The detailed information furnished by the Six is reproduced in the table appended to this Annex. The following are the salient features as noted by the Working Party, any discussion of these matters being reported in Part Three of this Annex or in the Working Party's main report.

**Present Import Duties of the Six**

The Benelux countries and the Federal Republic of Germany fully apply their specific import duties on leaf tobacco, with ad valorem incidences of 8 per cent and 32 per cent respectively. France and Italy operate State monopolies of importation and impose no import duties.

**The Establishment of the Common Tariff**

The common external tariff rate for leaf tobacco has been fixed in List F at 30 per cent. The German specific rate - the incidence of which is shown in the table as 32 per cent - will be brought into conformity with the common rate as from the end of the first stage. In Belgium the duty rate will be increased at the end of each of the first two stages and the 30 per cent ad valorem rate will be applied at the end of the transitional period. In France and Italy where no import duties are collected, ad valorem duties will be applied at the rate of 9 per cent and 18 per cent at the end of the first and second stages and will be increased to 30 per cent at the end of the transitional period.
Representatives of non-Six producers pointed out that information furnished in the table refers only to unstemmed leaf tobacco and enquired whether a higher rate would be fixed for stemmed leaf tobacco. The representatives of the Six explained that, since the full tariff item No. 24.01 (unmanufactured tobacco; tobacco refuse) is included in List F, the rate of 30 per cent will be applicable to stemmed as well as unstemmed tobacco; the table relates only to unstemmed tobacco simply because for the time being trade in stemmed tobacco is small. The representatives of the Six also drew attention to the fact that, if the present duties on stemmed tobacco were taken into account, the average tariff incidence would be slightly higher than 30 per cent.

Reference was made also to the fact that in its GATT Schedule France had granted duty-free treatment to raw tobacco (item Ex 233A) and that this concession was supplemented by a Note to the Schedule providing for the annual importation by the State monopoly of 15,000 tons of leaf tobacco originating in countries outside the French Union, and further that provision was made for this amount to be increased in certain circumstances. Asked whether this concession would be maintained, the representatives of the Six stated that if any change were contemplated, it would be effected through the tariff negotiation procedures of Article XXIV:6.

The Elimination of Duties on Imports from the A.O.T's

The Benelux and German duties will be reduced for imports from the A.O.T's at the end of the first and second stages. The following are the differences between the duties that will apply to imports from third countries and the duties, if any, applying to imports from the A.O.T's:

<table>
<thead>
<tr>
<th></th>
<th>After first stage</th>
<th>After second stage</th>
<th>At the end of the Transitional Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benelux</td>
<td>8.6%</td>
<td>17.2%</td>
<td>30%</td>
</tr>
<tr>
<td>France</td>
<td>9%</td>
<td>18%</td>
<td>30%</td>
</tr>
<tr>
<td>Germany</td>
<td>6%</td>
<td>20%</td>
<td>30%</td>
</tr>
<tr>
<td>Italy</td>
<td>9%</td>
<td>18%</td>
<td>30%</td>
</tr>
</tbody>
</table>
Representatives of non-Six producers suggested that the preferential margin would be increased in the event of an internal ad valorem charge being levied on manufactured tobacco, due to the fact that the incidence of such a charge would be higher on imported tobacco on which the customs duty had been paid. The representatives of the Six replied that such a result was not intended, that in any case this could happen only in the Benelux countries and that the price of raw material was so small relative to the price of finished products that the effect indicated could only be very slight.

Fiscal Duties

One aspect of the problem mentioned by some representatives of the non-Six producers, was the possibility that a fiscal charge levied in addition to the 30 per cent duty might be introduced to compensate for the loss of the tariff revenues resulting from the creation of the new preferential area. Where revenue losses might be heavy on several products a combined system of duty and taxes on tobacco might be envisaged which would lead to a much higher total charge than 30 per cent. The representatives of the Six indicated that, although duties on tobacco were mainly of a fiscal nature, the question of their replacement by internal charges was unlikely to arise, since in Germany the new duty would be roughly equivalent to the present specific duty, in the Benelux countries the duty would be increased, and in France and Italy no duties were imposed at present.

