



**COUNCIL OF
THE EUROPEAN UNION**

**Brussels, 12 November 2002 (13.11)
(OR. fr)**

14073/02

AGRIORG 76

COVER NOTE

from : Secretary-General of the European Commission,
signed by Mr Sylvain BISARRE, Director

date of receipt : 8 November 2002

to : Mr Javier SOLANA, Secretary-General/High Representative

Subject: Commission staff working paper - Report to the European Parliament and the Council on the operation of the common organisation of the market in raw tobacco (under Article 26 of Regulation (EEC) No 2075/92 on the common organisation of the market in raw tobacco)

Delegations will find attached Commission document SEC(2002) 1183 ¹.

Encl.: SEC(2002) 1183

¹ Document received by the General Secretariat in EN, FR and DE only.



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 6.11.2002
SEC(2002) 1183

COMMISSION STAFF WORKING PAPER

**Report to the European Parliament and the Council on the operation of the common
organisation of the market in raw tobacco**

(under Article 26 of Regulation (EEC) No 2075/92 on the common organisation of the market
in raw tobacco)

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INTRODUCTION

1. Article 26² of Regulation (EEC) No 2075/92 on the common organisation of the market in raw tobacco stipulates that "the Commission shall submit a report to the European Parliament and to the Council on the functioning of the common organisation of the market in raw tobacco".

This report fulfils that obligation. It is a **factual report** which both analyses economic trends in the sector, in particular since the 1992 reform, and describes the application of the market organisation following the 1998 reform.

An in-depth evaluation of the common organisation of the market in raw tobacco is currently under way, which will give a detailed appraisal of the impact of the market organisation. It will be finished at the end of 2002.

Based on the results of that evaluation, proposals for amendments to the market organisation could be submitted to the Council and Parliament during the second quarter of 2003.

2. In most cases, the statistical series are confined to 2000, since the data on the 2001 marketing year/harvest were not available when this report was being drafted.

² As amended by Council Regulation (EC) No 1636/98 of 20 July 1998.

SUMMARY OF THE KEY POINTS OF THE REPORT

1. This is a **factual report** describing the broad trends in the sector and the implementation of the various instruments under the market organisation.
2. The chief instruments of the market organisation are:
 - a **premium scheme**. The premium, paid to the producers, is composed of a fixed part, a variable part (differentiated according to the commercial price for tobacco) and specific aid for producer groups;
 - one or more Community **guarantee thresholds** per group of varieties and per Member State and a **system of individual production quotas**;
 - a **Tobacco Fund** for information on the harmful effects of smoking and steering production (conversion of production from 2003);
 - a **programme for buying back quotas** from producers who want to give up production;
 - **customs duties** on imports.
3. The budget resources earmarked for the market organisation fell gradually until 1998 and then increased again slightly, to stabilise at approximately €957 million.
4. The broad trends in the sector can be summarised as follows:
 - a gradual decline in the cultivated area and the number of producers;
 - a substantial increase in agronomic yields, resulting in stable production levels;
 - as regards production structures, the following points should be noted:
 - tobacco continues to be cultivated by a large number of small producers (99 811, or approximately 98% of all tobacco producers), in particular for varieties in groups VI to VIII and in Greece;
 - a small number of large and medium-sized holdings (1 775, i.e. 1.7%) account for a large proportion of quotas (26.8%).

Two structural trends can be identified in the sector:

1. a reduction in the number of small producers (except in Greece);
2. an expansion of large and medium-sized specialised holdings (particularly in Italy).

Community tobacco production seems to be increasingly polarised between two production models which exist side by side and show a regional pattern which depends on land structure and the type of tobacco produced.

5. **The Community tobacco market** can be described as follows:
 - **prices** increased sharply between 1993 and 1997 and then fell in 1998 and 1999, but have rallied in 2000 and 2001. However, the prices for tobacco in group III (dark

air cured) and, especially, group V (sun-cured) have fallen sharply, reflecting a fall-off in demand for these types of tobacco;

- there was a sharp improvement in the **price/premium ratio** between 1993 and 1997, as a result of the rise in prices; The price/premium ratio for most groups of varieties fell sharply from 1998, but has improved since 2000, except for groups III and V;

- the **tobacco stocks** held by first processors have fallen since 1993. This reduction was particularly marked between 1999 and 2000;

- **trade** with third countries is tending to stabilise, following a substantial drop in exports. However, the unit value of exported products has been increasing more sharply since 1993.

6. **Transfers of quantities inside the national thresholds** have led to a change in the profile of Community production between types of tobacco. Thus, a substantial proportion of tobacco in groups III and V has been converted to varieties commanding the highest prices on the market.
7. On the whole, **application of the mechanism for modulating the premium** has produced rather mixed results, but apart from a few exceptions, modulation has been kept within very narrow margins.
8. The **national quota reserves** have not had the expected impact on the restructuring of holdings. In 2002, the Council therefore decided that creation of these reserves should be left to the discretion of the Member States.
9. Very limited quantities were definitively bought back under the **buy-back programme**.
10. **Transfers of quotas** between producers accounted for 5% of production quotas.
11. Since its creation in 1992, the **Tobacco Fund** has spent €43.8 million on financing 28 projects including:
 - nine research projects on steering production towards less harmful varieties,
 - 19 information projects to improve knowledge of the harmful effects of tobacco and on preventive and curative measures.

In 2002, the scope of the Fund was modified: agronomic research projects were abolished and support for production conversion projects was introduced.

1. THE STRUCTURE OF THE RULES ON THE MARKET ORGANISATION FOR RAW TOBACCO

1.1.Recent history of the market organisation

1.1.1. *The 1992 reform*

The market organisation for tobacco first underwent a substantial reform in 1992, when intervention and export refunds were abolished, a system of production quotas was introduced (which is still in force), and controls in the sector were tightened. In particular, the reform made it possible to control and even reduce the budget cost of the tobacco regime and limit the risk of fraud.

The most serious problem which persisted after the reform lay in the poor quality of Community production, which commanded only extremely low purchase prices.

1.1.2. *The 1998 reform*

The most recent substantial reform of the market organisation for raw tobacco took place in 1998 following a wide-ranging debate initiated in December 1996 when the Commission presented its report on the common organisation of market in raw tobacco³.

The reform entered into force from the 1999 harvest, with six main aims: (i) to encourage the production of better quality tobacco by modulating the aid according to the purchase price, (ii) to take better account of public-health and environmental requirements, (iii) to help producers deciding to leave the sector and abandon tobacco production to convert to other activities, (iv) to tighten controls, thus continuing the effort made in 1992, (v) to make the quota system more flexible, particularly in order to bring Community tobacco production more closely into line with market requirements, and (vi) to simplify administration of the sector.

1.1.3. *Adjustments to the market organisation in 2002*

At the European Summit in Gothenburg in June 2001, the Commission presented its communication on sustainable development, in which it proposed to "reorient support from the common agricultural policy to reward healthy, high-quality products and practices rather than quantity, adapt the tobacco regime at the end of its review in 2002 so as to allow for the phasing out of tobacco subsidies while putting in place measures to develop alternative sources of income and economic activity for tobacco workers and growers and decide on an early date accordingly."

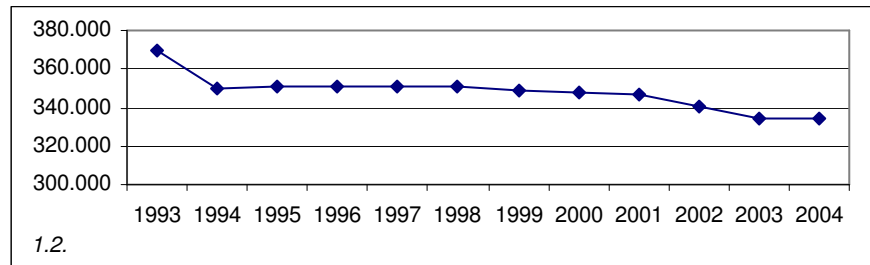
In March 2002, the Council adopted an amendment to the basic Regulation aiming at gradually increasing the percentage of the premium withheld for the Tobacco Fund and broadening its scope to allow it to finance specific measures to convert tobacco production. Moreover, the section of the Fund relating to agronomic research was abolished.

³ COM(96) 554 final.

1.2. Evolution of the guarantee threshold and premiums

The following table shows the evolution of the Community guarantee threshold for 1993-2004.

Figure 1.2: Evolution of the overall guarantee threshold for 1993-2004 (in tonnes)



Source: Community legislation.

The evolution of premiums is shown in tables AN 1.3.1.a and AN 1.3.1.b.

1.3. The market organisation instruments in force

Following the reforms and adaptations summarised above, the common organisation of the market in raw tobacco currently comprises a premium scheme, measures to steer and control production, and arrangements for trade with third countries.

1.3.1. The premiums

The premium scheme is designed to supplement the income of producers whose produce meets market requirements and to facilitate the sale of tobacco produced in the Community. The level of the premium varies according to the group of varieties. The varieties of raw tobacco are classified into eight groups according to how they are dried. An additional amount is also granted for certain groups of varieties in Belgium, Germany, France and Austria.

The premium comprises:

- a fixed part, paid to producers either directly or via their producer group, depending on the quantity delivered,
- a variable part, introduced in 1998, paid to the producer group, which distributes it to each member according to the purchase price paid by the processing undertaking (modulation of the variable part of the premium),
- specific aid, worth 2% of the premium, granted to producer groups.

In addition, an amount equal to 2% of the premium (3% in 2003) is withheld for the Tobacco Fund.

Modulation of the premium was introduced in stages between 1999 and 2001. In 1999, the variable part of the premium varied between 15% and 25% of the total premium depending on the group of varieties concerned. This variable part increased in 2000 and 2001, and ranged from 30% to 45% in 2001.

Grant of the premium is subject to several requirements: the tobacco must come from a specific production area, it must meet minimum quality requirements and growers must deliver their tobacco to an approved first processor on the basis of a cultivation contract.

So that contract prices reflect market conditions, the Member States have been allowed to apply an auction scheme to cultivation contracts since 1998. In March 2002, this arrangement was simplified by allowing its application to be restricted to a single group of varieties and to producer groups which wish to participate.

1.3.2. Control of production

The arrangements for controlling tobacco production are as follows:

- an overall guarantee threshold for Community production,
- specific three-year guarantee thresholds for each Member State and group of varieties,
- a system of individual production quotas established on the basis of the deliveries made during the previous three years.

In order to encourage the restructuring and rationalisation of holdings, a national quota reserve was introduced in 1998. The quantities in the reserve come mainly from an across-the-board reduction in the quotas of the traditional producers. The reserve is distributed on the basis of objective criteria determined by the Member States. The creation of a national reserve became optional from 2002.

