GENERAL AGREEMENT ON
TARIFFS AND TRADE

Committee III - Expansion of Trade

REDUCTION OF OBSTACLES TO THE EXPORT OF
UNMANUFACTURED TOBACCO

Note Submitted by the Government of the Federation of
Rhodesia and Nyasaland

At the nineteenth session the CONTRACTING PARTIES agreed that immediate steps
should be taken to establish specific programmes for action, and, where feasible,
target terminal dates for progressive reduction and elimination of barriers to the
exports of less-developed countries. Unmanufactured tobacco is an important
export in the trade of a number of less-developed countries including the
Federation of Rhodesia and Nyasaland. The obstacles facing this trade are
described in paper COM.III/W.15 of 16 October 1961, and in paper COM.III/7/Rev.1
of 9 February 1960. It is apparent that these obstacles have certain special
characteristics which suggest the need for a separate programme to increase the
opportunities for less-developed countries to export tobacco under normal
competitive conditions.

The very high incidence of revenue duties imposed in many countries on the
import of unmanufactured tobacco is a consequence of its being regarded as a
luxury product and it would be difficult to secure substantial reductions in
these duties in a programme of general tariff reductions on primary products.
There is, however, no reason why countries which regard tobacco as a suitable
subject for severe taxation should also encourage the comparatively uneconomic
production of unmanufactured tobacco in their own countries. Less-developed
countries which are able to export tobacco competitively would, therefore,
benefit from a reduction of the protective element in a number of tobacco tariffs
i.e. a reduction in the differential between tariffs on imports and taxes on
domestic production.

Another characteristic of tobacco tariffs which distorts internal trade in
tobacco to the disadvantage of efficient producers in less-developed countries
is the specific character of many tobacco tariffs. The conversion of specific
duties to ad valorem rates would restore the competitive advantage of the most
efficient suppliers and would contribute to the development of tobacco production
on a sound economic basis. This conversion would also conform more nearly to
the principle that taxation should not bear more heavily upon the consumers who
purchase the lower-priced commodity.

/.
The activities of State-trading or privileged organizations dealing with tobacco have to some extent been examined by the Panel on Subsidies and State trading. The adequacy of these notifications for the purpose of considering the application of Article XVII has already been questioned by the Panel. They are clearly inadequate for the purpose of evaluating the effect of these dealings on the exports of less-developed countries. It is, therefore, proposed that Committee III should ask the Governments concerned to submit detailed information on the basis of a questionnaire designed specifically for this purpose. In the light of the response to this questionnaire the Committee may consider specific recommendations to increase the scope for less-developed exporting countries to supply unmanufactured tobacco to the existing State-trading or privileged organizations in accordance solely with competitive commercial considerations, as required by Article XVII.

Since unmanufactured tobacco is a primary product, the use of subsidies to assist its export will not be inhibited when the provisions of Article XVI:4 are in force. Direct export subsidies are not a source of serious concern to less-developed countries exporting tobacco at the present time. There is, however, danger that producers enjoying surpluses of unmanufactured tobacco may be tempted to consider the subsidization of exports. Subsidized exports would represent unfair competition for less-developed countries whose economies cannot bear the burden of similar subsidies, but who would be competitive suppliers under normal commercial conditions. To avoid the development of such a situation consideration should be given to a declaration prohibiting the use of subsidies on the export of tobacco and providing for countervailing action by importing countries against any possible development of trade on these lines.