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COMMON MARKET FARM REPORT

BELGIUM, FRANCE, FEDERAL REPUBLIC OF GERMANY, ITALY, LUXEMBOURG, THE NETHERLANDS

TOBACCO IS A THORNY PLANT

The Common Market is currently in the process of developing a new common agricultural policy for tobacco. Considerable producer, fiscal, and commercial interests are involved and clash over this issue. Because of the widely divergent interests of the Community's member states, a great many difficulties still remain, and the July 1, 1968, deadline for implementing a tobacco policy has long since passed. However, this March, work once again has resumed on the Commission's proposals in the Community's Council of Ministers. The final provisions of this policy could play a significant role in the future level of U.S. exports to the Community which by 1967 ran at about $100 million annually. This depends on how the markets open up as a result of the policy towards monopolies and to what extent the Community's goals of self-sufficiency still serve to bar imports while stimulating internal trade and production.

This issue of the Common Market Farm Report first presents the problems facing the Community and then outlines the Commission's proposals for a tobacco policy.

The Problems: Production, Trade, Monopolies, Taxes

The Community Council of Ministers envisaged a common marketing system for tobacco coming into effect on July 1, 1968. However, the Ministers made one precondition, that adequate steps be taken to reorganize the operating conditions of state monopolies so that there should be no discrimination between member countries in either the buying or selling of tobacco and tobacco products.

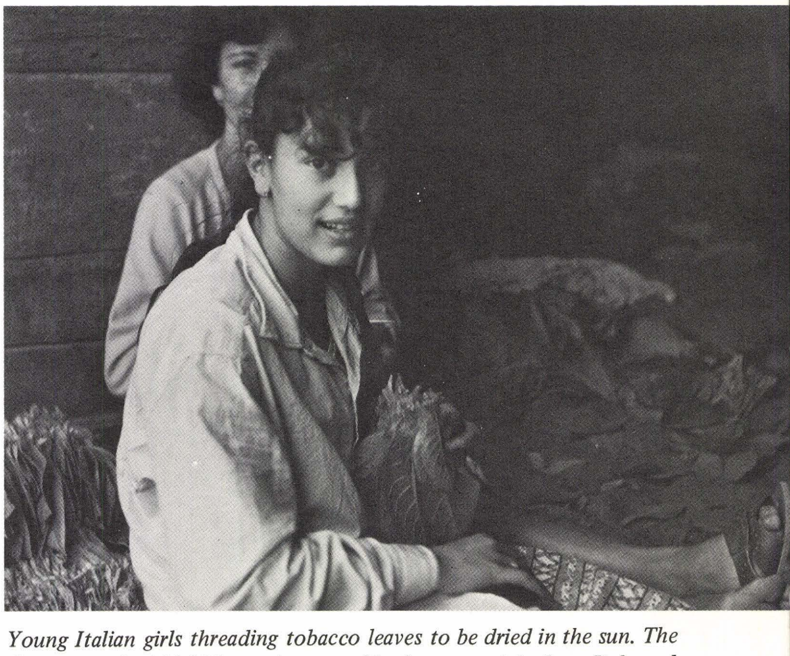
Although tobacco cultivation accounts for less than 15 per cent of the Community's revenue from agriculture, it is a crop of considerable importance in some areas. Over 90,000 sales outlets in France and Italy depend more or less directly on the state tobacco monopolies in those two countries. Furthermore, smokers are a favorite target of the revenue authorities in all the Community countries – as elsewhere.

Trade in tobacco products between the Six, however, remains small, amounting to only some $50 million a year. The importance of tobacco in the Common Market lies in the range of problems it raises: agricultural, commercial, monopolistic, and fiscal.