The rules provide for three instruments to make the quota system more flexible:

- the transfer of quantities between the guarantee thresholds of the different groups of varieties, authorised by the Commission at the request of the Member States, provided there is no impact on the budget and no increase in quantities;
- the possibility for quota holders to deliver up to 10% more than their quota, to be deducted from their quota for the following harvest;
- the transfer of quotas between producers inside each Member State.

1.3.3. Measures to steer production

The following measures serve to steer production:

- specific aid paid to producer groups to improve compliance with environmental requirements, encourage quality improvements and strengthen management and compliance with the Community rules;
- the Community Fund for tobacco research and information, financed by withholding 2% of the premium for the 2002 harvest, 3% for the 2003 harvest and up to 5% in 2004, depending on the uptake of appropriations allocated to the Fund (the amount withheld was 1% before 1998 and 2% from 1999 to 2001). The scope of the Fund, modified in 2002, currently covers:
 - measures to improve public awareness of the harmful effects of tobacco consumption, etc.,
 - specific measures to help producers of raw tobacco convert to other crops or other economic activities that create jobs, and studies on the possibilities for producers of raw tobacco to switch to other crops or activities;
- a quota buy-back programme to help individual producers who voluntarily decide to leave the sector.

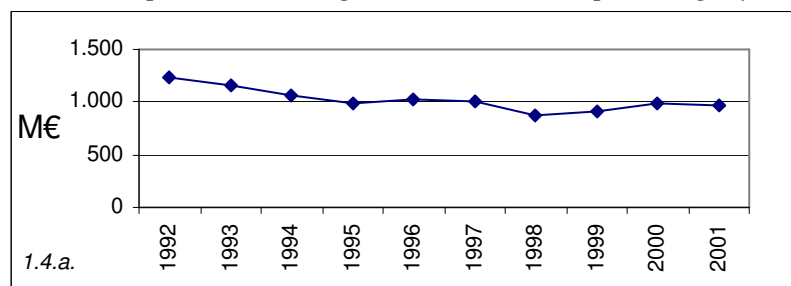
1.3.4. Trade with third countries

The duty rates in the common customs tariff apply to the products covered by the market organisation. The *ad valorem* rate is 18.4% for groups I, II III and IV and 11.2% for the other groups, with a minimum of €22/100 kg and a maximum of €24 and €56/100 kg, respectively.

1.4. Budgetary aspects

The expenditure incurred by the organisation of the market in raw tobacco and charged to the EAGGF Guarantee Section since the 1992 budget year is shown in the following graph.

Figure 1.4.a: Expenditure charged to the EAGGF (per budget year)⁴



Source: Directorate-General for Agriculture, on the basis of the Member States' expenditure statements.

Analysis of these figures shows, firstly, that budget expenditure has gradually fallen since the entry into force of the reform in 1993 and, secondly, that it has stabilised at around €957 million since the second reform entered into force in 1999.

⁴ NB: The EAGGF financial year (from 16 October to the following 15 October) does not coincide with the harvest year.

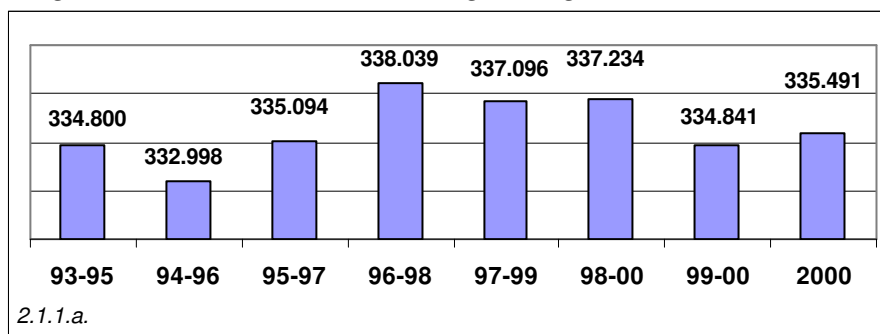
2. TRENDS

2.1. Movements in tobacco production

2.1.1. The quantities produced

Apart from minor fluctuations, the overall quantity of tobacco produced has remained stable.

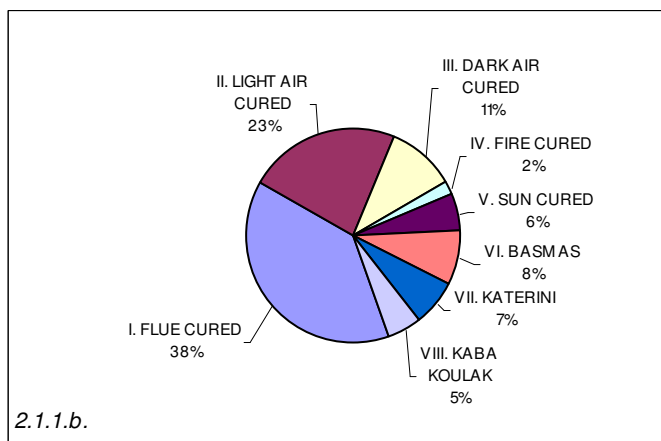
Figure 2.1.1.a: Production (moving average) in the EU (in tonnes)



Source: Communications from the Member States.

The following graph shows a breakdown of tobacco production in the European Union in 2000.

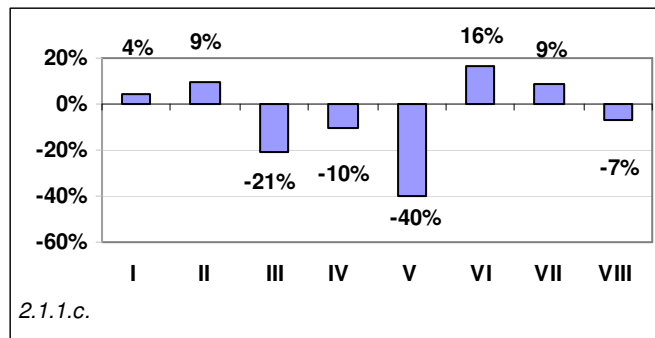
Figure 2.1.1.b: The 2000 harvest broken down by the different groups of varieties



Source: Communications from the Member States.

The current production profile is the result of a gradual conversion of tobacco production from groups III (-21%) and V (-40%) to groups I (+4%), II (+9%) and the Greek aromatic varieties in groups VI (+16%) and VII (+9%).

Figure 2.1.1.c: Variations in production by group of varieties (EU 1993-2000)



Source: Communications from the Member States.

The dark air-cured tobaccos in group III and the sun-cured tobaccos in group V fell sharply and together accounted for 17% of production in 2000. Abandonment of groups III and V was marked (22 388 tonnes for both groups, i.e. down 60% against 1993). This trend is consistent with the contraction of demand for these types of tobacco.

Group I (flue-cured varieties) is by far the largest group, accounting for 38% of total production. Since 1993, production of group I has increased by 5 276 tonnes (+4.25%) while group II has increased to 6 533 tonnes (+9.14%).

The production of traditional aromatic varieties (groups VI to VIII) has increased by around 4 314 tonnes to account for 20% of total production.

The 10% drop in the harvest of group IV tobacco (Kentucky) in 2000 was probably due to cyclical factors.

The trend in production shows that supply is tending towards tobaccos attracting most demand on the market, and there has been a sharp reduction in types of tobacco for which demand is diminishing, and which are becoming more difficult to dispose of on the market.

2.1.2. Areas under tobacco

During 1993-2000, the area under tobacco in the Community fell by 25.15%, from around 167 000 ha to around 125 000 ha.

This reduction was spread out over the entire period. Of the 42 000 hectares no longer used to grow tobacco, approximately 20 000 ha were in Italy, 16 000 ha in Greece and 4 400 ha in Spain.

Table 2.1.2.a: Areas in ha by Member State

	1993	2000	Change 1993-2000	% change 1993-2000
BEL	400	369	-31	-8%
DEU	3 793	4 577	784	21%
ELL	72 499	56 918	-15 581	-21%
ESP	17 603	13 197	-4 406	-25%
FRA	11 097	9 039	-2 058	-19%
ITA	59 403	38 899	-20 504	-35%
ÖST	195	111	-84	-43%
POR	2 419	2 122	-297	-12%
TOTAL	167 409	125 232	-42 177	-25%

Source: Communications from the Member States.

Of the different groups of varieties, the reduction has most strongly affected group V - sun-cured (down 56%) and group III - dark air-cured (down 41%).

Table 2.1.2.b: Areas in ha by group of varieties

	1993 <i>ha</i>	2000 <i>ha</i>	Change 1993-2000 <i>ha</i>	% change 1993-2000
I. FLUE CURED	51 847	42 725	-9 122	-17.6%
II. LIGHT AIR CURED	26 462	19 996	-6 466	-24.4%
III. DARK AIR CURED	21 257	12 598	-8 659	-40.7%
IV. FIRE CURED	3 435	2 366	-1 069	-31.1%
V. SUN CURED	17 239	7 648	-9 591	-55.6%
VI. BASMAS	23 164	20 865	-2 299	-9.9%
VII. KATERINI	13 376	11 368	-2 008	-15.0%
VIII. KABA KOULAK	10 629	7 666	-2 963	-27.9%
TOTAL	167 409	125 232	-42 177	-25.2%

Source: Communications from the Member States.

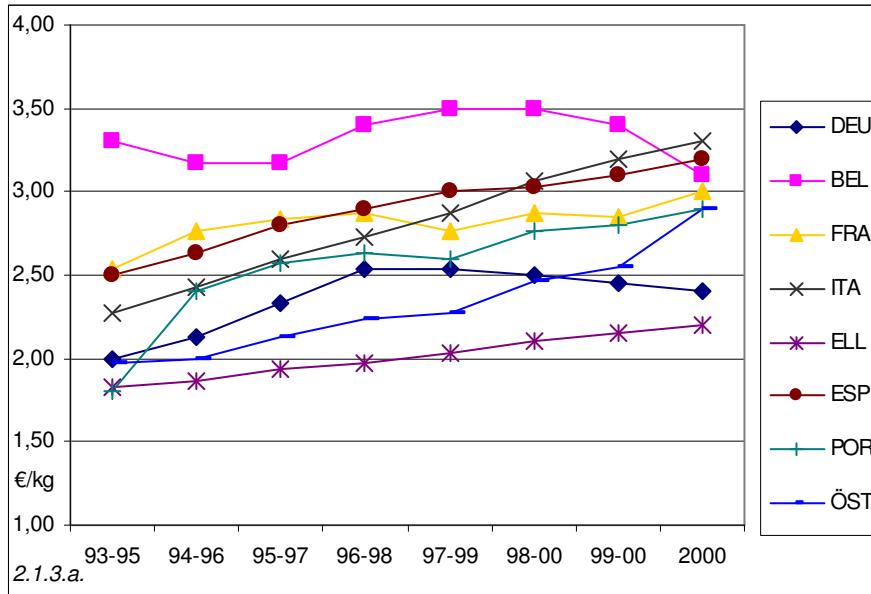
Since the production of these types of tobacco is strongly concentrated in certain regions, the phenomenon mainly concerns Apulia in Italy and the Peloponnese in Greece.

