

HELLENIC ASSOCIATION OF TOBACCO PROCESSING INDUSTRIES

Athens, 1 October 2003

To the Commissioner for Agriculture, Rural Development and Fisheries
Mr. Franz Fischler,
The European Commission,
Brussels

Subject: The Reform of the Tobacco Common Market Organisation

Mr. Commissioner,

We would like to hereby express our protest and our opposition to the proposals the European Commission announced on 23 September for the reform of the tobacco C.M.O., which are in fact proposals for the dismantling of the C.M.O. and signal the beginning of the end of tobacco production in Europe.

That this may in fact be the real objective of the proposals, we understand fully. What we continue not to understand is the insistence of the Commission that protection of the health of the European citizens will be achieved by a policy that will lead to the abandonment of the tobacco production in the Mediterranean countries, while the consumption, importation and production of tobacco products remains an absolutely legal activity all over Europe. The paradox of this argument has already led the European Parliament, the Council of Ministers, but also the general public, to outright reject earlier proposals in 2001 that tobacco subsidies should be abolished.

The proposal is based on an Extended Impact Assessment prepared by the Inter-service Steering Committee, which to our opinion lacks objectivity, makes erroneous assumptions and reaches wrong and illogical conclusions. At the same time, the Commission services refuse to make public the Report they commissioned to COGEA for an independent evaluation of the tobacco policy.

There is one conclusion however in which the Assessment is correct: While examining the impact of the preferred option 2 - total decoupling -, it states in Ch. 5.1.1. *“The result would be a sharp drop in production”* and in Ch.5.1.2.2 *“Tobacco therefore would be largely abandoned as a crop”*, to finally conclude that *“This reform option therefore appears to be well balanced”*. This clears any doubt on what the authors of the Assessment want to achieve.

The proposals however come into direct conflict with the Council of Ministers of Agriculture Final Compromise of June 2003 (Declaration 2.5), which stated:

*“The Council notes that the Commission will submit next autumn a communication on the reform of the CMOs for olive oil, tobacco and cotton ...
As in its July 2002 communication, the Commission will **provide a long-term policy perspective** for these sectors..... The reform of these sectors will be based on the objectives and the approach of the current (2003 CAP) reform”*

In reality, the proposal offers the **‘perspective’ of an immediate and drastic reduction of the sector**, which will lead in a short period of time to its total abandonment.

The reasons for which the tobacco-producing countries cannot and should not accept such a proposal are well known. In Greece, production and processing of tobacco constitute one of the most important economic activities in a number of regions, especially in Thrace, Macedonia and Agrinion. The same is true of some regions in Italy, Spain and France. **Tobacco production offers a very significant number of jobs in the stages of cultivation, transportation, processing and exportation, high value added to the economies of these regions and considerable export earnings.** Greece in particular earns € 300 million from exports (which represents 12% of the exports of agricultural products and approx. 3% of all exports of the country). The Assessment calculates the number of jobs in Annual Working Units at 140.000 (approx. 235.000 people), of which 63% in Greece. Uncontested data and scientific studies which are being prepared show **that the raw tobacco sector is characterized at regional level by high income and employment multipliers**, due to the many stages it goes through between cultivation and usage. Thus, it is certain that regions where tobacco production is the dominating agricultural activity, but also towns and cities the economic life of which is vitally linked with the tobacco sector (like Komotini, Xanthi, Serres, Kilkis, Katerini, Grevena, Elassona, Agrinion, etc. in Greece) will suffer an unprecedented economic depression.

It is also certain that the transformation of the present subsidies into Single Farm Payments will not be able to avert such an unfavourable development, due to the loss of jobs, of value added and of export activities. We should also stress that, as it will be shown below, that the impact of the transfer of part of the subsidies into a ‘Reconstruction Envelope’ will have no impact for Greece.

There are a number of basic erroneous assertions in the Extended Impact Assessment, which, to our opinion, render it worthless. We would like to point out some of them, particularly the ones referring to the relation of tobacco prices in the E.U. and the third countries, the efficiency of the specialized small tobacco farmers and possibility of continuation of the cultivation without direct subsidies in some regions of Europe.

(1) The Assessment reports that the prices of tobacco imported from third countries are much higher than of those produced in the E.U. and concludes that *“The huge gap between domestic producer prices for tobacco and prices paid by first processors for tobacco imported from outside the EU, also taking into account the different stages of processing, transport and insurance costs and differences in quality, shows that there is room for price increases of this magnitude”* (Ch.5.1.2) The price increases considered feasible are of the order of 100% for Italy and Spain and 25% in Greece!