Production Problems

In formulating a common policy for tobacco, the Community has had to take into consideration the differing policies of the member states, the interests of domestic tobacco growers, and also those of other countries – as Community supplies provide only 30 per cent to 40 per cent of total tobacco consumption in the Six. The Community's own output, which totals about 133,000 metric tons of leaf and is worth about $140 million annually, comes mainly from France and Italy, though some tobacco is also grown in Germany and Belgium. Production costs are generally higher than overseas. The common external tariff on most imported raw tobacco following the Kennedy Round of tariff negotiations is 23 per cent, though with actual minimum and maximum specific duties of between 12.7 cents and 15 cents per pound. These rates of duty make up for only a part of the differences in costs, and fiscal measures and state monopolies are additional means of protecting growers. Such guarantees cover 88% of all Community tobacco production.

A common tobacco policy for the Community has to offer producers guarantees of employment and living standards equal to those they now enjoy within the national markets. Market intervention will therefore be necessary to guarantee growers outlets at reasonable prices for their produce. A major question to be decided by the Six is whether the Community guarantee for the market should be limited – as for sugar – or



Young Italian girls threading tobacco leaves to be dried in the sun. The Community's 133,000 metric tons of leaf come mainly from Italy and France.

unlimited – as in the case of the other important farm products.

When the Common Market was completed last year, all remaining inter-member duties and quota restrictions were to be removed. Since about 60 per cent of Community tobacco needs are imported, a system similar to that for fats and oils seems to be required, which would offer growers subsidies rather than imposing levies on imports.

Trade Problems

Of the 260,000 metric tons of dried or fermented tobacco imported into the Community each year, some 43,000 tons come from states associated with the Community. The main suppliers in 1965 were, in order of importance: the United States, Greece, Rhodesia, Brazil, Bulgaria, Argentina, and Turkey. Tobacco imports represent more than 4 per cent of all agricultural imports. Community exports of raw tobacco amount to some 5,000 tons annually.

The countries associated with the Community have a conception of what the Community's tobacco policy should be that is quite different from that of non-associated countries. The associated countries, notably Greece, favor a high degree of protection which guarantees them a significant degree of preference; the non-associated countries obviously prefer the lowest tariff possible. Tobacco is one of Greece's most important agricultural exports and was the subject of two annexes to the Greece-EEC Association Agreement which gave certain guarantees for tobacco. In the case of Turkey, a Community import quota has been granted at the same tariff rate as Greek imports. Madagascar supplies the bulk of the Community's tobacco imports from the 18 African states associated with the Community under the Yaoundé Convention.

Technical considerations as well as taste dictate that the Six continue to import substantial quantities of tobacco from other countries, which are, in fact, their main traditional suppliers. The Commission proposed that imports from these countries be freed of restrictions and generally not be subject to quotas, though a safeguard clause would apply, and though it also proposed that the preference for Community and associated countries' producers be maintained.

Manufactured tobacco imports total about 45,000 metric tons. The present protective tariff ranges from 26 per cent ad valorem for semi-manufactured products, 52 per cent for cigarillos, and 90 per cent for cigarettes to 117 per cent for pipe tobacco.

Cigarette sorting at a Belgian factory. The German and Benelux tobacco companies are insisting that the French and Italian monopoly markets be opened up to their factories and products.

Monopoly Problems

The French state tobacco monopoly dates from 1810, and the Italian from 1862. These state boards have powers to intervene in the growing of tobacco and have exclusive rights within their countries to manufacture, sell, and import tobacco products.

Such monopolies contravene the Common Market Treaty, which also provides that rights of establishment in non-wage-earning activities are open to nations of all Community countries under the same conditions as those prevailing for the nationals of any member country. As no private French or Italian individual may manufacture tobacco, this also means that no other Community citizen has the right to set up tobacco-manufacturing capacities in France or Italy. If the Germans and Benelux countries are to be expected to make their contribution to financing the common tobacco policy, they may expect some concessions in this same field. Thus tobacco companies in Germany and the Benelux countries insist that they be free to establish factories anywhere in the Community where they think desirable.

As for the monopolies' exclusive selling rights in France and Italy, the Commission has already recommended that the French and Italian governments gradually open up their markets to tobacco products from the rest of the Community. The two governments have partly changed their policies, and the upshot has been a large rise in imports, especially into Italy.