All the data on areas must also be interpreted in the light of the trends in varietal conversion, the cessation of certain types of production and changes in yields.

2.1.3. The trend in agronomic yields of tobacco

Since 1993, there has been a constant and generalised increase in agronomic yields, which increased by 28.6% over the period 1993-2000.

Figure 2.1.3.a: Yields in tonnes/ha per year (moving average)



Source: Communications from the Member States.

Two exceptions can be seen, but these are of minor importance: Belgium (a fall from very high unit yields) and Germany (stable yields).

Three main factors could be responsible for this increase:

1. new, more intensive production techniques have been introduced;
2. varietal conversion towards more productive groups of varieties;
3. the trend towards more performing production structures.

This increase in agronomic yields has been an important feature in European tobacco production in recent years and deserves to be analysed in greater detail.

At national level, Portugal, Italy and Spain are chiefly responsible for this growth in agronomic yields. In Greece, the upward trend in yields has generally been much more modest, probably held back by the widespread cultivation of the traditional aromatic varieties on a large number of small holdings.

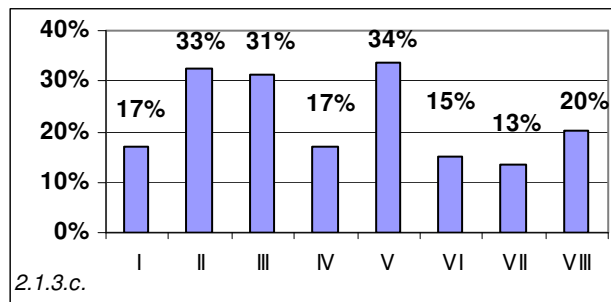
Table 2.1.3.b: Agronomic yield in tonnes/ha

	1993	1994	1995	1996	1997	1998	1999	2000
EU	2	2.1	2.2	2.4	2.5	2.5	2.6	2.7
BEL	3.8	3.1	3	3.4	3.2	3.7	3.7	3.1
DEU	2.1	2	2	2.5	2.5	2.6	2.5	2.4
ELL	1.8	1.8	1.9	1.9	2.1	2	2.1	2.1
ESP	2.3	2.6	2.6	2.7	3.1	2.9	3	3.2
FRA	2.3	2.6	2.8	3	2.7	2.9	2.7	3
ITA	2.2	2.2	2.4	2.7	2.7	2.8	3.1	3.3
ÖST	2	1.9	1.8	2.1	2.2	2.3	2.2	2.9
POR	1	1.9	2.5	2.8	2.4	2.7	2.7	2.9

Source: Directorate-General for Agriculture, Unit D-3, on the basis of the Member States' communications.

Looking at groups of varieties, the rise in yields can be seen in all groups, but to differing degrees.

Figure 2.1.3.c: Increase in yields by group of varieties (1993-2000)



Source: Communications from the Member States.

The increase has been particularly substantial in groups II (+33%), III (+31%) and V (+34%).

For traditional aromatic varieties in Greece, the increase has been more modest, at 13% for group VI (Basmas) and 15% for group VII (Katerini). Group VIII (Kaba Koulak), which rose by 20%, deserves separate mention.

Groups I (Burley) and IV (Kentucky) increased regularly by 17% over the period.

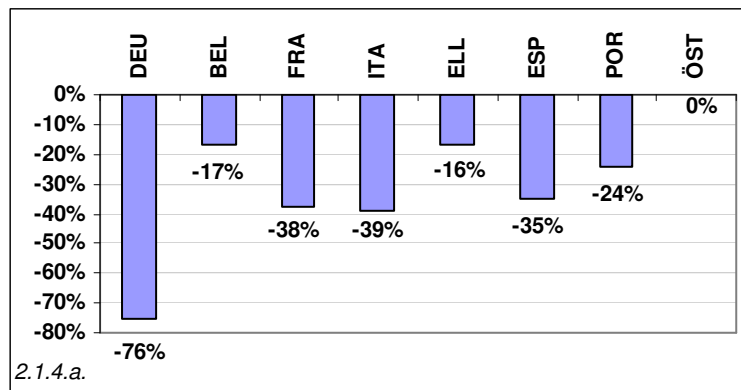
2.1.4. Producers

In 1993 there were around 140 000 tobacco producers. By 2001 their number had fallen to just over 101 000, i.e. a drop of 28%.

This reduction in the number of tobacco growers has been particularly marked in Germany (down 76%), but also very substantial in Italy (-39%), France (-38%) and Spain (-35%).

Of the 39 000 producers who have given up growing tobacco, approximately 29 000 (73%) were Italian or Greek. This reduction has been gradual and regular each year.

Figure 2.1.4.a: Change in the number of producers by Member State (EU 1993-2001)



Source: Communications from the Member States.

In terms of the different groups of varieties, the number of growers producing group I varieties has increased since 1999. The numbers producing all the groups of traditional aromatic varieties in Greece have remained stable. For the other groups, the number of producers has fallen at different rates. For group V (sun-cured) it has dropped by around 40% over the last three years.

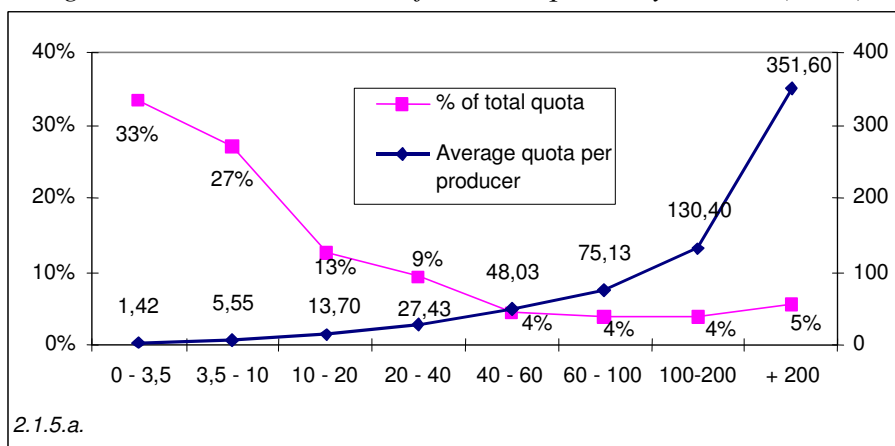
It should be stressed that these changes in the number of producers are closely connected with changes in production, varietal conversion and the concentration of production structures.

It is also interesting to compare the production data with the data on producer numbers. During the 1993 harvest year, production averaged 2.45 tonnes per producer. By 2000 it had increased by 28% to 3.14 tonnes. There has thus been considerable concentration.

2.1.5. Quotas and tobacco production structure

An analysis of the structure of the quotas rather accurately illustrates the situation of tobacco production and shows a substantial difference in production structures, particularly between Member States.

Figure 2.1.5.a: Distribution of tobacco quotas by tranche (2001)



Source: Communications from the Member States.

This difference is evident at the level of the Member States, the regions and the groups of varieties.

2.1.5.1. At the level of the groups of varieties

The average size of the individual production quotas is 3.35 tonnes (2001), i.e. around 1.25 hectares sown to tobacco.

However, this average is not representative because situations vary a great deal depending on a number of factors. It should be noted that the average production quota lies between a minimum of 1.12 tonnes for group VI (Basmás) and a maximum of 10.47 tonnes for group I (flue-cured). These two extremes show that production structures for group I differ markedly from the other groups, in particular groups VI to VIII (traditional aromatic varieties).

Slightly more than 95% of producers hold 61% of quotas, with quantities of about 2.13 tonnes, i.e. the equivalent of less than one hectare under cultivation (0.80 ha).

Slightly more than 3% of producers, who can be described as medium-sized (between 10 and 20 tonnes), hold 12.6% of quotas.

Only 1.7% of producers (1 775 producers) hold 26.8% of quotas (91 127 tonnes). These are the specialised holdings, which chiefly produce Virginia and Burley in groups I and II. On average, these holdings have between 18 ha and 130 ha under tobacco.

2.1.5.2. At the level of the producer Member States

A more general geographical analysis shows large differences between the different Member States. At national level, the average size of quotas ranges from 2.06 tonnes in Greece to 10.97 tonnes in Germany. The contrast is even more marked at regional level. For traditional aromatic varieties in Greece, small producers/holdings account for almost the entire quantity produced.

In Greece the average size of the quota per producer is between 1 and 2 tonnes, i.e. less than one hectare of tobacco per producer. These small production structures are typical for Greece: small producers (with quotas of less than 10 tonnes) account for 98.8% of all Greek producers.

By contrast, a closer look at the structure of production quotas for group I in Italy shows that:

- the average quota is 35.55 tonnes, i.e. approximately 3.5 times the Community average for group I;
- 88% of quotas are held by 547 medium-sized or large producers (39%), i.e. an average of around 79 tonnes, corresponding to 26 ha under tobacco;
- quotas of more than 100 tonnes (33 ha under tobacco) account for half the total quotas.

Figure 2.1.5.2.a: Italy - Structure of quotas - Broken down by % (size of quotas in tonnes)

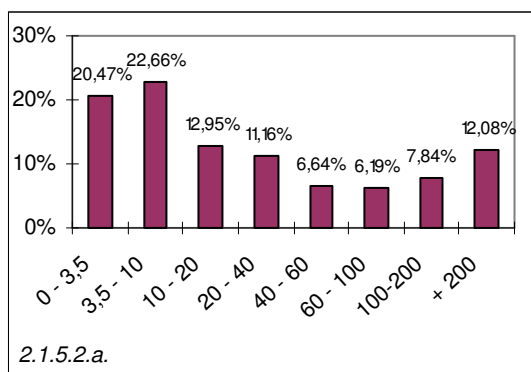
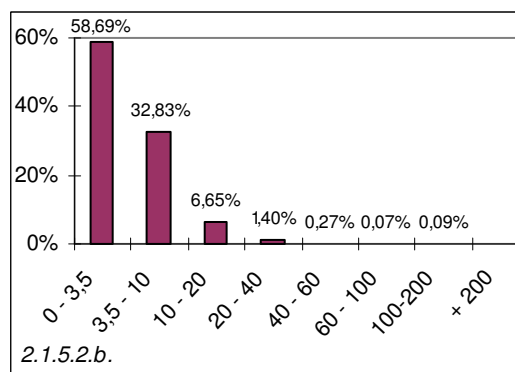


Figure 2.1.5.2.a: Greece - Structure of quotas - Broken down by % (size of quotas in tonnes)



Source: Communications from the Member States.