Here we should point out that **first processors do not import raw tobacco from the third countries**, but only manufacturers import processed tobacco for their requirements. The authors of the Assessment have probably compared two totally different things, prices at farm level in the EU with third country packed tobacco import prices.

But irrespective of this confusion, let us examine the world market structure for the two main types of tobacco produced in the EU, Virginia and classical Oriental:

- (i) In the flue-cured world market we distinguish two categories of tobacco, the **full flavour** types, of higher qualitative level and nicotine content in general, which constitute the main ingredient of the *Virginia and American Blended* cigarettes, and the **filler** types of lower quality and nicotine level. Tobacco of the first category is mainly grown in Brazil, the US, Zimbabwe and Argentina, whereas tobacco of the second category in Europe, Asia (China, India, Thailand) and Africa (e.g. Tanzania). It is clear from the *attached table*, that the former are higher priced by 25 to 30% (with the exception of the high-priced US tobacco, the exports of which are being drastically reduced, due to lack of competitiveness), in line with the superior role they play in cigarette manufacturing, whilst among the tobaccos in the latter category, **the European tobaccos are sold at the highest prices**; it is in fact the lower prices of the filler tobaccos from the third countries which limit the possibility to pay better prices to the European farmers. The conclusion one arrives at is therefore exactly the opposite, and for this reason **the margins for even limited price increases for the European flue-cured tobaccos are non-existent**, let alone increases of the order of 100%, which would make them far more expensive than any top quality tobacco in the world.
- (ii) Classical Oriental tobaccos are grown in 4 neighbouring countries, Turkey, Greece, Bulgaria and FYRoM. Of these, **the Greek varieties are clearly the most expensive**. As shown in the attached table, Basma A quality sells for € 7,80 – 8,20, Katerini for € 5,80 – 6,00 and neutral Kabakoulak at € 4,95 – 5,30. The price of the most important variety of Turkey, Izmir, is for its A quality \$ 4,85 – 5,25, of the most expensive variety of Bulgaria (Krumovgrad) \$ 5,40 – 5,75 and of the most expensive variety of FYRoM (Prilep) \$ 5,30 – 5,50. (*Table attached*). It is therefore clear that the competitiveness of Greek Oriental tobacco, especially following the country's participation in the Euro-zone, is now marginal and **the prospects for further price increases very limited indeed**. What we may, on the contrary, see is a tendency for the cultivation of the classical Oriental varieties in all the other Balkan countries, or even in some CIS countries that produce semi-oriental types.

We must stress here that the Commission services failed once more to examine the relationship between the amount of subsidies given to the European tobacco and their total final value as processed product, in other words **to take into consideration the total value added to the European economy by the raw tobacco sector**. Were they to do that, they would find out that the efficiency of the funds dedicated to tobacco production is much higher than their assertion that the commercial value of the tobacco is only the 25% of the subsidies.

(2) The Assessment reports that “*Low prices are mainly incurred for the products marketed by small farms, as they are relatively more specialised in low quality varieties*” (Ch.2.1.4.1). One really wonders how it is possible for anyone who has basic knowledge of the European tobacco market to come to such a conclusion, when it is known **that the smallest farmers are the ones producing Basma** (0,86 ha/grower, producing 1,1 tons on average), **the highest-priced variety in Europe, and perhaps in the world**, followed closely by Katerini (0,91 ha/grower, producing 1,9 tons on average), the second higher-priced variety. This erroneous assumption of the Assessment leads conclusively to the proposal of immediate decoupling of the small (under 10 tons) quotas, giving the reader the wrong impression that the tobacco production that will be most likely abandoned, will be production of low quality tobacco.

The Assessment also repeatedly reports that tobacco production is likely to continue in Northern Greece (Macedonia and Thrace) even after total decoupling, as “*Market margins over variable costs and over total input are in general negative in all the regions considered, except in Makedonia-Thraki*” (Ch.2.1.7.1), therefore “*Without support, only the oriental varieties in Greece could be profitable*” (Ch.2.1.7.3).

Although this is a very poor way to analyse and reach to a conclusion for an area that produces almost all the known varieties in Europe (Virginia, Burley, Basma, Katerini, Kabakoulak) without examining the cost – price relation of each of them, the Assessment implies that this should be attributed to the fact that high-priced types are grown in this area. Therefore, one concludes that it is only the Basma and the Katerini production which is likely to continue without support. **All known data and agronomic studies however show clearly that even for these varieties the highly labour intensive cost of production cannot be covered by current prices;** we believe that they cannot be covered even if prices could increase by 25%, which, according to the market analysis above **would render these tobaccos far too expensive and uncompetitive, leading their demand by manufacturers to extremely low levels.** Further, the argument that labour cost should be totally excluded is really unacceptable, (Ch.2.1.7.1 “*On the other hand, it is interesting to notice that in Makedonia-Thraki the main part of labour input comes from the farming family, and is not included in costs.*”) because on one hand more and more external farm labour is nowadays being used and on the other, personal work should also be remunerated. Growers have no reason to continue producing just in order to cover their variable costs.

