

Reform Proposal for Tobacco Common Market Organization

The contents of the Commission's proposal

The EU Commission intends proposing a reform of the tobacco Common Market Organization (CMO) to the Council of Ministers that is based on the following instruments:

- Total decoupling of subsidies to tobacco, which would be paid to the producers on the basis of the subsidies received in the three-year period 2000-01-02, including them into the Single Farm Payment, and therefore independently of the production.
- Reduction of the size of the decoupled aid (20% for individual production between 3.5 and 10 tonnes; 66% for individual production over 10 tonnes). These withholdings would flow into a Restructuring Fund (or more likely they would be added to the already existing structural funds) and should be used for creating alternative income and occupational sources in the tobacco-growing areas.
- Application of decoupling, for individual production over 10 tonnes, in three successive steps, maintaining a limited coupling in the first two steps.

The effects of the Commission's proposal

Why the proposal is socially unacceptable

According to the so-called “Extended Impact Assessment”, prepared by the Commission, the effect of the reform will be the abandon of tobacco growing in all the production areas (with the only exception, perhaps, of the classical Greek Orientals).¹

Even while indicating an unrealistic doubling of commercial prices, the simulations carried out by the Commission do in fact foresee that no grower will find it expedient to sustain the production costs of tobacco and face the connected risks, but will prefer to abandon the crop or change to other production. The production indicated as an alternative (for example in Umbria) is durum wheat. At no stage did the “Extended Impact Assessment” seem to be concerned about the consequences for the producers currently involved in durum wheat of the arrival on the market of competitors who

¹ “The results of the analysis show that, except for Greece, and in particular Makedonia-Thraki, FFI from tobacco production would drop, making the continued production of tobacco the least attractive choice for the farmer. Tobacco therefore would be largely abandoned as a crop.” *EU Commission; “Tobacco – Extended Impact assessment”; page 30*

will be able (thanks to the very high decoupled aid) to upset the balance of prices and of the demand-offer ².

The dramatic impact on employment (due to the very high occupation value of tobacco with respect to every other farm production) is cynically taken for granted by the Commission ³.

No one is obviously able to guarantee for how long the current agricultural employees and those of the first processing will have to wait, as unemployed, for the restructuring projects to have some effect. The resources that are theoretically available with respect to the number of new unemployed appear to be paltry and very far from the investment cost per work place experienced in recent situations. The fact that these funds would be available in numerous limited annual instalments (inasmuch as funded bit by bit with withholdings on the subsidies of the middle-sized and large producers) will certainly not help to make them effective.

Basically, in order to eliminate tobacco for “ideological” reasons, the Commission has prepared a proposal that will cause a high level of unemployment in many areas that are very sensitive from a social and economic viewpoint.

Nor does the so-called “step-wise approach” serve to render the impact less dramatic. In the first place, the partial coupling of the first two steps only affects the production over 100 tonnes and therefore it is completely indifferent for the small and middle-sized producers (who in Italy cover over 90% of farms and 50% of the production). In the second place, simulations carried out show that the level of coupling (even in the first step) is not such as to induce many producers to continue to produce.

Actually, even the gradual introduction of total decoupling will have immediate negative effects on employment.

Furthermore, the Commission’s experts did not take into consideration two other effects that will render the foreseen step-by-step proposal completely useless. On the one hand the processing industry will find that it has to count on reduced volumes and its costs will rise immediately. In the second place, the manufacturing customers of European tobacco, interested in stable supply sources that continue over time, will

² In Umbria presently around 20,000 hectares are planted with durum wheat. The reconversion to this crop of 9,000 hectares presently used for tobacco production will inevitably create a severe market disruption.

³ “The decoupled payments would maintain the family labour but a large part of the non-family labour would not be retained. Concerning employment in the first processing industry, some jobs could be lost temporarily while waiting for the positive effects of the Restructuring Envelope.” *EU Commission; “Tobacco – Extended Impact assessment”*; page 32

cut their purchases in Europe at once, replacing them with tobacco produced in non-EU countries.

From this point of view, **the Commission's proposal is without any doubt socially unacceptable.**

An institutionally improper proposal

The Commission seem to base its proposal from two institutional strong points:

- The discussion on sustainable development that took place at the European Council of Göteborg in June 2001 ⁴,
- The Luxembourg compromise of June 26, 2003 on the reform of the Common Agricultural Policy (PAC) ⁵.

It seems clear that the Commission provides a totally improper interpretation of the results of Göteborg, referring to discussions that would have taken place and their context: it is sufficient to recall in this respect that even the juridical services of the Council denied that any decision against tobacco was ever made in Göteborg ⁶. Nor does the Commission seem to consider at all the vote in favour of continuing tobacco production in Europe, expressed with a large majority by the European Parliament and by the European Economic and Social Committee, during the discussions on Reg. 546/02 of March 25, 2002.