Furthermore, in Germany, Spain and Portugal, although most quotas are small (61%, 85% and 81%, respectively, average 2.6 to 3.6 tonnes), the number of large quotas is nevertheless above the Community average. Quotas of more than 20 tonnes account for 42% in Spain, 50% in Germany and 78.5% in Portugal.

2.1.5.3. Two structurally different extremes

The above information points to the following considerations:

- tobacco continues to be cultivated by a large number of small producers (99 811, or around 98% of all tobacco producers), in particular for groups VI to VIII, and in Greece;
- a small number of large and medium-sized holdings (1 775, or 1.7%) account for a large share of production (26.8%).

Looking at the current structure of production, the decline in producer numbers and the trends in production of the groups of varieties in certain regions, two structural trends can be identified in the sector:

1. the number of small producers is falling (except in Greece);
2. medium-sized and large producers and specialised holdings are expanding (particularly in Italy).

Community tobacco production seems to be increasingly polarised between two production models which exist side by side and show a regional pattern which depends on land structure and the type of tobacco produced.

The social model of small producers for whom tobacco provides a source of profit for their entire holding can be found in certain production regions, particularly in Greece. This model is specific and unique to certain types of tobacco (traditional aromatic varieties) because of the way they are produced.

A second, more specialised and probably more performing model has developed, which now produces most of the Community's output, in particular for group I. It involves medium-sized or large production structures using a partly seasonal, immigrant workforce rather than family members.

2.1.6. First-processing structures

The number of first processors in the Member States is set out in the table below.

Table 2.1.6: First-processing undertakings

	Number of holdings	Guarantee thresholds (t)**	Average threshold per processing undertaking	Ratio in %
Member State	2001	2001	2001	2001
DEU	4	11 441	2 860	25%
BEL	9	1 625	181	11%
FRA	2	25 815	12 908	50%
ITA	61	131 641	2 158	2%
ELL	33	123 791	3 751	3%
ESP	5	42 145	8 429	20%
POR	3	6 083	2 028	33%
ÖST*	0	576	0	0%
TOTAL	117	343 117	2 933	1%

* Austria: tobacco is processed in Germany.

** Including buy-backs and transfers.

Source: Communications from the Member States.

Looking at the different producer Member States gives a mixed picture at Community level. There are many more undertakings in Italy and Greece than in the other producer Member States.

In Italy and Greece, first processors cover on average 2% to 3% of the guarantee thresholds, while that percentage is much higher in the other Member States. This structure reflects a situation peculiar to Italy and, to a lesser extent, Greece, where the size and processing capacity of the individual undertakings varies widely and there is a large number of small processors.

2.2. Market trends

2.2.1. Prices

2.2.1.1. The general price trend by group of varieties

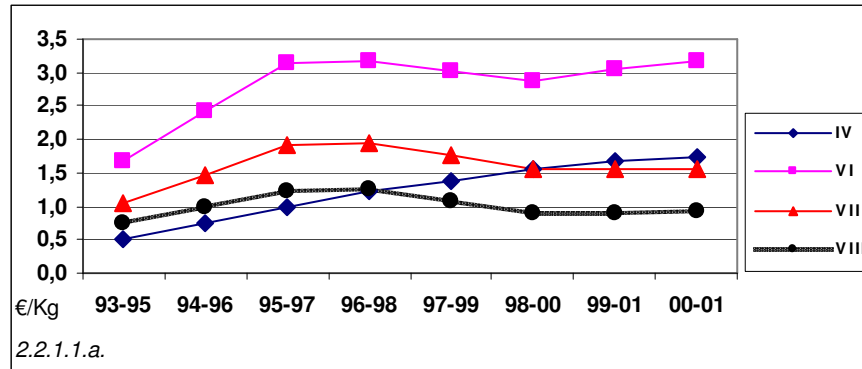
The market prices shown below correspond to the average contract prices paid by first processors to tobacco growers.

There was a general upward trend in prices for all the groups from 1993 to 1996. From 1996, the trends have diverged.

The following graph shows the four groups which are sold at higher market prices, i.e. the Greek traditional aromatic varieties (groups VI, VII and VIII) and fire-cured varieties (group IV).

The prices for tobacco in groups VII and VIII have tended to fall since 1998 but rallied in 2001, while those for group VI (Basmas), which are sold at higher market prices tended to rise until 1997, fell in 1998 and 1999 and have risen again since 2000. Prices for tobacco in group IV have risen steadily.

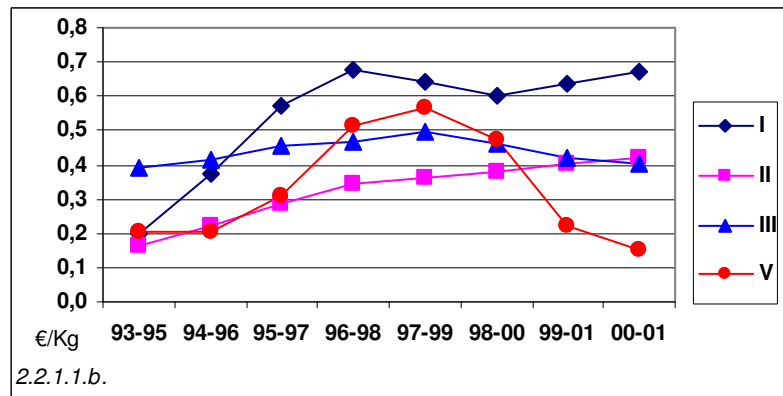
Figure 2.2.1.1.a: EU average prices for groups IV, VI, VII and VIII per year (three-year moving average)



Source: Communications from the Member States.

As far as the other groups are concerned, prices for group I rose between 1993 and 1997, fell in 1998 and 1999, and have rallied again in 2000 and 2001. Prices for group II have risen steadily from 1993 to 2001. The prices for groups III and V, after rising until 1997, have tended to fall since then, particularly group V.

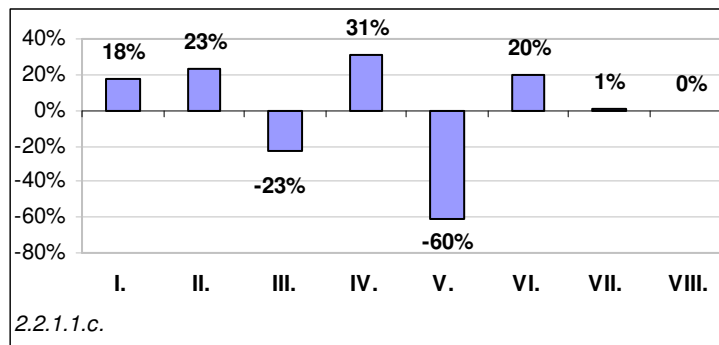
Figure 2.2.1.1.b: EU average prices for groups I, II, III and V per year (three-year moving average)



Source: Communications from the Member States.

An analysis of the variations in price levels shows most strikingly how the prices for group V, output of which has fallen more sharply, have dropped substantially during recent years. This shows the persistent difficulties of selling these types of tobacco on the market.

Figure 2.2.1.1.c: Variation in average prices by group of varieties between 1998 and 2001

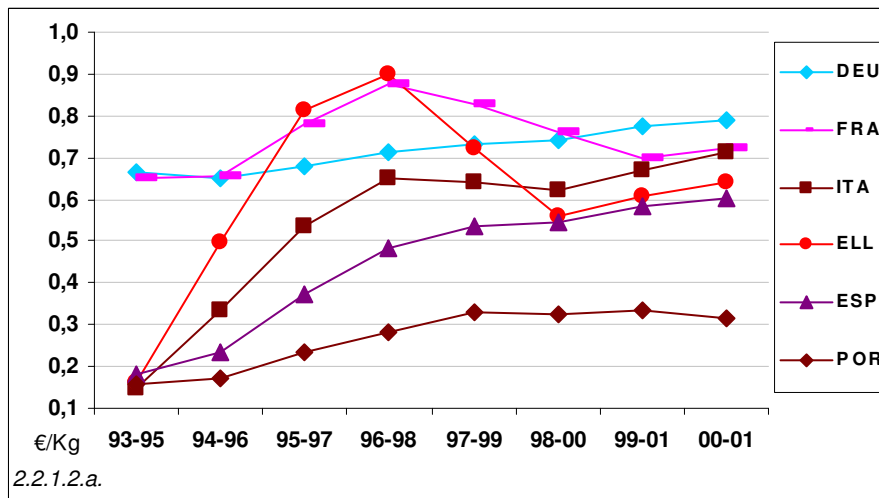


Source: Communications from the Member States.

2.2.1.2. The behaviour of the different groups of varieties in the different Member States

Prices for group I have tended to increase since 1996, except for tobacco produced in France and Greece. Nevertheless, since 1999 the trend in those two countries seems to be turning around. Only Portuguese tobacco seems to have escaped the trend, so that the gap is widening between Portugal and the other producer countries.

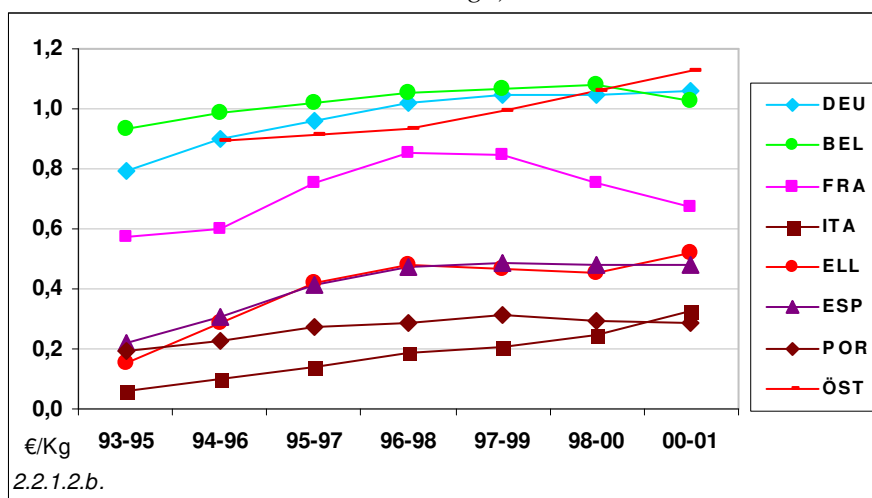
Figure 2.2.1.2.a: Group I - Average prices 1993-2001 per year (three-year moving average)



Source: Communications from the Member States.

Prices for group II tobacco are rising almost everywhere. In certain Member States, where prices were rather low in 1993, the price has doubled (Spain), or even tripled (Italy and Greece). However, there is a persistent gulf between price levels in the northern countries (Germany, Belgium, Austria and, to a lesser extent, France) and the southern countries.