One wonders how the Assessment can arrive **at the paradox that the varieties which were receiving the highest premiums** (€4,12 for Basma, €3,50 for Katerini - fixed in the past after exhaustive cost and comparative price analysis) **are finally the ones that DID NOT need support in order to be produced!**

(3) But this is not the only paradox in this, unfortunate indeed, Assessment. Its authors go to great extent to emphasize that the economic and social repercussions will be very serious in all areas where tobacco cultivation is concentrated. For example, in Ch. 2.1.2.2 they state: “*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.*”

Later (Ch. 5.2.1), they assert: *“Tobacco production is typically highly labour intensive. It provides many jobs, not only for producers’ families and employees, but also for workers in the processing industry. In some regions, particularly in Greece, natural and structural constraints make tobacco cultivation and first processing the only options. This is why the majority of farms specialise in tobacco.”*

So, they conclude (Ch. 5.2.1): **“Option 2 - 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.”**

In order to “soften” the impact, they propose (Ch. 4.2): *“A **step-wise implementation of decoupling would be necessary to avoid disrupting production and local economies and to allow market prices to adjust to the new conditions. In order to avoid any major changes in farm incomes at each step a fixed part of the current coupled tobacco premium would be decoupled and included in the Single Farm Payment**”, and also: “The tobacco Fund, as such, would be phased out and replaced by a new tool, a financial envelope for restructuring tobacco producing areas, including measures for workers external to the producer’s family in the production regions.”*

Which is however their final proposal? An immediate and total decoupling for all quota holders under 10 tons, with the recommendation that holders of quotas under 3,5 tons should receive 100% of their present subsidies as SFPs and that those with quotas between 3,5 to 10 tons are to receive 80% as SFPs, the 20% being led to the ‘Restructuring Envelope’. On the contrary, quotas of over 10 tons are to be decoupled in 3 stages and in the final stage, 2/3 of the present subsidies will be led to the ‘Restructuring Envelope’.

The statistics, which the Commission services published themselves last November, for the 2001 crop, **show that in Greece 98,8% of the tobacco growers have quotas below 10 tons.** The percentage of Oriental tobacco quota-holders over 10 tons is 0,05% (22 out of 45.305 growers). For Virginia, only 16,8% of the total production is attributed to the 4,9% of growers that hold quotas over 10t. (*Tables attached*)

As a result of all this, the Assessment proposes the following oxymoron: **For the country that will be most negatively effected by these proposals, the country for which “tobacco is the only option”, they call for an immediate and total decoupling, so that these regions will have to face immediately and wholly the disastrous socio-economic effects, which the report itself describes.** To add to this, the country will not have the opportunity to claim on the ‘Restructuring Envelope’, since quotas of up to 3,5 t. are held by the 85,9% of the growers and quotas of 3,5 to 10 t. are held by only the 12,9%. As a result funds led to the ‘Restructuring Envelope’ will be minimal for Greece **and the “temporarily unemployed” will have to wait long for its “positive effects”!**

(4) The Assessment having arrived at the conclusion that the impact of total decoupling on production will be that: (Ch.5.1.2.2) **“Tobacco therefore would be largely abandoned as a crop”**, makes the following curious statement when it later examines the impact on trade: (Ch.5.2.2) *“In particular, it is uncertain to which extent decoupling will cause internal production to fall and so provoke an increase in raw tobacco imports to feed the needs of the EU processing industry”*. Thus, in the “Impact Synthesis Summary Table” (Ch. 6) under “Impact to Trade”, they proudly report: **“Limited increase of imports”**! Indeed, we do not think that we have any further comments to make on the seriousness of this Report, apart from pointing out once more that it is not the processing, but the manufacturing industry, which will eventually have to import 100% of their requirements. Apart from that, the Assessment fails to point out that all export earnings will be lost.

Mr. Commissioner,

The livelihoods and the well being of a few hundreds of thousands of people in the Mediterranean countries of the Union depend on the decisions that will be taken for the future of the tobacco cultivation.

In order to achieve a Sustainable Development of Agriculture we have to make sure that traditional productions, which have always best fitted the agronomical, climatic and environmental conditions of the countryside in each region, continue to exist.

