
**Dr. Franz FISCHLER Member of the European Commission responsible for
Agriculture, Rural Development and Fisheries The reform of the tobacco sector
Seminar on Tobacco Brussels, 10 November 2003**

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Ladies and Gentlemen,

I would like to welcome you at this seminar on tobacco and thank you for coming to Brussels to discuss our outline proposal for raw tobacco. Tobacco is a traditional crop which plays an important social and economic role in the regions where tobacco is not simply another “agricultural product” but a cornerstone in society life and an essential part of the farm output.

I am very much aware of the importance of tobacco for the producing regions. Therefore, during this seminar, I want to listen to your opinions before the Commission presents its legislative proposals. This morning, I would like to invite you all to an open and frank dialogue. Be assured that all your views will be carefully considered but we can only take on board those elements which are in line with the general guidelines we have to follow.

What are these guidelines?

At the Göteborg European Council, the Commission presented a communication on the European Union's strategy for sustainable development (May 2001) which specifically referred to the tobacco sector and mentioned the phasing out of tobacco subsidies and the putting into place of measures to develop alternative sources of income and economic activity. Though the Council withheld from adopting any specific conclusions on tobacco, it was evident from the discussions and the context in which they took place, that certain reservations existed about the sustainability of the tobacco sector in particular as the Council insisted on encouraging the production of healthy products.

The Agricultural Council decided in June that decoupling of direct producer support shall become the core element of CAP direct payments. The Commission made a commitment to submit in the autumn 2003 a communication on the reform of the common market

organisations for olive oil, raw tobacco and cotton, based on the objectives and the approach of the 2003 CAP reform.

Current support mechanisms are based on production-linked premiums, together with quotas allocated by variety. This system is classified in the Amber box, that is, as a trade distortive measure. I remind you of the Community's proposal to the WTO and in particular of the engagement to reduce Amber box support by 45%. It is our intention to propose to transfer the support to tobacco from the Amber box to the Green box.

Production of raw tobacco in the Community amounts to 348.000 tonnes and shows a high geographical concentration in traditional production regions. Seven regions concentrate about 70 % of total holdings and the majority of the areas under tobacco. The area under tobacco in the EU has been decreasing while the average yield has risen to 2,7 tonnes per hectare. The total number of farms with tobacco in the Community is about 80 000 and the average tobacco area per farm is 1,6 ha. Production of raw tobacco employs an important quantity of labour force: all in all, 126 000 Annual Working Units. Per hectare, the employment on tobacco farms is three times higher than on an average farm.

Over the last decade, there has been a reorientation towards the production of high-quality varieties, an increasing specialisation per variety at farm and regional level, and prices of raw tobacco at international and domestic level have increased. This evolution should continue and even be enhanced following the present reform.

On the other side, the direct payments still account for more than 75 % of total receipts farmers obtain from tobacco.

However, we must admit that the current regime has some unfavourable characteristics:

The CMO for tobacco is very complex.

Can we consider subsidies which are more than 75% of total receipts as acceptable? Do such subsidies fit in a market oriented approach?

The current support to tobacco growing is not consistent with the sustainable development strategy. How can we defend the support of a production that damages health?

Ladies and Gentlemen,

I am convinced that our proposal would provide the most sustainable policy for the tobacco sector in the future while improving the rate of income transfer to holdings producing tobacco during the reference period and encouraging re-conversion within the local labour market in tobacco growing areas.

What does the Commission propose?

A step-wise decoupling of the existing tobacco premium, accompanied by a phasing out of the Tobacco Fund and the setting up, within Rural Development, of a financial envelope for restructuring tobacco producing areas. The Commission is convinced that this approach will provide the most sustainable policy for the tobacco sector in the future. The proposed sector reform would be budget neutral, meaning that the EU spending for the farmers producing tobacco today would not be reduced.

The proposed reform would begin with the transfer of all or part of the current tobacco premium

into entitlements for the single farm payment. While this transfer would be complete for a producer's first 3,5 tonnes of production, for the following tranche between 3,5 tonnes up to 10 tonnes, only 80 % of the current tobacco premium would be incorporated into the single farm payment. The remaining 20 % would feed the proposed restructuring envelope.

When implementing the reform for larger tobacco farms, the current tobacco premium, corresponding to the tranche above 10 tonnes, would be decreased by one third at each one-year step. In order to avoid any major changes in income at agricultural holding level, one third of this tranche's tobacco premium would be converted into single farm payment entitlements, the remainder being transferred to the restructuring envelope.

This option was chosen to balance the need to break the link between supporting individual producer incomes and the growing of tobacco, while providing funding for a re-orientation of the sector towards alternative sources of income.

Full implementation of this reform process would re-distribute more than 70 % of the current tobacco premium to the single farm payment and the remainder to the restructuring envelope. With a three year step-wise implementation, the reform would be expected to bring better market orientation and income growth for producers. This income growth would come on top of the positive impact on producer income from decoupled payments. This is especially true for small holdings.

Furthermore, since at present about one third of the current tobacco premium is needed to cover variable production costs, the progressive implementation of the reform was preferred, in order to avoid a disruptive effect on production and local economies and to allow the market price to adjust to the new conditions.

Of course, these grants are conditional to the respect of the statutory EU environmental and food safety standards, through cross-compliance, and rules of good agricultural and environmental condition, as well as to the modulation and financial discipline mechanisms.

Finally, during the three year phasing-out period, the Tobacco Fund will continue to be used to support anti-smoking information campaigns. The Commission is committed to continue this support despite the diminishing subsidy during this period.

What do we expect will be the effects of all these changes?

The cultivation of the most profitable tobacco varieties would be promoted whereas others would disappear. Hence, some production reduction would be observed.

The resulting slack in European tobacco production would be taken up by larger and more professionalized demand- and/or quality-driven tobacco holdings, at a price, which would align with world level prices, according to the varieties produced.

The transfer of the current tobacco premium into the single farm payment would encourage producers, who are not currently covering their variable production costs or who could shift production to crops generating a higher income per hectare, to reconvert to another land use.

However, the positive effects of the restructuring envelope would enable a smooth transition towards their new production situation.

Ladies and Gentlemen,

Now it is time for you to speak on the various aspects of this proposal. Your opinions would provide us with valuable guidance for the preparation of the legislative proposals. We are particularly interested in listening to your views on the major themes included in the agenda for this seminar, namely:

- the characteristics of raw tobacco production,
- the producer's income,
- the employment in the regions,
- the marketing chain and
- the regional rural structures.

Thank you for your attention.