Figure 2.2.1.2.b: Group II - Average prices 1993-2001 per year (three-year moving average)

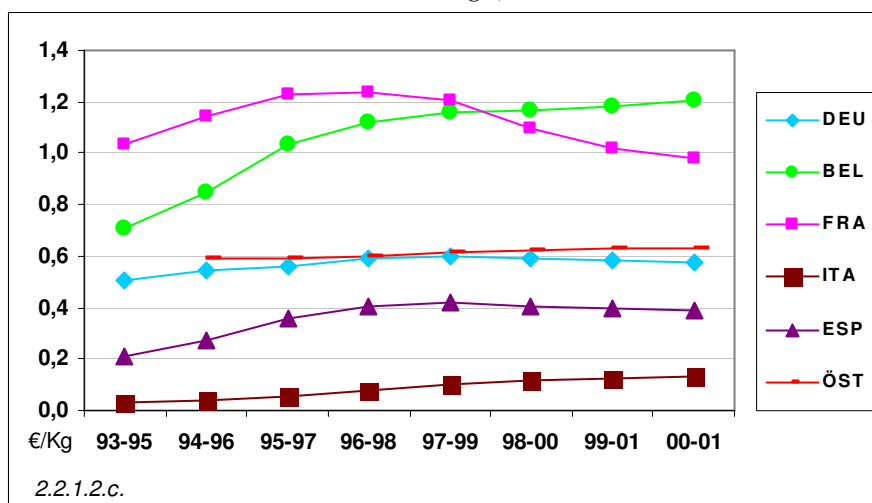


Source: Communications from the Member States.

Prices for group III have fallen in the two main producer countries (Spain and France). This trend is probably due to the constant fall in consumption of cigarettes made from dark tobacco.

The selling prices for dark tobacco in Italy (€0.14/kg in 2001) continue to be much lower than in the other producer countries. These prices reflect structurally low demand.

Figure 2.2.1.2.c: Group III - Average prices 1993-2001 per year (three-year moving average)



Source: Communications from the Member States.

2.2.1.3. The price/premium ratio

There was a sharp improvement in the price/premium ratio between 1993 and 1997, as a result of the rise in prices. That ratio fell from 1998 for most groups of varieties picking up again in 2000, except groups III and V.

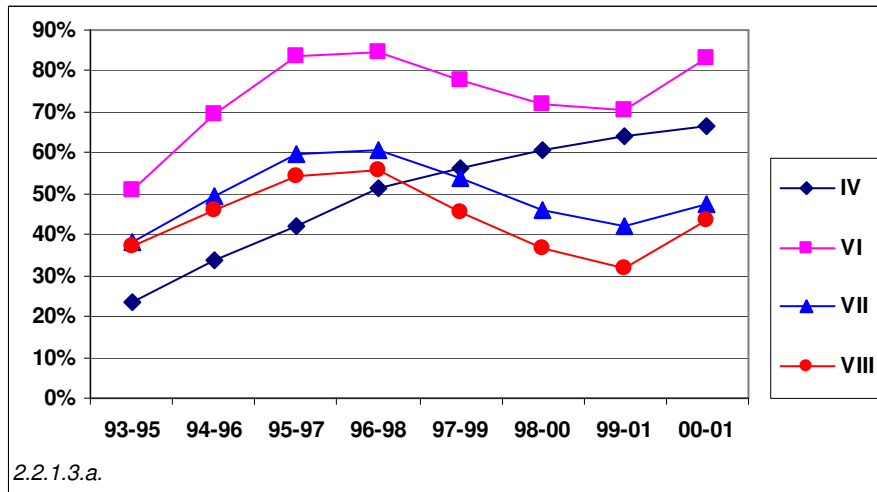
More particularly, the price/premium ratio for the traditional aromatic varieties cultivated in Greece has tended to drop, but started to rise again in 2001. The downward

trend in the price/premium ratio is more marked than the price trend, in particular owing to the increase in the premium in 1995 and 1999.

Changes in the price/premium ratio are shown in the following graphs.

Figure 2.2.1.3.a: Changes in the price/premium ratio for groups IV, VI, VII and VIII

for 1993-2001 (three-year moving average)

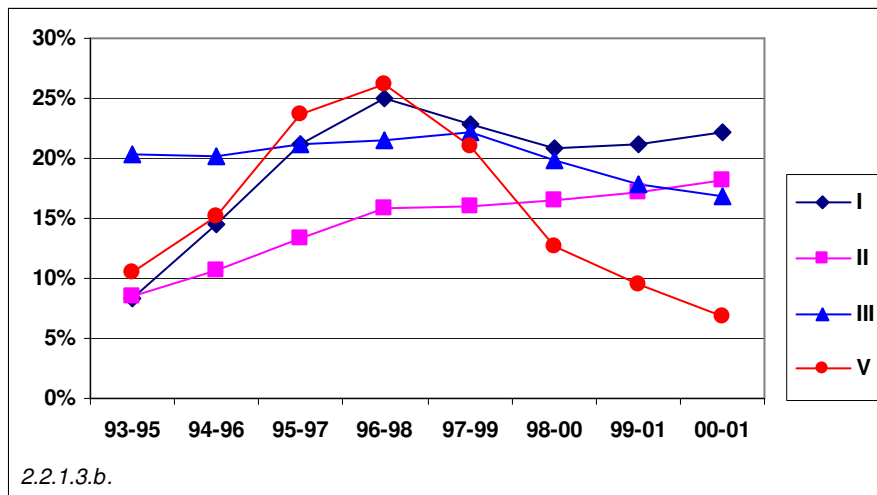


Source: Communications from the Member States.

The collapse of the price/premium ratio for groups III and V is particularly striking, particularly in the past few years.

Figure 2.2.1.3.b: Changes in the price/premium ratio for groups I, II, III, and V

for 1993-2001 (three-year moving average)



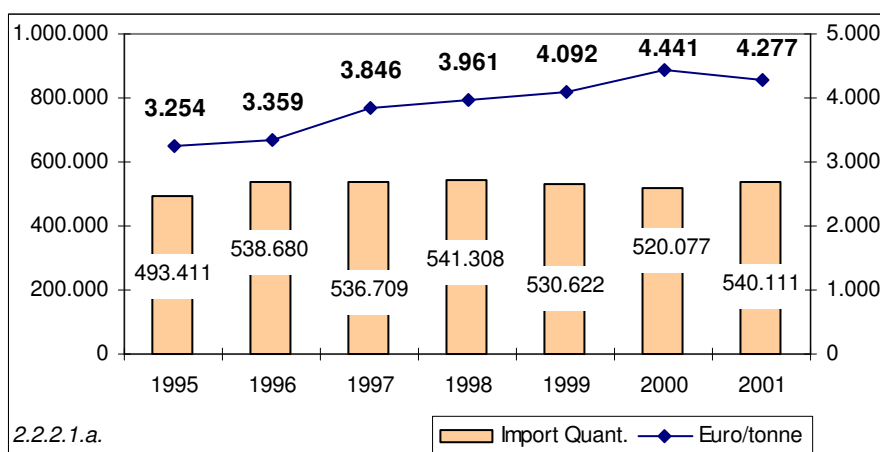
Source: Communications from the Member States.

2.2.2. The trend in trade⁵

2.2.2.1. Imports

The quantities of raw tobacco imported into the Community have been relatively stable since 1996, at between 530 000 and 540 000 tonnes. They represent approximately 1.6 times the quantities produced in the Community.

Figure 2.2.2.1.a: Tobacco imports 1995-2001 (tonnes)



Source: Eurostat, June 2002

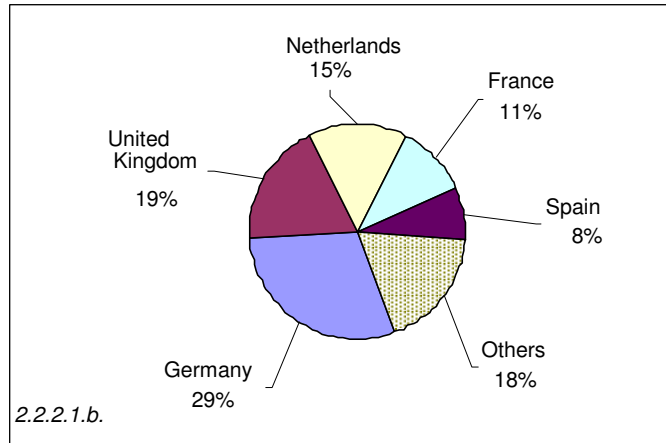
The chief suppliers are Brazil, USA, Zimbabwe, Malawi and Turkey, together accounting for 68% of imports into the Community.

The average value of Community imports increased by 31% from 1995 to 2001, when it amounted to €4 277/tonne. The average values per supplier in 2001 ranged from 2 500 to 3 000 per tonne, with the exception of the United States at €8 000/tonne.

Traditionally, the Member States importing most raw tobacco are Germany (29% in 2001), the United Kingdom (19%), the Netherlands (15%) and France (11%). These four Member States account for almost three-quarters of Community imports. Imports into these four Member States increased from 367 000 tonnes in 1995 to 397 000 tonnes in 2001, i.e. up 8%. These countries are also large manufacturers and exporters of cigarettes.

⁵ The unit values for imports are not comparable with those for exports, in particular because the former are cif and the latter are fob. In terms of quantities, the trade data concern products which might not be at the same processing stage.

Figure 2.2.2.1.b: Distribution of tobacco imports in the Community in 2001

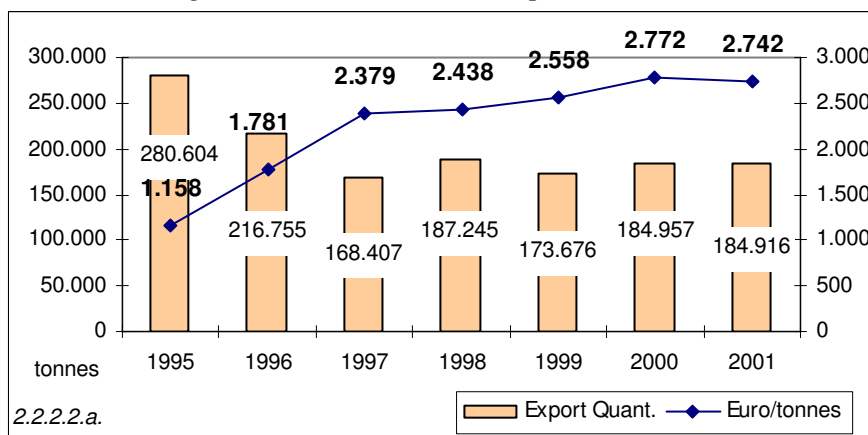


Source: EUROSTAT, June 2002.