Alternative solutions can be found, which can be both in line with the philosophy of the decisions taken by the Council of Ministers in June, as well as in line with reasonable commitments that the E.U. wishes to take in the World Trade Organisation.

We have however first to agree which should be the principal objective of a tobacco policy, coherent with the new philosophy of the Common Agricultural Policy and acceptable to the rest of the world. We believe that such would be **a policy which will allow the continuation of a more market oriented production, of those types and varieties of tobacco that enjoy healthy and real demand by cigarette manufacturers all over the world and for which fair but competitive prices can be paid to the growers.** The measure of the success of such a policy would be the significant increase of the ratio of the total commercial value of the tobacco produced to the subsidies that are granted to the growers.

In order to achieve this objective, **production of tobacco with poor qualitative characteristics, poor demand and low prices should be terminated.** For our country, for which our Association can speak of, we judge that Group V and possibly Group II varieties belong to this category.

On the contrary, **the production of classical Oriental varieties**, which additionally does not have trade-distorting effects, **must be maintained by fixing a low decoupling percentage, such that its coupled part stays substantially higher than the decoupled one.** The average commercial price of these varieties will be further increased from its present level by the completion, at national level, of quota transfers away from lower-priced types (for example, Katerini quotas in the Agrinion district).

For the Oriental varieties the idea of sub-dividing them in quota tranches has no meaning as 95% of the growers have quotas under 3,5 tons and the remaining have quotas of 3,5 to 10 tons.

Production of Virginia, in Greece as well as in the other producing countries, **should also be maintained**, as they are considered in the market to be good filler-quality tobaccos and enjoy healthy demand by the European, but also the international cigarette manufacturers. **Decoupling percentage should therefore also be equally low for this type**. However, the distinction in quota tranches can be kept, so that a lower part of the decoupled subsidy be led to the Single Farm Payment and a higher part to the Restructuring Envelope, in proportion to the size of the quota.

Finally, for Burley, the situation seems to differ from one country to another as to the commercial value and the role these tobaccos play in the market. Therefore, **a more flexible system allowing member-countries certain degree of discretion** as to the decoupling percentage to be applied could be the most efficient solution.

We strongly believe that **this is a well-balanced solution**, in line with the national interests of all tobacco-producing countries and those of the European Union as a whole and also in line with the E.U. commitments in the W.T.O. to transfer a part of the subsidies from the “amber” to the “green” box. Additionally, it is in line with the decisions of the Council in June 2003 that the new policies should not be such as to put at risk the continuation of production in any sector. **The overall result of this policy will be the drastic increase of the ratio of the net commercial value of tobacco production to the amount of coupled subsidies, which should be the real and justified target of the E.U. tobacco policy.**

In the sincere hope that our position will be seriously taken into consideration and staying at your disposal for any further clarifications and discussion on this issue, we thank you for your attention and remain,

Yours faithfully

QUOTA DISTRIBUTION IN SPAIN

2001 CROP

Etat Membre	Groupe variétal	Producteurs et Quota	Total	Tranches de répartition		
				0 - 3,5	3,5 - 10	>10t.
Espagne	I	Farmers	1.700	253	523	924
		<i>%age distrib.</i>		14,9	30,8	54,4
		Quota	28.989	406	3.720	24863
		<i>%age distrib.</i>		1,4	12,8	85,8
	II	Farmers	1.053	859	175	19
		<i>%age distrib.</i>		81,6	16,6	1,8
		Quota	2.460	1.059	956	445
		<i>%age distrib.</i>		43,0	38,9	18,1
	III	Farmers	4.332	3483	758	91
		<i>%age distrib.</i>		80,4	17,5	2,1
		Quota	10.761	4.976	4.360	1425
		<i>%age distrib.</i>		46,2	40,5	13,2
	IV	Farmers	13	12	1	0
		<i>%age distrib.</i>		92,3	7,7	0,0
		Quota	30	24	6	0
		<i>%age distrib.</i>		80,0	20,0	0,0
	Totaux	Farmers	7.098	4.607	1.457	1034
		<i>%age distrib.</i>	100%	64,91%	20,53%	14,6
		Quota	42.240	6.465	9.042	26733
		<i>%age distrib.</i>	100%	15,31%	21,41%	63,3

Source: EC Report on the tobacco CMO, 12.11.2002 (Table AN.2.1.5.a)