The retail sale of tobacco goods is in the hands of 40,000 retailers in Italy and 50,000 in France who have been selected by the monopolies after public tenders. In France, advertising at the retail level is subject to the control of the monopoly, while in Italy tobacco advertising of all kinds has been banned since 1962. This measure, introduced for health reasons, obviously hits imported cigarettes and tobacco more than Italian products, whose names are better known to the public. A Community policy of tobacco publicity is therefore also called for, as well as settling the overall problem of giving equal access to tobacco products from throughout the Community. There is a lively controversy as to whether this can be done without modifying the exclusive rights of the monopolies (which are, of course, themselves responsible for selling the imported products).

Fiscal Problems

In Germany, cigarettes are commonly described as being "tax receipts with a little tobacco inside." Throughout the Community, taxes on tobacco products are high, the actual rates in 1966 varying from 60 per cent to 80 per cent according to the country and the qualities concerned. Tax systems play their part, too, in holding down the present level of intra-Community tobacco trade. In Germany, for example, a minimum selling price tied to a minimum tax rate discourages the import of cheap cigarettes, and other fiscal measures encourage the production of cigarettes with at least 50 per cent home-grown tobacco content.

Setting the tobacco out to dry. The Common Market Commission has proposed a common agricultural policy for raw tobacco as well as measures concerning national monopolies and taxes on manufactured tobacco.

Commission Proposals for a Common Tobacco Policy

In 1967, the European Communities Commission submitted to the Council of Ministers three proposals for a Community policy for tobacco products as well as a regulation on manufactured tobacco grown in the associated states. The proposals, closely linked to one another, were for:

- a common agricultural policy: a regulation for a common market organization for unmanufactured tobacco
- tax harmonization: a regulation on consumption taxes on manufactured tobacco other than turnover taxes, and a resolution on excise taxes on manufactured tobacco
- national monopolies: a regulation on commercial monopolies in manufactured tobacco
- a regulation for unmanufactured tobacco grown in the eighteen Yaoundé states associated with the Community and the associated overseas countries and territories.

Market Organization for Raw Tobacco

The Commission's proposal for a market organization for raw tobacco was basically as follows:

1. Price System. The Council would fix target and intervention prices each year before August 1 for the following year's harvest. For the first year, intervention prices would be set at a level which guaranteed that growers would receive prices equivalent to those obtained the previous year plus the aids granted during the same year. For each variety of tobacco, the basic intervention price would be 90 per cent of the norm, or target, price.

2. Intervention. The intervention agencies would be required to purchase at the intervention price all leaf tobacco offered by growers, in order to guarantee that Community producers might sell at a price that does not vary excessively from the target price.

3. Premiums. In order to encourage the sale of Community tobacco on the open market, premiums would be granted to purchasers of home grown tobacco. The premium would be determined by the difference between the target price and the price of imported tobacco from non-member countries.

4. The tobacco purchased by the intervention agencies and which has undergone initial processing, such as baling and storing, would be put up for public auction. The lots would be sold to the highest bidder, but the price would not fall below a minimum based on world prices and would be at a level that ensured Community producers a preference over imported products.

The minimum price level could not fall below 85 per cent of the average of similar imported wrapped tobaccos. Growers would have the option, therefore, of selling on the open market or to the intervention agency at the intervention price.

5. Imports from non-member countries would be subject only to the duties listed in the common external tariff (CET). However, a safeguard clause would enable the Community to adopt measures if the Community's market were seriously disturbed. Refunds would be provided for in certain cases to encourage exports.

6. An 85 per cent CET cut and a *pro rata* reduction in charges were proposed for imports from the Community's associated states and territories.

7. Customs duties and quotas on intra-Community trade would be abolished when the regulation comes into force. National regulations on the culture and marketing of tobacco would also be withdrawn.

