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TOBACCO

Present situation and prospects

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TOBACCO: Present situation and outlook

SUMMARY

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I. Introduction: The objectives of the common agricultural policy

1. The world economic recession of the last few years and the foodstuffs and feeding stuffs crisis of 1973/74 have tended to make headline news of the agricultural problem.

In the highly industrialized countries, the role of the agricultural sector in economic development is what the economists might term "residual" when compared to the principal role played by industry and services. There has, indeed, been a drop in the contribution of the agricultural sector both to the national product and to the creation of jobs. This phenomenon does not, however, mean a weakening of the - in some respects - strategic role which agriculture plays in economic development and, more specifically, in the ordered growth of the more advanced economic systems.

When shortages occur, the relative price in elasticity of demand for agricultural products, is a major factor in setting off inflationary trends. For this reason all developed countries regard the control of agricultural production and the stabilization of markets as a matter of primary concern.

Agriculture also plays a basic role in protecting the environment, particularly in hill and mountain areas.

2. In the EEC, agriculture accounts for 5% of the gross national product and employs about 9% of the labour force. Where the Community's external trade is concerned, agricultural exports represent about 9% of total exports, the corresponding figure for imports being about 28%. It is certainly true that the enlargement of the Community gave it a new economic dimension in its relations with the rest of the world. In world trade in agricultural and food products the enlarged Community plays a very important role, with 33% of the total.

This text is based on a speech by Mr Mario Mioni, Head of Division in the Directorate-General for Agriculture of the EEC Commission, at the World Tobacco Symposium in Geneva (Switzerland) on 5 May 1976.

Food consumption represents almost 26% of total consumption by European families.

These data illustrate the macro-economic importance of the agricultural sector in the Community and make it possible to estimate the role agriculture can play in the ordered economic development of the EEC. A rise of 10% in agricultural prices in the Community is reflected - apart from distortions introduced in trade - by an increase of 2.5% in consumer spending. On the other hand, the figure of 28%, which represents the share of agricultural goods in total EEC imports, illustrates the relatively high vulnerability and sensitivity of the Europe of Nine to price and supply fluctuations on the world market. In other words, the common agricultural policy should always ensure a reasonable equilibrium between the interests of producers and consumers.

Reference should be made here to the manner in which the Community, in particular due to price control mechanisms, was able to meet the sudden increase in the price of cereals on the world market in 1973-74.

Moreover, the integration of the agriculture of the Member States played an important technical and economic role, making it possible to enlarge the market and redistribute production geographically while at the same time promoting a considerable increase in productivity and a quantitative and qualitative improvment in the supply of various basic food products. In this way it helped to stabilize domestic mrkets for these products by contributing to no small extent to the fight against inflation.

It is therefore not by chance that during the period mentioned, the EEC had the lowest rise in consumer prices for food products of all industrialized countries: 10.4% in the original Community, against 14.6% in the United States and 29% in Japan.

In conclusion it must be said that, if the common agricultural policy tries to improve farmers' incomes, it also makes a valid contribution to the economic stability of all the member countries - which is, of course, in the interest of the 260 million European consumers.

Finally, account must be taken of the political aspect, that is the high degree of economic and decision-making integration which has been reached via the common agricultural policy; this is undeniably an important factor in European unification.

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II. COMMON ORGANIZATION OF THE MARKETS

The common organization of agricultural markets is an essential instrument in attaining the objectives of the common agricultural policy. It is based on three fundamental principles:

- unity of the market, which is ensured by a common system of prices and trade, the free movement of goods and by respect for common rules governing competition;
- Community preference, that is, privileged production and marketing opportunities for indigenous products as opposed to those from non-member countries;
- financial solidarity: the Member States are jointly responsible for the financial consequences of measures taken when applying market rules.

On the basis of these three fundamental principles, the common organization of the market and the prices policy must adapt to the specific situation in each production sector.

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III. THE SITUATION IN THE RAW TOBACCO SECTOR

1. World tobacco production has increased by 23% in the last decade (see table I in Annex), reaching the record level of 5.4 million tonnes in 1975. At the same time production tended to become concentrated in the developing countries (+ 29.5%) and even more so in the planned economy countries (+ 40.1%). Furthermore with world inflation and the increase in production costs (particularly labour) this trend will probably strengthen in future.

In the same period, EEC production rose by 42%, that is from 109 000 t to 155 000 t; at present, however, it only represents a small percentage of world production (less than 3%).

