TRDB interest		36	
Watering cans: 2 per ha at Sh 60.00 + 10% transport + 8.5% TRDB interest (econ. life 3 years)		72	
Hand tools: hoe (Sh 25.00), axe (Sh 18.00), panga (Sh 16.00), knife (Sh 17.50) (econ. life, tobacco use only, 5 years)		30	
Total Production Cost : Sh	500	602	
Gross Margin : Sh		3,461	
Return per Labour Day : Sh		6.92	

Note : 1) different unit costs applicable for Ruvuma, the main production centre for fire-cured tobacco

2) These are costs of a peasant producing above average yields.

Flue-cured Tobacco : Seasonal Labour Use from Sample Farms. (man days per ha)

Operation	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Total/ha
Seedbed Preparation	24.7	14.8								39.5
Watering	12.6	16.8	4.2							33.6
Barn Building	16.6	18.8	18.8	18.8	16.6					89.6
Grass Cutting	3.7	3.7								7.4
Firewood cutting & transport	3.5	6.9	6.9	6.9	6.9					31.1
Cultivating/Planting		13.1	35.6	35.6	13.1					97.4
Weeding			2.7	10.9	10.9	2.7				27.2
Topping/Suckering					4.9	7.9	1.0			13.8
Harvesting					7.9	15.8	15.8	7.9		47.4
Curing					7.9	33.4	33.4	33.4	7.9	116.0
Grading						24.4	32.6	32.6	8.2	97.8
Baling							4.4	16.8	4.4	25.6
Totals	61.1	74.1	68.2	72.2	68.2	84.2	87.2	90.7	20.5	626.4

Source : M.P. Collinson "A Report on the Comparative Economies of Virginia (flue-cured) and Aromatic Tobaccos on Family Farms in Tabora District" ERB Paper 70.7

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