But it is above all in the second case that the Commission proposal on tobacco seems to seriously betray the spirit and letter of compromise achieved by the Council. In fact not one of the three conditions laid down by the Council is respected:

⁴ "The future of the tobacco regime was last touched upon at the Göteborg European Council in May 2001 (*should read June 2001*), in the context of the EU's strategy for sustainable development. Although the Council held back from adopting any specific conclusions on tobacco it was evident from the discussions, and the context in which they took place, that certain reservations exist about the sustainability of the EU tobacco sector. Doubts were voiced over the social justification for product-related subsidies to tobacco growers, the apparent contradiction between those aids and society's concerns about smoking. The long-term viability of tobacco production as an economic activity was itself called into question." *EU Commission; "Tobacco – Extended Impact assessment"*; page 4

⁵ "The Commission will provide a long term policy perspective for these sectors [olive oil, tobacco and cotton] in line with their present budgetary envelope and the new framework for agricultural expenditure agreed at the Brussels European Council in October 2002. The reform for these sectors will be based on the objectives and the approach of the current reform [of CAP]". *European Council – 10961/03 of June 30, 2003; page 17*

⁶ *European Council – 7003/02 of March 8, 2002*

- it is obviously not a proposal that guarantees the production of tobacco in the long term, rather it is brutally eliminated;
- it is not a process that guarantees the financial “envelope”, since a large part of the subsidies is diverted from agriculture towards unidentified alternative sources of income;
- nor does the decoupling proposal itself respond fully to the general indications of the CAP reform (which, on the contrary sees total decoupling as the exception, vis-à-vis a diversified panorama of partial decoupling, of total coupling, of national aids).

It should lastly be pointed out that the proposal in its synthetic form, which the Commission will present to the Council, is misleading. In fact, through circumlocutions and half truths, the Commission is actually hiding the most dramatic results of the “Extended Impact Assessment” in its proposal to the Council. In particular it does not state that the effect of the reform will be the end of tobacco production, the creation of a great mass of unemployed and the destruction of wealth in the local economic systems, based on tobacco.

It can therefore be confirmed that the Commission’s proposal betrays the indications of the EU Institutions and tries to hide the dramatic effects that would derive from the reform and of which the Commission itself is well aware and has evaluated in the “Extended Impact Assessment”.

Therefore, the Commission’s proposal is institutionally improper and aims to hide from the Council and from the European Parliament the devastating effects on local economies and on employment that would derive.

A politically contradictory proposal

The quality of European tobacco has improved

At various stages of the “Extended Impact Assessment” the Commission acknowledges that European tobacco has greatly improved its quality, by improving its quality and its positioning on the world markets ⁷.

It is hard to understand why, after introducing support mechanisms which performed well, reaching the objective of a qualitative improvement, the Commission now

⁷ “Following recent market developments and policy changes (in particular, the introduction **in 1998** of the modulation of premiums to producer organisations on the basis of quality standards), **there has been a marked reorientation towards the production of high-quality varieties and, to a lesser extent, some of the oriental varieties.** This shift particularly shaped Italian production.” *EU Commission; “Tobacco – Extended Impact assessment”; page 8*

wants to destroy in one fell swoop so much effort and so much professionalism (not to mention the investments put into action) and cancel tobacco from the face of Europe.

The elimination of tobacco causes enormous social problems

The Commission is forced to admit the important economic and employment value of tobacco in many underprivileged areas ⁸.

It is hard to understand why, in this context and given the current difficulties of the economic situation, the Commission's proposal sweeps away an entire production sector, contemplates the loss of numerous jobs, hiding behind a presumed "temporariness" of unemployment, while waiting for miracle-working effects of the Restructuring Fund (which moreover are entrusted solely to financial aid, without any serious attempt to dedicate them towards specific initiatives of restructuring ⁹).

The central role of the "filière"

The Tobacco CMO has always considered the first processing industry as an essential part of the "filière" ¹⁰.

It is hard to understand why, throughout the entire "Extended Impact Assessment", the first processing industry is mentioned only to confirm that its employees will remain "temporarily" unemployed ¹¹.