8. The remaining provisions of the draft regulation were much the same as those for other existing market organizations, and the cost of the various measures would be financed by the European Agricultural Guarantee and Guidance Fund.

Harmonization of Excise Duties on Manufactured Tobacco

Intra-Community trade in manufactured tobacco has not made much progress to date, the Commission found. Apart from certain natural factors, such as differences in smokers' tastes and habits, the main obstacles have been laws that artifically hamper trade among the member states, in particular, the differences between member states' regulations governing excise duties on manufactured tobacco. The Commission has proposed the establishment of a harmonized excise structure for tobacco products; later, the harmonization of structures would have to be supplemented by measures to eliminate tax frontiers.

The proposed harmonization would be based on the following principles:

1. Taxes would be based on retail selling prices inclusive of customs duties.

Selling prices would be fixed freely by manufacturers according to market conditions. Where one or more components of the selling price are determined by official regulations, the regulations would have to be consonant with sound competition.

2. The actual rates could be freely determined by each member state, but within any given state, the rate should be the same for all categories of products belonging to a single group of manufactured tobacco.

3. Normally, the rates within each member state would be a percentage of price. However, if very high proportional rates were applied, it would give rise to differences in the prices of the various classes of products belonging to a single group of manufactured tobacco and nullify competition between the different classes.

To make the system as impartial as possible, the Commission's proposals for excise taxes on cigarettes provided for a specific rate of duty (minimum tax but without a minimum price system) up to a certain level of retail selling prices, followed by a *pro rata* duty up to a higher level above which a degressive scale would finally become applicable. Those retail selling prices at which the minimum duty gave way to the *pro rata* duty and the *pro rata* duty to the degressive rate would be determined on the basis of Community criteria.

Excise duty was also to be degressive for the other groups of manufactured tobacco once the duty rate exceeded a given level.

4. The excise duty would be levied by means of price bands. Each member state would allow foreign producers, on condition that due precautions are taken against fraud, to purchase price bands for the products they export to a particular member state. This would facilitate intra-Community trade and reduce the disadvantages of the tax frontiers until they are abolished. For each group of manufactured tobacco, the member states would be free to fix a scale of retail selling prices for which the price bands would be available. As the object of each scale would be to facilitate the collection of excise duty, it would have to reflect clearly the diversity of the products offered to the consumers of each country.

Adjustment of Monopolies

A genuinely free manufactured tobacco market cannot be established unless the following objectives are obtained:

- the free movement of manufactured products
- the abolition of all discrimination, at distribution or retail level, in one member state against another country from which it imports goods
- the removal of any regulations directly or indirectly favoring the sale of home-manufactured products to the detriment of other member states' products

The aims of the proposed measures would be to:

- make possible the import and sale of manufactured tobacco of other member states, irrespective of brands and quantities, in relation to demand
- ensure that distribution arrangements did not discriminate against foreign Community products
- ensure that arrangements for fixing selling prices obviated any discrimination between home-grown and imported products
- ensure that national manufacturing departments cease to collect taxes. These departments would be subject to the tax system applying to manufacturing companies. Their balance-sheets should disclose manufacturing costs, and should therefore be published
- ensure that producers in other member states were allowed to circularize tobacconists and advertise on the same terms as domestic producers. Tobacconists would be free to advise their customers of all their Community wares on an equal basis since advertisement of domestic tobacco goods and that of manufactured tobacco supplied by other member states would be subject to the same rules.

By January 1, 1970, a second series of measures would have to be adopted by the member states running monopolies. The following principles would be applied:

- In these member states, manufactured tobacco supplied by the other member states would be imported directly without their first passing through the monopoly distribution department. Suppliers of manufactured tobaccos would be allowed to organize their own wholesale distribution network and to maintain stocks in the importing country.
- The tobacconists' independence from the state would be ensured. They would be allowed to procure supplies, of whatever quantity or quality, directly from suppliers established in the other member states.
- Advertising regulations applying to domestic and imported tobacco goods would be drawn up.

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