2. From the figures for domestic production and consumption, it can be seen that the Community has a substantial deficit in raw tobacco – particularly since its enlargement – as the following table shows:

	EUR. 6	EUR. 9
Production as % of world production	2.8%	2.8%
Consumption as % of world consumption	8%	12%
Self-sufficiency ratio...............	33%	20%
Net imports as % of world imports....	35%	50%

Thus 80% of the requirements of the Community's manufacturing industry must be covered by imports from the world market. The result is that the enlarged Community, importing an annual volume of about 500-550 000 tonnes (see table No II), on its own accounts for 50-55% of world imports.

The Community's principal supplier is the United States, also first in the list of world exporters with about 280 000 t per year. Almost half of this total goes to the EEC. The United States if followed by Brazil, India and Turkey.

It should also be recalled that the preferential systems granted by the Community in the framework of association agreements potentially cover 220-230 000 t of Greek and Turkish tobacco and 50 000 t of tobacco from the Associated African States. Furthermore, on the basis of "generalized preferences", a tariff quota at a preferential duty is granted to the developing countries for flue-cured Virginia tobacco (38 000 t in 1976).

3. Although the Community is in deficit overall, tobacco production in the individual Member States differs widely (data from the 1974 harvest):

Country	Area (ha)	Production (t)	% self-supply
ITALY	49 242	32 733	100
FRANCE	19 800	51 575	45
FRG	3 941	10 186	5
BLEU	494	1 848	5
NETHERLANDS, UNITED KINGDOM, IRELAND, DENMARK –			
EEC	73 477	156 342	0

Qualitatively speaking, however, the situation is different again; Italy, for example, exports almost 50% of its production and has to import a corresponding amount for the manufacture of American Blend cigarettes. All the other EEC countries are net importers of Virginia and Burley type of tobacco, besides black tobaccos.

Tobacco cultiviation in the Community is typically a family-type operation; the average area per producer does not exceed 0.60 ha. Indeed, in the EEC, for an area of 70 000 ha (± 2% of all arable land), there are about 120 000 producers.

On the other hand more than 300 000 farm workers are employed annually in the cultivation and primary processing of raw tobacco. In view of the regional concentration of tobacco production, these figures give an idea of the importance of this product for the economic and social development of certain regions of the Community.

4. Before the entry into force of the CAP in the tobacco sector, 90% of Community production (France and Italy) was subject to national market organizations under a State monopoly system. This system provided for marketing guarantees at profitable prices for producers, besides fiscal advantages and a commercial advantage in respect of the finished products, since the monopolistic rules facilitate marketing.

The common organization of the market in the tobacco sector therefore had not only to maintain the existing guarantees in respect of producers' incomes and the marketing of the home-grown product (replacing national provisions by equivalent provisions), but also had to avoid discrimination in trade or against consumers whilst permitting the free movement of the products. To achieve these objectives fully, it was not sufficient to establish a common organization in the agricultural sector; State monopolies had also to be abolished at every level and consumer tax systems in the Member States harmonized. In respect of the agricultural sector, specifically, it was necessary to introduce a system guaranteeing:

- <u>to the manufacturing industries</u>, a supply of raw tobacco from the world market at competitive prices, and fully competitive conditions within the EEC;

- <u>to the producers</u>, adequate support for Community production, in line with the objective of increasing productivity and ensuring a better mix of varieties.

Account also had to be taken of the fact that the Common Customs Tariff (CCT) is bound under GATT (General Agreement on Tariffs and Trade) and that the difference between production costs in the EEC and prices on the world market could not be bridged by simply applying the CCT. In fact, in certain non-member countries producing tobaccos competitive with EEC products, the land/man ratio is better and/or manpower costs are distinctly lower.

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IV. RAW TOBACCO: Structure of the common organization of the market

The organization of the markets in the raw tobacco sector established in 1970 (Reg. EEC 727/70) has a special significance from the policy point of view, since it has a bearing on competition policy (State monopolies) and fiscal policy. It is based on three main elements:

1. A prices and intervention system;

2. A system of trade with non-member countries;

3. Provisions for market management.

1. <u>The prices and intervention system</u> is based on the need to give Community producers, by means of appropriate common provisions, guarantees equivalent to those afforded under national marketing arrangements as regards employment and living standards.

This objective is achieved by means of a market organization which, by virtue of its system of norm and intervention prices, favours the sale by contract of Community production under preferential conditions (as compared to those accorded to non-member country production).

The norm price must be fixed annually at a level which gives producers an adequate return, account being taken of the direction into which production is to be steered in view of demand, and of the rational management and economic viability of undertakings.

The intervention price, fixed at a level below that of the norm price (90%), must represent the minimum price at which producers dispose of their products. For this reason the intervention agencies (State) are obliged to buy in, at the intervention price, all tobacco offered them by producers for which buyers cannot be found on the market.

Premiums - To promote the sale of tobacco by contract, a premium is granted to natural or legal persons who buy leaf tobacco directly from Community producers. To obtain the premium, purchasers must have concluded contracts with producers or have purchased the leaf tobacco at sales by auction.