The health/tobacco relationship

The Commission is forced to admit, thus sensationally confuting the entire guideline followed since the speech of President Prodi to the European Parliament in May

⁸ "Problems of restructuring are still particularly acute **in some areas where tobacco production plays a very important economic and social role**. There, pulling out workers from the sector too rapidly would cause major social imbalances and rural depopulation if an adequate safety net is not put in place." *EU Commission; "Tobacco – Extended Impact assessment"; page 10*

⁹ "The Tobacco Fund should be seen as a financial tool, and the amounts available to be used within the tobacco regions under existing rules in the framework of the Rural Development Plans." *EU Commission; "Tobacco – Extended Impact assessment"; page 39*

¹⁰ "Whereas by participating in determination of the purchase price of the tobacco delivered the processor plays a central role in determination of the premium to be paid to the individual producer; whereas first processors benefit indirectly from Community aid by acquiring a subsidized product; whereas national authorities should be allowed to take appropriate action against any first processors not complying with Community rules; whereas to that end only approved first processors should be able to sign cultivation contracts, approval being withdrawn for non-compliance". *Reg. (EC) 1636/98 of July 20, 1998*

¹¹ See Note 3

2001, that there is no relationship between the consumption of smoking products in Europe (and their impact on health) and the production of tobacco in Europe¹².

It is hard to understand (or perhaps it is all too easy to understand!) why in the same document the Commission states that the elimination of tobacco production in Europe (because this would be the real effect of the reform!) would have a positive impact on consumption, because it would eliminate political support in favour of reasonable politics for controlling smoking¹³. It could be stated that the Commission makes a rather “smoky” reasoning on the smoking-health-tobacco production relationship.

One is inclined to suspect (and this is an atrocious suspicion, when we consider that hundreds of thousands of jobs throughout Europe are at stake) that the Commission’s proposal has no economic motivation nor one of agricultural policy, but is dictated solely by ideological motivations and by a desire for revenge against a sector that has always been able to defend its future successfully, gaining the solidarity of the other European institutions.

The European position in the discussion on the Framework Convention on Tobacco Control at the World Health Organization

In the discussion on the final text of the WHO Convention, the EU and, specifically, the Commission, fiercely opposed a formulation that foresaw the elimination of subsidies to tobacco as an instrument of anti-smoking politicises.

This exemplary European position won out in the end and every mention of “phasing-out” of the subsidies to tobacco was eliminated from the final text of the Convention.

It is hard to understand why, just a few months after this victorious action in defence of European interests, the same Commission raises the white flag and advocates the traumatic suppression of tobacco production in our continent.

From many aspects, the Commission’s proposal seems politically contradictory.

¹² “Importantly, the evaluation report on tobacco produced by COGEA in 2002 (*but never published!*), pointed out that **consumption of cigarettes in the EU is not linked directly to the tobacco CMO**. In this case, changes to the CMO and consequently to EU production of tobacco would have no relevance to cigarette consumption across the EU.” *EU Commission; “Tobacco – Extended Impact assessment”*; page 13

¹³ “Subsidies for growing tobacco contribute to promoting the use of tobacco and obstruct tobacco control measures. Policy makers become linked to tobacco related interests and a positive image of tobacco is endorsed. In tobacco-producing countries, especially where it is an important crop, political and economic implications impact on the possibility of introducing effective tobacco control policies and measures.” *EU Commission; “Tobacco – Extended Impact assessment”*; page 38

A technically sketchy proposal

Up to now, we have examined and criticized the Commission's proposal from the point of view of the expected economic-social effects, of the relations between the EU Institutions and of the political impacts.

It is however important to state that the Commission's proposal also shows serious gaps from the point of view of a technical analysis which, in theory, should be the heart of an "Extended Impact Assessment".

It is almost impossible to distinguish the obviously mistaken statements, from those not demonstrated, from those that are perhaps consciously misleading.

We will therefore confine ourselves to a brief summary of the most obvious "mistakes".

- It is stated that the internal consumption is 587,000 tonnes; imports are 530,000 and exports 182,000. How can the Net imports/internal consumption ratio be only 43%? ¹⁴
- It is stated that the tobacco budget is 963 million Euro, but it is not considered that this includes entries (withholdings for the Tobacco fund, quota buy-back) that have nothing to do with agricultural support. ¹⁵
- It is stated that the average premium would be 2,900 Euro/ton. Actually, even if we divide the entire budget by production, the average obtained is only 2,770 Euro/ton. ¹⁶
- Agricultural employment in the tobacco sector, net of the growers, is estimated at the European level in 126,000 full-time units and 213,000 units involved ¹⁷. 13,000 full-time units should be added in the first processing industry ¹⁸. At first glance these figures seem greatly underestimated. It is sufficient to consider that recent estimates of Nomisma ¹⁹ indicate, for example, that for Italy alone the number of persons involved in agriculture, net of the growers themselves, is almost 85,000 units, to which 13,000 more should be added in the first processing industry.