QUOTA DISTRIBUTION IN ITALY

2001 CROP

Etat Membre	Groupe variétal	Producteurs et Quota	Total	Tranches de répartition		
				0 - 3,5	3,5 - 10	>10t.
Italie	I	Farmers	1.384	276	308	800
		<i>%age distrib.</i>		19,9	22,3	57,8
		Quota	49.197	345	2.028	46.824
		<i>%age distrib.</i>		0,7	4,1	95,2
	II	Farmers	11.235	7.082	3.092	1.061
		<i>%age distrib.</i>		63,0	27,5	9,4
		Quota	49.707	10.898	17.869	20.940
		<i>%age distrib.</i>		21,9	35,9	42,1
	III	Farmers	7.519	6.300	1.119	100
		<i>%age distrib.</i>		83,8	14,9	1,3
		Quota	16.314	8.931	5.852	1.531
		<i>%age distrib.</i>		54,7	35,9	9,4
	IV	Farmers	999	449	415	135
		<i>%age distrib.</i>		44,9	41,5	13,5
		Quota	6.167	786	2.498	2.883
		<i>%age distrib.</i>		12,7	40,5	46,7
	V	Farmers	5.532	5.229	239	64
		<i>%age distrib.</i>		94,5	4,3	1,2
		Quota	8.762	5.669	1.259	1.834
		<i>%age distrib.</i>		64,7	14,4	20,9
	VII	Farmers	49	38	6	5
		<i>%age distrib.</i>		77,6	12,2	10,2
		Quota	207	54	33	120
		<i>%age distrib.</i>		26,1	15,9	58,0
Totaux	Farmers	26.718	19.374	5.179	2.165	
	<i>%age distrib.</i>	100%	72,51%	19,38%	8,1	
	Quota	130.354	26.683	29.539	74.132	
	<i>%age distrib.</i>	100%	20,47%	22,66%	56,9	

Source: EC Report on the tobacco CMO, 12.11.2002 (Table AN.2.1.5.a)

QUOTA DISTRIBUTION IN SPAIN

2001 CROP

Etat Membre	Groupe variétal	Producteurs et Quota	Total	Tranches de répartition		
				0 - 3,5	3,5 - 10	>10t.
Espagne	I	Farmers	1.700	253	523	924
		<i>%age distrib.</i>		14,9	30,8	54,4
		Quota	28.989	406	3.720	24863
		<i>%age distrib.</i>		1,4	12,8	85,8
	II	Farmers	1.053	859	175	19
		<i>%age distrib.</i>		81,6	16,6	1,8
		Quota	2.460	1.059	956	445
		<i>%age distrib.</i>		43,0	38,9	18,1
	III	Farmers	4.332	3483	758	91
		<i>%age distrib.</i>		80,4	17,5	2,1
		Quota	10.761	4.976	4.360	1425
		<i>%age distrib.</i>		46,2	40,5	13,2
	IV	Farmers	13	12	1	0
		<i>%age distrib.</i>		92,3	7,7	0,0
		Quota	30	24	6	0
		<i>%age distrib.</i>		80,0	20,0	0,0
	Totaux	Farmers	7.098	4.607	1.457	1034
		<i>%age distrib.</i>	100%	64,91%	20,53%	14,6
		Quota	42.240	6.465	9.042	26733
		<i>%age distrib.</i>	100%	15,31%	21,41%	63,3

Source: EC Report on the tobacco CMO, 12.11.2002 (Table AN.2.1.5.a)

QUOTA DISTRIBUTION IN FRANCE

2001 CROP

Etat Membre	Groupe variétal	Producteurs et Quota	Total	Tranches de répartition		
				0 - 3,5	3,5 - 10	>10t.
France	I	Farmers	995	175	424	396
		<i>%age distrib.</i>		17,6	42,6	39,8
		Quota	10.479	398	2.768	7.313
		<i>%age distrib.</i>		3,8	26,4	69,8
	II	Farmers	2.869	1.989	834	46
		<i>%age distrib.</i>		69,3	29,1	1,6
		Quota	8.827	3.769	4.489	569
		<i>%age distrib.</i>		42,7	50,9	6,4
	III	Farmers	1.876	1.488	370	18
		<i>%age distrib.</i>		79,3	19,7	1,0
		Quota	4.830	2.646	1.963	220
		<i>%age distrib.</i>		54,8	40,6	4,6
	Totaux	Farmers	5.740	3.652	1.628	460
		<i>%age distrib.</i>	100%	63,62%	28,36%	8,01
		Quota	24.136	6.814	9.220	8.102
		<i>%age distrib.</i>	100%	28,23%	38,20%	33,57

Source: EC Report on the tobacco CMO, 12.11.2002 (Table AN.2.1.5.a)