2.2.2.2. Exports

The quantities of raw tobacco exported fell by 15% between 1996 (a representative year) and 2001, when they amounted to 184 916 tonnes. They have been stable at around 180 000 tonnes since 1998.

Figure 2.2.2.2.a: Tobacco exports 1995-2001



Source: EUROSTAT, June 2002.

The main destinations are Russia, the United States and Egypt, which account for 41% of all Community tobacco exports. It is also interesting to note that a substantial share of Community exports goes in small quantities to a large number of non-member countries (36% in 2001).

During 1996-2001, the average value of exports increased regularly (up 54% over the period).

Greece exports around 64 000 tonnes of raw tobacco a year to non-member countries, i.e. 34% of Community exports in 2001. In next place comes Italy with 30%.

To conclude the above analysis, it is clear that:

- in quantitative terms, both imports and exports have tended to stabilise during recent years, in particular since the 1998 reform;

- the structure of the chief supplier countries and purchasing countries has not changed radically over time;
- imports have increased in value since 1996, but have been stable since 1999;
- exports have substantially increased in value since 1996.

Lastly, it should be noted that the absence of more detailed information, particularly a breakdown of varieties and product quality, means that it is not possible to give a more detailed analysis or explanation of trade flows.

2.2.3. Stocks

The analysis which follows is based on annual averages of the data provided by the Member States on the stocks recorded as held by first processors. The stocks are composed of products at different stages of processing.

2.2.3.1. Trend in stocks

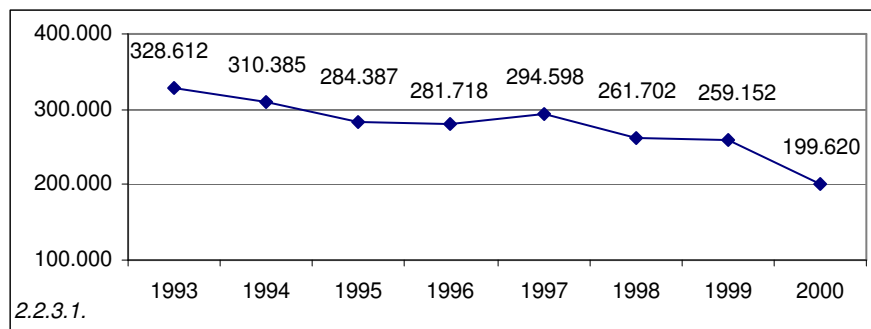
Between 1993 and 2000, overall stocks of all varieties together fell from 328 612 tonnes to 199 620 tonnes, i.e. down 40%.

It is useful to recall at this stage that the guarantee thresholds for 1993 and 2000 stood at 370 000 tonnes and 346 291 tonnes, respectively. The ratio of stocks to guarantee thresholds has thus fallen from 89% to 58%.

The overall reduction in stocks can be seen throughout the period concerned. There has been a series of platforms, but the reduction definitely became more marked between 1999 and 2000, when the 1998 reform entered into force.

Thus, from 1993 to 1999 stocks fell from 328 612 tonnes to 259 152 tonnes, or by about 20%. By contrast, stocks fell by 23% between 1999 and 2000.

Figure 2.2.3.1: Community stocks (in tonnes) - annual averages



Source: Communications from the Member States.

2.2.3.2. Behaviour by group of varieties

The analysis of changes in stocks by group of varieties between 1993 and 2000 shows a number of points worth noting.

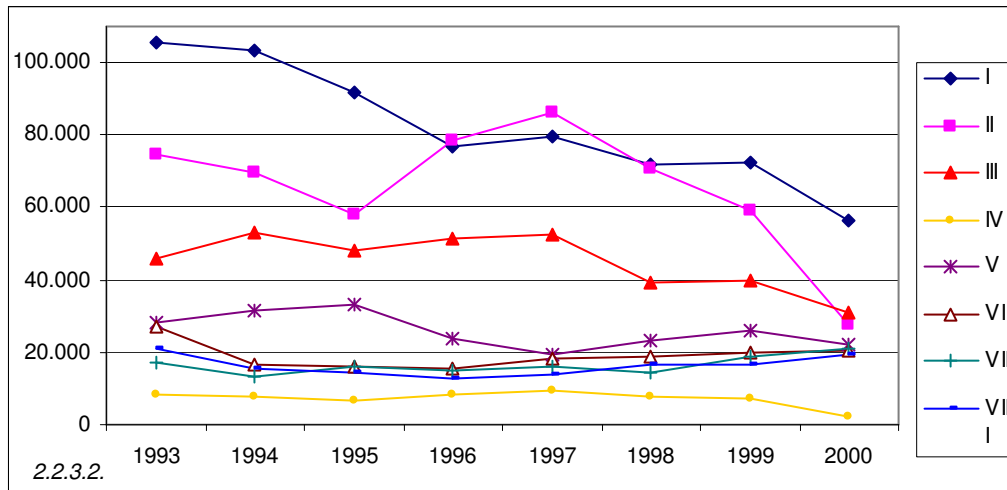
For groups I, II III and IV, despite fluctuations for certain groups during the period, the downward trend was rather marked.

The drop was less substantial for groups V and VI.

For group VII, stocks fell until 1998, but the trend has reversed since 1999.

Finally, the drop in stocks of group VIII has been negligible.

Figure 2.2.3.2: Trend in Community stocks by group of varieties (in tonnes) - annual averages



Source: Communications from the Member States.

2.2.3.3. The stock/threshold ratio

The following table shows a comparison between stocks and the guarantee threshold by group of varieties for 2000.

Generally speaking, stocks remain high in relation to the guarantee thresholds for all groups.

The situation is particularly alarming for group V (sun-cured).

Table 2.2.3.3: Average stocks of raw tobacco in tonnes

Variety	I	II	III	IV	V	VI	VII	VIII	Total
stock	56 196	27 146	30 932	2 080	22 379	20 667	20 852	19 099	199 620
threshold	126 932	76 029	43 373	6 993	21 077	26 330	24 770	20 788	346 292
Stock/threshold ratio	44%	36%	71%	30%	106%	78%	84%	92%	58%

* 2000 thresholds adjusted to take account of the quantities definitively bought back and transfers between groups of varieties.

Source: Member States' communications and Community legislation.

3. IMPLEMENTATION OF THE MARKET ORGANISATION

3.1. Transfers of quantities inside the national threshold

Article 9(4) of the framework Regulation on the market organisation for tobacco (Regulation (EEC) No 2075/92) allows the Commission to authorise the Member States to transfer quantities from one group of varieties to another inside the national guarantee threshold. Such transfers must not have an impact on the budget. Moreover, a reduction of one tonne in the threshold quantity for a group should not give rise to an increase of more than one tonne in the threshold of the group receiving the transfer.

Transfers have had a considerable impact on changing the production profile of the groups and have been the basic mechanism for varietal conversion.

The transfer mechanism has made it possible to reduce the production of types of tobacco which are hard to sell on the market and increase the production, in particular, of types with better market prospects. More specifically, transfers have made it possible to align the production of groups III, V and VIII on demand, bringing it down by 21.4%, 20.6% and 19.3%, respectively, through transfers to groups I and II, in particular.

Operation of the mechanism has resulted in residual losses of around 0.8% of the overall Community threshold.

Table 3.1.a: Impact of transfers on the guarantee threshold

	Thresholds in 2001	2001 threshold + transfers	% change
I	127 430	135 897	6.6%
II	76 132	82 388	8.2%
III	43 510	34 204	-21.4%
IV	6 995	6 319	-9.7%
V	21 100	16 760	-20.6%
VI	26 330	27 250	3.5%
VII	24 770	24 635	-0.5%
VIII	20 788	16 780	-19.3%
Total	347 055	344 233	-0.8%

Source: Commission Regulations (EC) Nos 601/2001 and 1032/2001.

Table 3.1.b: Quantities lost as a result of transfers

Member State	2001 threshold	2001 thresholds + transfers	% change
ITA	131 965	131 911	-0.04%
ELL	125 688	123 791	-1.51%
ESP	42 300	42 145	-0.37%
POR	6 700	6 700	
FRA	26 348	25 815	-2.02%
DEU	11 625	11 441	-1.58%
BEL	1 853	1 853	
ÖST	576	576	
EU	347 055	344 233	-0.81%

Source: Commission Regulations (EC) Nos 601/2001 and 1032/2001.

3.2. Modulation of the premium

3.2.1. Introduction of the modulated premium

Modulating the premium was the most innovative measure introduced into the market organisation for raw tobacco in 1998. The so-called 'variable' part of the premium represents between 20% and 35% of the total premium, depending on the group of varieties and the Member State. The modulation mechanism, applied to each producer group, ensures that the variable part of the premium is distributed according to the price obtained on delivery. Any part of production which sells at a market price lower than the minimum price plus 40% is ineligible for the variable part of the premium.

The measure has been in force since the 1999 marketing year and the data currently available relates to production in 1999 and 2000.

The mechanism is particularly complicated to implement, and this is done by the producer groups under the responsibility of the national authorities. The system experienced teething troubles at the outset but it now seems to be running smoothly.

The Member States have provided an exhaustive database containing information on each producer. Subsequent checks should be made on certain Member States with regard to a few more specific situations. These cases are of minor scope and do not affect the effectiveness of the system.

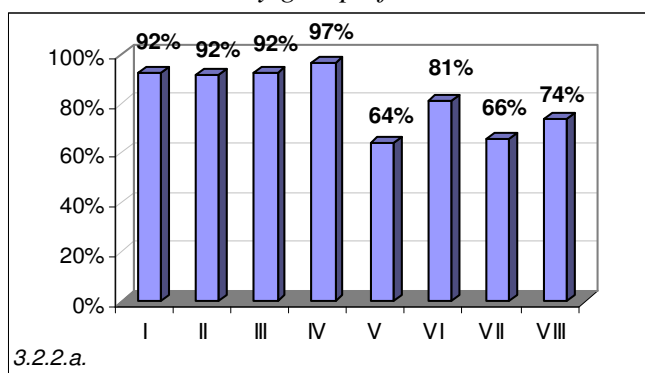
The following comments are based on the data for the 2000 marketing year.

The variable part of the premium has been distributed differently according to the group and the producer Member State, and sometimes according to the producer group. Differentiated analysis is needed.