The identification of an accurate estimate of the full-time and involved workers, in the cultivation and first processing of tobacco, is not a useless

¹⁴ *EU Commission; "Tobacco – Extended Impact assessment"; Table on page 6*

¹⁵ *EU Commission; "Tobacco – Extended Impact assessment"; Table on page 6*

¹⁶ *EU Commission; "Tobacco – Extended Impact assessment"; Table on page 6*

¹⁷ *EU Commission; "Tobacco – Extended Impact assessment"; page 10*

¹⁸ *EU Commission; "Tobacco – Extended Impact assessment"; Table on page 6*

¹⁹ *Nomisma; "la filiera del tabacco in Italia – Impatto socio-economico e aspetti di politica fiscale – maggio 2003"; pages 12 and 19*

academic exercise. If the number of unemployed that the reform will cause (an event guaranteed without qualms by the Commission itself) will be much higher than the initial estimates, the impact of the Restructuring Funds, in itself uncertain, will also be completely insufficient. This will lead inevitably to the request of an increase of the withholdings on the decoupled aid and to extend them also to the medium- and small-size producers, thus nullifying the overall structure of the reform.

- The impact of family labour is indicated in 80% of the total, without providing any indication on the source of this estimate ²⁰. A recent in-depth analysis carried out in Italy ²¹ indicated that this impact does not reach 50%.

It should be noted that, again in this case, this is not a useless debate. The more family labour is artificially woollen, the more the Commission can try to pretend that the decoupled aids help the income of the producer and his family, rather than – as will happen if the proposed reform is applied – subtract income from the hundreds of thousands of agricultural workers, first processing workers and employees of the related industries, who would find themselves unemployed.

- It is stated that the small tobacco producing farms, compared to the large ones, would be less integrated with the market ²². Along the same line, it is stated that low prices would be a characteristic mainly of the small producers, because they would be more present in the lower quality varieties ²³.

It is not clear where the Commission gets this idea from. In at least two cases, and certainly not secondary ones, such as Italian Burley and Greek classic Orientals, the production structure is based on small and very small-sized farms, which produce tobaccos that are traditionally highly requested and appreciated by the market.

- It is stated that in Greece, Portugal, Italy and Spain, more than 90% of the tobacco producers have only “practical experience”, that is to say that they do not have a specific agronomic education ²⁴. This fact, in the way it is presented, appears aimed at a gratuitous denigration of the European tobacco producers who, on the contrary – and the Commission itself admits this – have managed to improve the quality of their production quite extraordinarily.

²⁰ *EU Commission; “Tobacco – Extended Impact assessment”; page 10*

²¹ The research has been carried on official Social Security data as well as with the evaluation of a representative sample of farms, in six Regions (Campania, Lazio, Puglia, Umbria, Veneto and Toscana). It has estimated that the total number of involved personnel (including the farmers themselves) is 115,000, of which 56,000 salaried employees. Thus, the number of family labour, net of the self-employed farmers, is lower than 50%. *MOAF Modello di Occupazione a Filiera; “Gli aspetti occupazionali della filiera del tabacco in Italia – Novembre 2002”; pages 20-21*

²² *EU Commission; “Tobacco – Extended Impact assessment”; page 9*

²³ *EU Commission; “Tobacco – Extended Impact assessment”; page 12*

²⁴ *EU Commission; “Tobacco – Extended Impact assessment”; page 10*

- The authors of the Commission proposal seem not to know the current regulations. Reference is in fact made to the auction system as to “auction scheme for allocating quotas”²⁵: a “mysterious object” completely unknown in the current CMO.
- It is stated that domestic prices are generally between one third and half of world prices²⁶. This statement finds no confirmation in the statistics on raw tobacco prices and is therefore clearly false. It could appear just to be the result of insufficient information, if it were not accompanied by another astonishing statement²⁷.

The Commission (and its so-called experts) seem not to know that there are no raw tobacco imports. These could be the only ones for which prices can in theory be compared with the internal prices paid by the processing industry to European growers; actually imports are made up exclusively of packed tobacco (and this mostly in strips form). The comparison made by the Commission has the same technical value that a comparison between prices of beet and those of sugar would have, or those of grapes with the prices of wine.

The work of the Commission would be idiosyncratic and even amusing, if it were not for the fact that the reform based on it would create unemployment and desertification in so many underprivileged areas of the Union.

It is also important to mention the problem of desertification and safeguard of the rural environment, since the Commission in its proposal has paid no attention to the severe limitations existing for farmers wanting to switch to new crops: restrictions introduced in the Luxembourg compromise (no fruit, no vegetables, no potatoes farming, in order to be eligible to the Single Farm Payment); production quotas, limitations to expansion in other crops (e.g. no vineyards); economic and structural limitations from the farm dimensions (e.g. in Campania the average tobacco farm is smaller than one hectare, with no possibility, for example, to grow durum wheat or other cereals).

²⁵ *EU Commission; “Tobacco – Extended Impact assessment”; page 26*

²⁶ *EU Commission; “Tobacco – Extended Impact assessment”; page 7*

²⁷ “The commercial status of EU raw tobacco is idiosyncratic, as **producer prices are much lower than import prices.**” *EU Commission; “Tobacco – Extended Impact assessment”; page 22*