Since the norm price fixed by the Council is in principle higher than the price of comparable imports from non-member countries, the premium is a special incentive which makes it possible to guarantee a free market for contractual arrangements and enables producers to obtain prices close to the norm price, ensuring them a fair income.

2. The system of trade with non-member countries

The establishment of the common organization of the market made possible the complete liberalization of the Community's external trade. All quantitative restrictions at the external frontiers of the Community have been abolished.

We saw above that the customs tariff for tobacco was bound under GATT.

For this reason the organization of the market in tobacco contains no specific import rules - as is the case for other market organizations - designed to protect Community production price levels by a system of variable import levies. When raw tobacco from non-member countries is imported into the Community, customs clearance only involves application of the provisions of the common external tariff.

Also, to permit the Community to participate in international trade in raw tobacco, the difference between the world market price and Community prices can be covered if necessary by an export refund. However, this refund is fixed within the limits of the Common Customs Tariff.

3. Management of the market includes provisions which, for the first time in a common organization of the market, are designed to prevent the accumulation of stocks for which there would be no commercial outlet.

The EEC considered that, under the premium system which favours direct trade between producers and buyers, quantities bought in by the intervention agencies in excess of a certain limit would indicate abnormal trends, both from the quantitative and qualitative points of view.

For this reason the market organization has provided for special arrangements enabling the Council, on a proposal from the Commission, to adopt measures designed to re-establish a better equilibrium between production and demand and to reduce stocks.

This means first of all fixing the norm prices and the intervention prices. If the price mechanism does not suffice to steer production in the desired direction, the Council adopts special measures which may comprise the exclusion of some or all qualities of the variety in question from intervention buying.

4. Decision-making procedures

While decisions concerning the fixing of prices and premiums are taken by the Council, a whole series of other decisions dealing with market management are entrusted to the Commission according to a procedure involving the "Management Committee for Tobacco", consisting of representatives of Member States and presided over by a representative of the Commission. This procedure, which guarantees permanent collaboration between the Member States and the Commission, is further reinforced by periodic discussions with the representatives of all trade categories involved in the tobacco sector, meeting the Advisory Committee. In EEC decisions,a balance always has to be found between the interests of the various market sectors and the various Member States.

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V. HARVESTS, 1970-74

1. Since the establishment of the common organization of the market (1970), raw tobacco production in the EEC has shown an appreciable increase (average annual rate + 5%), particularly in 1973 and 1974 when world prices were high. In the same period, internal consumption only increased at an average annual rate of ± 2%. It should be stressed that profound changes have taken place in the raw tobacco sector, both in the production and marketing structure to improve adaptation to demand in view of the liberalization of the market.

In all Member States there has been a concentration of production (private companies and cooperatives)as well as of processing (in Italy for example, there were 1 000 processors in 1970 against little more than 100 today). This rationalization of primary processing is also evident in France where the number of SEITA[1] processing centres has been reduced from 30 to 18 and may soon be cut to 14.

[1]Service d'exploitation industrielle des tabacs et allumettes

2. As regards varieties (see Table III), there has been a gradual reduction (± 3%) in areas under dark air-cured varieties; their overall production, however, has shown an average rise of 5%.

Production of light air-cured and sun-cured varieties has risen by ± 40%, whereas Virginia type tobacco production (flue cured) has only increased by 20%. Since areas have expanded only moderately, the increase in production is principally due to rationalization as well as to an increase in productivity per ha.

3. During the same period intra-and extra-EEC trade developed in a satisfactory way. Overall imports by the Nine rose from 440 000 t to ± 500 000 t, of which:

- intra-EEC from 36 000 t to 60 000 t;
- extra-EEC from 404 000 t to 440 000 t.

Furthermore the share of Community production in international trade increased as a result of an appreciable rise in the volume of exports (from 6 000 t in 1970 to 35 000 t in 1974) and because of the diversification of export markets.

Therefore, the EEC market still represents the principal outlet for international trade in raw tobacco. For this reason the Community is pursuing a very active trade policy, in particular vis-à-vis the developing countries.

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VI. CONCLUSIONS

In conclusion, the common organization of the market in raw tobacco has created favourable conditions for a recovery in indigenous production and for a quite considerable improvement in both intra-Community trade and trade with non-member countries.

The Community prices policy has also ensured a better qualitative orientation of production in relation to demand by favouring production in tobacco-growing-regions and conversion to different varieties. Changes in production structures and in processing have resulted in an increase in productivity, both at the agricultural stage and in the marketing network. However, it should be stressed that marketing difficulties still exist for certain varieties,because production policy does not always go hand-in-hand with quality policy, and because in some cases considerable changes have taken place in respect of the utilization of indigenous tobacco by Community industry. Nevertheless, there has been quite a considerable drop in the quantities submitted for intervention (2 500 t in 1973 as against 8-9 000 t in 1970-71), that is to say in quantities for which a normal commercial outlet cannot be found (Table IV).