3.2.2. Quantities eligible for the variable part of the premium

As regards the quantities qualifying for the variable part of the premium, the overall situation at Community level is as follows:

Figure 3.2.2.a: EU - 2000 harvest: Quantity of raw tobacco with variable premium by group of varieties



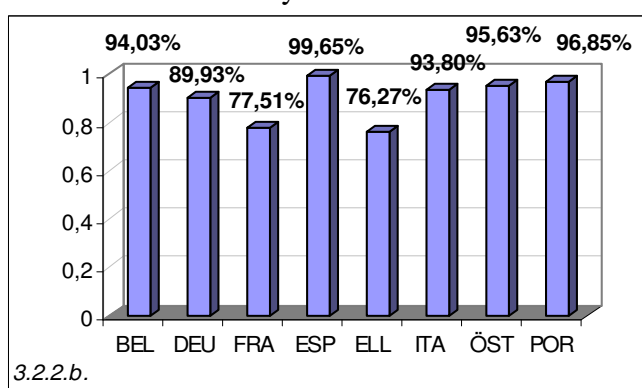
Source: Communications from the Member States.

The graph shows that the variable part of the premium was granted to 92% of production in groups I to III and 97% in group IV.

The percentage of quantities in groups V to VIII receiving the variable part of the premium was appreciably lower, ranging from 64% to 81%. This lower percentage is mainly due to how the modulation arrangements are applied in Greece, which is dealt with below.

At Community level, it is useful to stress the differences between the Member States, as shown in the following table.

Figure 3.2.2.b: EU - 2000 harvest: Quantity of raw tobacco with variable premium by Member State



Source: Communications from the Member States.

In France and Greece (where there are strong variations between the different groups of varieties), the percentage of quantities eligible for the variable part of the premium was lower (78% and 76% respectively) than in the other producer Member States, which were all above 90%.

It should also be noted that 99.7% of Spanish production qualified for the variable part of the premium.

3.2.3. Distribution of the variable premium

It is important to analyse the impact of the variable part of the premium on the total premium received by group of varieties. This involves observing the percentage of

quantities above and below the average total premium within each group by increments of $\pm 5\%$.

At Community level, between 70% and 80% of quantities qualifying for the variable part of the premium in groups I, II, III, V, VII and VIII received a total premium within the $\pm 5\%$ margin above and below the average premium for each of the groups concerned. Less than 3% of quantities received a premium more than 15% higher or lower than the average premium.

Table 3.2.3: EU - Distribution of quantities delivered (in %) - Divergence from the average premium

	I	II	III	IV	V	VI	VII	VIII
+/- 5%	77%	80%	78%	59%	70%	94%	73%	78%
from 5% to 10%	16%	14%	15%	26%	11%	6%	22%	15%
from 10% to 15%	5%	3%	4%	11%	12%	0%	3%	6%
more than 15%	1%	3%	3%	5%	7%	0%	1%	0%

Source: Communications from the Member States.

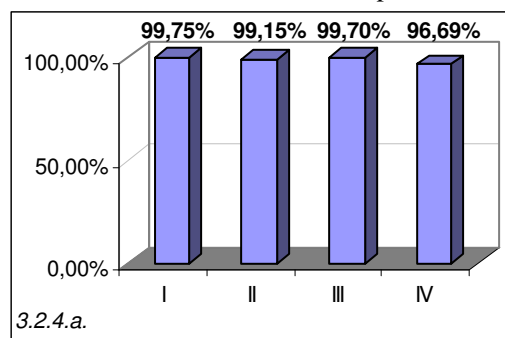
A comparison within each group of varieties and by Member State can reveal more interesting details.

3.2.4. Modulation at Member State level

In more detail, there are considerable differences at the level of the Member States and groups of varieties. This section deals with the four main producer Member States.

In Spain, almost the entire quantity qualified for the variable part of the premium (around 96.7% to 99.8%).

Figure 3.2.4.a: SPAIN - 2000 harvest: quantity of raw tobacco delivered with the variable premium



Source: Communications from the Member States.

Regarding the distribution of the variable part of the premium in Spain, between 94% (group III) and 99% (group II) of quantities qualified for a premium in the $\pm 5\%$ margin of divergence from the average premium. This shows a high degree of similarity in the commercial prices paid to producers, so that modulation of the premium fell within a very narrow range.

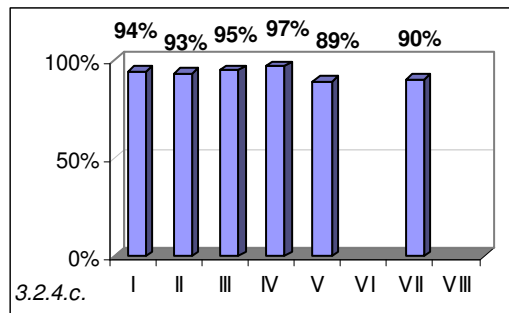
Table 3.2.4.b: SPAIN - Distribution of delivered quantities (in %) - Divergence from the average premium

	I	II	III	IV
+/- 5%	97%	99%	94%	85%
from 5% to 10%	3%	1%	5%	15%
from 10% to 15%	0%	0%	1%	0%
more than 15%	0%	0%	0%	0%

Source: Communications from the Member States.

In Italy, the quantities qualifying for the premium were similar and very high for groups I to IV (from 94% to 97%), while the percentage was appreciably lower for group V (89%).

Figure 3.2.4.a: ITALY - 2000 harvest: quantity of raw tobacco delivered with the variable premium



Source: Communications from the Member States.

In Italy, the range in the variable part of the premium was wider than in Spain, in particular for groups I and IV.

Table 3.2.4.d: ITALY - Distribution of delivered quantities (in %) - Divergence from the average premium

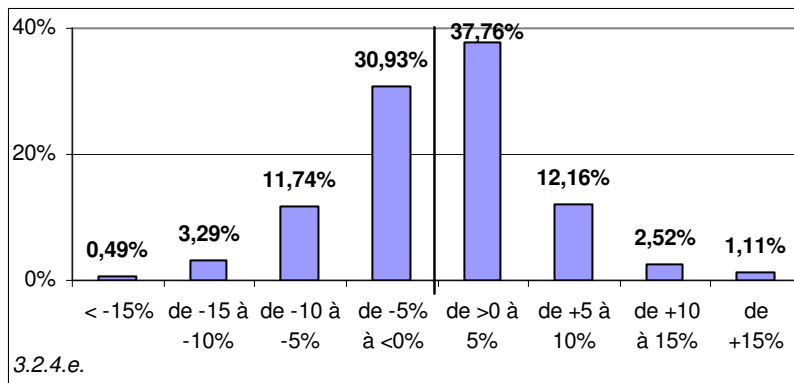
	I	II	III	IV	V	VII
+/- 5%	69%	81%	82%	59%	85%	95%
from 5% to 10%	24%	16%	14%	26%	12%	5%
from 10% to 15%	6%	2%	3%	11%	2%	0%
more than 15%	2%	1%	1%	5%	1%	0%

Source: Communications from the Member States.

Between 59% and 85% of quantities were in the $\pm 5\%$ divergence margin (group VII is not representative owing to the small quantities involved).

As an illustration, the following graph shows the distribution for group I, the largest group in Italy.

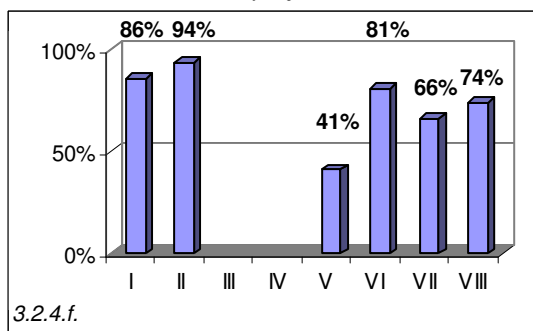
Figure 3.2.4.e: ITALY - 2000 harvest: distribution of the quantities delivered according to the modulation of the premium (average) for group I



Source: Communications from the Member States.

In Greece, the difference between groups is very marked. The percentage of the total quantity eligible for the premium that also qualified for the variable part was 86% for group I and 94% for group II. These percentages were lower for groups VI to VIII, and particularly low for group V - sun-cured (41%). In general (except for group II), the quantities qualifying for the variable part of the premium were smaller than in the other producer Member States.

Figure 3.2.4.f: GREECE - Quantity of raw tobacco delivered with the variable premium



Source: Communications from the Member States.

As for the distribution of the variable part of the premium, most of the quantities in groups I, II and VI (89%, 99% and 94%, respectively) received a premium close to the average (within the +5% divergence margin). Distribution of the premium for group V was more widely spread, with only 56% of quantities falling within the +5% divergence margin.

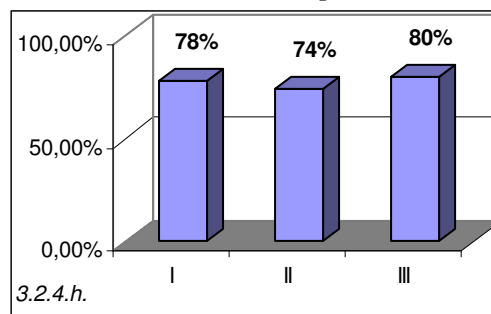
Table 3.2.4.g: GREECE - Distribution of delivered quantities (in %) -Divergence from the average premium

	I	II	V	VI	VII	VIII
+/- 5%	89%	99%	56%	94%	73%	78%
from 5% to 10%	7%	1%	11%	6%	22%	15%
from 10% to 15%	4%	0%	21%	0%	3%	6%
more than 15%	0%	0%	12%	0%	1%	0%

Source: Communications from the Member States.

In France, the quantities qualifying for the variable part were smaller, from 74% to 80%, depending on the group of varieties.

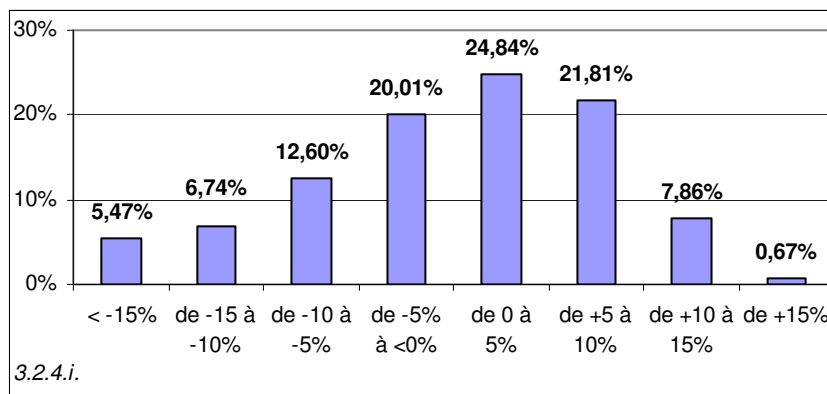
Figure 3.2.4.h: FRANCE - Quantity of raw tobacco delivered with the variable premium



Source: Communications from the Member States.

The distribution of the variable part of the premium diverged widely from the average premium. Only 35% to 45% of quantities received a premium close to the average (+5%), and from 6% to 21% of quantities received a premium diverging by more than 15% from the average. This finding is borne out by group I, the most produced group in France.

Figure 3.2.4.i: FRANCE - 2000 harvest: distribution of the quantities delivered according to the modulation of the premium for group I



Source: Communications from the Member States.

On the whole, use of the modulation mechanism produced rather varied results but, with some exceptions, it can be concluded that modulation was kept within very narrow divergence margins.

3.3. The national reserve

For 1999, 2000 and 2001, the Member States created a national quota reserve for each group of varieties. The purpose of this reserve is to encourage producers to switch to other activities and facilitate the restructuring of holdings.

3.3.1. Operation

3.3.1.1. Stocking the reserve

The Member States have to apply an across-the-board reduction to all the quotas allotted to producers. This reduction can range from 0.5% to 2% of the guarantee threshold. France, Portugal and Belgium applied the maximum rate of 2%. The other producer countries opted for the minimum rate of 0.5%.

The Member States may also apply an across-the-board reduction of up to 2% of definitively transferred quotas. Only Spain availed itself of this option.

Quotas not used to conclude contracts can also be put into the national reserve. Italy, Spain, France and Germany made use of this possibility.

3.3.1.2. Distribution of the reserve

The national reserve is distributed on the basis of objective criteria determined by the authorities of the Member States. Recipients can be existing tobacco growers or those who wish to start in the sector.

The Member States fixed the following distribution criteria:

Italy: Priority is given to new producers. Any remaining quantities are distributed proportionately to the producer groups, who pass them on to the individual producers.

Quantities are distributed among the producer groups concerned in proportion to their size.

Lastly, the producer groups distribute their quantities among the producers, using criteria relating to rationalisation of holdings.

Greece: the available quantity is distributed to categories of producers according to evaluation criteria giving priority to young farmers who received assistance under the "new farmers" scheme in 1998 and 1999, farmers with large families, repatriated persons wishing to become tobacco producers, young farmers aged between 23 and 40 and older farmers aged between 41 and 55 years, in that order. In addition, those qualifying to receive quantities from the reserve can receive priority points to increase their chances of success if they live in mountain areas, are married and have children.

Spain: each Autonomous Community distributes the national reserve within the limits of its contribution to stocking it. Recipients are producers with an overall quota of less than 10 tonnes, and public bodies. The following categories may also receive quantities,

provided that their quota does not exceed 65 tonnes, in the following order of priority: young farmers belonging to associations, young farmers who have never grown tobacco, farmers having farming as their main activity and located in less-favoured areas and tobacco growers belonging to a group who have not previously received a quota allocation from the national reserve.

France: the reserve is shared among new producers and, if any quantities remain, among producers whose quota for other groups of varieties has been reduced or who have undertaken to rationalise and/or restructure their production.

Portugal: Priority is given to recent new producers, farmers who wish to become tobacco producers and traditional producers who wish to increase their quota.

Germany: Recipients are producers wishing to increase their quota and producers having who have started growing tobacco since 1992.

Belgium: The national reserve is distributed first between new producers, on the basis of a draft contract with a first processor. Any remaining quantities are distributed to traditional producers, on the basis of the same criterion.

Austria: The reserve is distributed first of all among new producers.

3.3.2. Results

When the national reserve was implemented, the main producer Member States opted for the lowest rate (0.5%) for stocking the reserve. This has prevented a significant quantity of quotas from being mobilised.

Regarding the distribution of the available quantities, the criteria defined for distribution, and in particular the broad range of eligible recipients in certain Member States, has probably led to a dispersal of the quantities, reduced the effectiveness of the measure and entailed great administrative effort on the part of the national authorities.

Consequently, in certain Member States, in particular the largest producers, the measure has not had sufficient impact on the conversion of producers and restructuring of holdings.

For this reason, when the Council adopted Regulation (EC) No 546/2002, it decided to make the creation of the national reserve optional for Member States from 2002.

3.4. Quota buy-back

3.4.1. The buy-back programme

The 1998 reform of the market organisation introduced a mechanism for buying back quotas from producers deciding to leave the sector. The buy-back of quotas entails a definitive reduction in the guarantee threshold. The Council has empowered the Commission to define how the programme will work, and in particular to fix the buy-back price.

Operation of the buy-back programme:

Producers who wish to participate in the programme put their quotas up for sale. Other producers belonging to the same group have priority over other producers in the Member State to buy these quantities. The remaining quantities are definitively bought back by the Commission and the national threshold is reduced commensurately.

3.4.2. Buy-back price

For the 1999 and 2000 marketing years, the annual amount of the buy-back price was equivalent to 25% of the annual premium in force for the 1998 harvest and was paid during the three harvests following that in which the quota was bought back.

In July 2001⁶, in view of the small quantity of quotas bought back and the serious difficulties in marketing tobacco in group V, the Commission decided to increase the buy-back price. It was fixed as follows:

- for group V, an amount equivalent to 75% of the premium is paid in the first year, 75% in the second and 50% in the third;
- for the other groups, an amount equivalent to 25% of the premium is paid each year for three years.

3.4.3. Results

Between 1999 and 2001, very modest quotas (totalling 1 116 tonnes, or 0.3% of the Community guarantee threshold) were definitively bought back.

Regarding the distribution by Member State, significant quantities of quotas in relation to the production thresholds were definitively bought back in Belgium and Portugal only. In Greece, large quantities were put up for sale, but they were bought by other producers.

⁶ Commission Regulation (EC) No 1441/2001.

Table 3.4.3.a: Results of the buy-back programme by Member State (1999, 2000 and 2001)

Member State	Number of producers	Quantities put up for sale (tonnes)	Quantities definitively bought back (tonnes)	% of quantities put up for sale that were definitively bought back	% of the guarantee threshold definitively bought back
BEL	46	233	228	98%	12.3%
DEU	32	142	0	0%	0%
ELL	3 391	4 418	0	0%	0%
ESP	-	-	-	-	-
FRA	-	-	-	-	-
ITA	102	300	271	90%	0.2%
ÖST	79	576	0	0%	0
POR	95	1 437	617	43%	9.2%
EU	3 745	7 106	1 116	16%	0.3%

Source: Communications from the Member States.

Concerning group V specifically, increasing the buy-back price in 2001 resulted in quotas in this group being bought back for the first time (224 tonnes), but the quantities concerned were insignificant.

Table 3.4.3.b: Results of the buy-back programme by group of varieties (1999, 2000 and 2001)

Group of varieties	Number of producers	Quantities put up for sale (tonnes)	Quantities definitively bought back (tonnes)	% of quantities put up for sale that were definitively bought back	% of the guarantee threshold definitively bought back
I	73	1 477	504	34%	0.4%
II	173	773	159	21%	0.2%
III	67	366	204	56%	1%
IV	5	17	3	17%	0.05%
V	1 489	2 483	245	10%	1.5%
VI	577	520	0	0%	0%
VII	82	87	0	0%	0%
VIII	1 279	1 382	0	0%	0.0%
Total	3 745	7 106	1 116	16%	0.3%

Source: Communications from the Member States.

Nevertheless, it must be noted that the buy-back programme has enabled 3 745 producers to give up producing tobacco in the Community. Moreover, although the quantities definitively bought back are still modest, in Greece the buy-back programme and the transfers combined have contributed to the conversion of 2 480 tonnes of tobacco in group V to other groups of varieties.

3.5. Specific aid

The specific aid is equal to 2% of the premium. It is granted to producer groups for the purpose of financing, inter alia:

- technical assistance to producers to improve quality and respect for the environment,
- the provision of certified seeds and plants to producers,
- environmental protection measures,
- infrastructure measures to enhance the value of the product,
- the employment of administrative staff to administer the premium within the producer group.

An analysis of how the specific aid is used by the different producer groups requires a very detailed quantitative and qualitative evaluation.

The Commission will be asking the Member States to collect and forward the data.

The effectiveness of the specific aid will be assessed as part of the current evaluation procedure and the results should be available before the end of the year.

3.6. Transfers

Production quotas may be transferred, in full or in part, between individual producers, either temporarily or definitively, under Article 33 of Regulation (EC) No 2848/98.

This mechanism has been used by producers to transfer quantities amounting to 5% of the total Community production threshold. The vast majority of transfers have been definitive. Temporary transfers have been very limited, representing only 4% of the total quantities transferred.

As regards the breakdown by Member State, the only country which largely exceeds the Community average is Italy, where 11% of quotas have been transferred between producers, with particularly high percentages for groups I (15%) and V (10%). Although much smaller than the Italian transfers, significant quantities of quotas have been transferred in France (3%) and Belgium (4%), in particular for group III. In Spain, only quotas in group III have been transferred between producers in large quantities (1 216 tonnes).

Table 3.6.a: Quantities of tobacco transferred by Member State from 1999 to 2001 (tonnes)

Member State	Temporary transfer	Definitive transfer	Total	% of guarantee threshold
BEL	214	0.2	214	4%
DEU	0	412	412	1%
ELL	551	1 022	1 573	0.4%
ESP	19	2 566	2 585	2%
FRA	0	2 553	2 553	3%
ITA	1 193	40 452	41 645	11%
ÖST	-	-	0	0%
POR	49	174	223	1%
EU	2 026	47 180	49 205	5%

Source: Communications from the Member States.

As regards the different groups of varieties, similar percentages of the overall threshold have been transferred in groups I to V. By contrast, transfers between producers of the traditional aromatic varieties cultivated in Greece have been marginal.

Table 3.6.b: Quantities transferred (tonnes) from 1999 to 2001 by group of varieties

Group of varieties	Temporary transfer	Definitive transfer	Total	% of guarantee threshold
I	335	23 676	23 797	6%
II	283	13 643	13 926	6%
III	332	5 787	6 119	5%
IV	14	1 096	1 110	5%
V	850	2 442	3 291	5%
VI	239	307	546	1%
VII	56	156	212	0%
VIII	131	72	203	0%
EU	2 026	47 180	49 205	5%

Source: Communications from the Member States.

3.7. The Tobacco Fund

1. Since the Tobacco Fund was set up following the 1992 reform, three tendering procedures have been initiated, in 1994, 1996 and 2001.

In this context, the Fund has financed:

- nine research projects managed by the Directorate-General for Agriculture on steering production towards less harmful varieties;
- 19 information projects managed by the Directorate-General for Health and Consumer Protection to improve knowledge of the harmful effects of tobacco and about preventive and curative measures.

The last project selected in 2001 is a campaign to prevent nicotine addiction, targeting adolescents.

2. The Community's total financial contribution to the 28 projects described above amounts to €43.8 million, broken down as follows:
 - €12.4 million for the research projects, and
 - €31.4 million for the information projects.
3. Most of these projects are still being implemented. Three of the nine research projects have been completed.

In view of the above, it appears rather difficult at this stage to make an exhaustive assessment of the actual implementation of these projects and their impact on tobacco production and consumption.

ANNEXES

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