Although these initial years of application of the organization of the market in raw tobacco in the Community have shown positive results in many respects, the Commission considers that it would be wrong to conclude that everything was perfect. The European tobacco market remains open to competition from non-member countries and needs to be adjusted constantly to meet new situations arising at international level; a certain imbalance between production and consumption in the medium-term cannot be excluded. For this reason the Commission is of the opinion that in future it will be necessary both to step up the policy aimed at increasing the sector's productivity, particularly by structural measures, and to steer production more effectively on the qualitative level. In certain regions of the Community, measures aimed at conversion to different varieties and/or different types of crops will sometimes be necessary.

Therefore, in accordance with the provisions of the common organization of the market, it will be necessary to assess all the economic and social consequences to enable adequate measures to be taken to maintain employment and the living standards of the producers concerned.

Externally, the Community, by a very active trade policy and by preferential agreement with the developing countries, will play an essential role in the harmonious development of world trade in raw tobacco. But it will be difficult to achieve this objective unless, at international level, greater control is achieved over the economic, social and political phenomena which give rise to inflation and monetary disorder.

TABLE I

RAW TOBACCO

Trends in world areas (1 000 ha) and world production (1 000 t)

	AREAS			PRODUCTION		
	1961–65 ø	1975	1975 / 1961–65 %	1961–65 ø	1975	1975 / 1961–65 %
World	3 923	4 382	+11.7	4 378	5 389	+23.1
Africa	289	296	+ 2.4	220	253	+15.0
North America	656	631	– 3.8	1 233	1 239	+ 0.5
South America	339	409	+20.6	329	507	+54.0
Asia	1 950	2 321	+19.0	1 843	2 388	+29.6
Europe	525	524	± 0	559	666	+19.1
– EC	74	73	– 1.4	109	155	+42.2
USSR	151	189	+25.2	175	315	+80.0
Countries:						
– developed	904	843	– 6.7	1 595	1 661	+ 4.1
– developing	1 984	2 342	+18.1	1 617	2 094	+29.5
– planned economy	1 035	1 197	+15.7	1 166	1 634	+40.1

Source: FAO Bulletin 3/76

TABLE II

RAW TOBACCO

TRENDS IN WORLD TRADE (1 000 t)

Exporting countries	Africa	North and Central America	South America	Asia	Europe	- EC	Oceania	Total
1972	19.3	336.0	118.6	246.3	185.4	22.5	-	906.0
1973	20.7	344.4	108.6	227.2	174.2	30.6	-	875.0
1974	25.8	375.9	148.6	228.2	224.8	64.5	-	1 003.0
Importing countries		USA						
1972	37.7	150.7	-	93.5	667.1	507.8	15.3	964.0
1973	44.3	154.6	-	77.4	702.7	543.0	14.1	993.0
1974	42.0	158.6	-	98.8	680.1	502.5	30.7	1 010.0

Source: FAO Bulletin 3/76

TABLE III

RAW TOBACCO - EEC

TRENDS IN AREAS AND PRODUCTION, BY GROUPS OF VARIETIES

	AREAS (ha)		PRODUCTION (t)		1974/1970 %	
	1970	1974	1970	1974	Areas	production
Dark air-cured tobacco	27 396	26 639	61 970	65 087	97	105
Light sun-cured tobacco (Oriental type)	18 273	20 950	15 486	22 734	115	147
Light air-cured tobacco (Burley type)	10 557	14 616	33 062	47 363	138	143
Flue-cured tobacco (Virginia type)	5 305	5 439	9 404	11 278	103	120
Fire-cured tobacco (Kentucky type)	4 372	5 451	6 513	9 165	125	141
Others	60	382	82	715	537	872

Source: Communications from Member States

TABLE IV

INTERVENTION BUYING IN THE EEC (kg)

Variety	Harvest 1970	1971	1972	1973
Bright	117 433	-	-	-
Burley	2 509 017	3 072 428	423 307	-
Maryland	29 488	27 726	-	-
Kentucky	-	11 337	24 971	1 102 555
Nostrano	832 400	712 193	37 541	-
Beneventano	606 454	590 398	847 799	1 468 859
Xanty	3 047 491	3 798 139	548 879	-
Perustitza	458 879	631 959	371 607	-
Erzegovina	222 624	176 822	846 689	-
TOTAL	7 823 786	9 021 002	3 100 793	2 571 414

Source: Communications from Member States