The Application of Quantitative Restrictions

Imports of leaf tobacco are liberalized in Germany and a liberal import policy is followed by the Benelux. As mentioned above, importation into France and Italy is in the hands of State monopolies.

The Applicability of the Agricultural Provisions of the Treaty

Tobacco (item 24.01) is included in Annex II and is therefore subject to the provisions of Articles 39 to 46 of the Treaty.
PART TWO

BACKGROUND INFORMATION ON TRADE AND TRADE PATTERNS OF TOBACCO

General

1. The export value of international trade in tobacco in 1955 amounted to about $700 million, and of the main tropical food products entering international trade, tobacco accounted for about 13 per cent of the value.

2. Tobacco exports are of particular importance in the export trade of several GATT countries as indicated in the following table:

Raw tobacco exports from selected countries:
Quantity and value and value in per cent of total exports
(thousand tons, million dollars, and percentages)

<table>
<thead>
<tr>
<th></th>
<th>1955</th>
<th>1956</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>'000 tons</td>
<td>$ million</td>
</tr>
<tr>
<td>1. Associated Territories</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Madagascar</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>2. Other GATT Members</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greece</td>
<td>55</td>
<td>76</td>
</tr>
<tr>
<td>Turkey</td>
<td>60</td>
<td>89</td>
</tr>
<tr>
<td>Canada</td>
<td>22</td>
<td>26</td>
</tr>
<tr>
<td>United States</td>
<td>245</td>
<td>355</td>
</tr>
<tr>
<td>Cuba</td>
<td>22</td>
<td>42</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>13</td>
<td>43</td>
</tr>
<tr>
<td>Brazil</td>
<td>28</td>
<td>18</td>
</tr>
<tr>
<td>India</td>
<td>40</td>
<td>23</td>
</tr>
<tr>
<td>Indonesia</td>
<td>12</td>
<td>27</td>
</tr>
<tr>
<td>Rhodesia &amp; Nyasaland</td>
<td>56</td>
<td>72</td>
</tr>
<tr>
<td>3. Other countries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td>6</td>
<td>2</td>
</tr>
</tbody>
</table>


---

1 The total of the export value of the following products: coffee, cocoa, tea, sugar, tobacco, bananas, coconuts and products, and citrus fruits.
3. It is apparent that tobacco is an important item in the economy of a number of GATT countries, in particular, Greece, Turkey, Rhodesia and Nyasaland, Cuba and the Dominican Republic.

4. The Six are important in world tobacco trade. In 1955 and 1956 they accounted for about 27 per cent of total imports, as compared with about 23.5 per cent for the United Kingdom. Any economic or political change which may affect the pattern of the tobacco trade of the Six is therefore bound to be felt by tobacco exporting countries.

5. The market of the Six is of special direct importance to certain GATT countries, notably the Federation of Rhodesia and Nyasaland which in 1956 sent over 14 per cent of its total quantity exported, to the Six compared with about 10 per cent in 1954. The Dominican Republic sent \( \frac{1}{5} \) per cent of its total exports to the Six in 1956, Indonesia \( \frac{1}{4} \) per cent and Brazil \( \frac{1}{7} \) per cent.

6. The general pattern of the trade of the Six in 1956 was that of their total imports of unmanufactured tobacco of about 167,000 tons in 1956, 5,000 tons (3 per cent) came from the French Associated Territories, 52,000 tons (31 per cent) from the United States, 38,000 tons (23 per cent) from Greece and Turkey, and 10,000 tons (6 per cent) from Brazil. The other principal suppliers were Rhodesia and Nyasaland (3 per cent), Indonesia (5 per cent), Dominican Republic (3 per cent). Minor quantities were supplied by India, Cuba, and the Union of South Africa.

7. Within this overall picture, France took the whole 5,000 tons supplied by her A.O.T's, and in addition about 9,000 tons from Algeria. Belgium-Luxemburg took an insignificant quantity from the Belgian Congo, but there were no imports from the A.O.T's into the other countries of the Six.
8. Annex Table II shows the current pattern of trade in unmanufactured tobacco as reported by importing countries. Due to the lack of data it was not found possible to show a similar trade network based on export figures of the exporting countries. However, the following relevant data have been supplied by the respective delegations, showing a breakdown of the total quantity into cigar leaf and other tobacco.

Exports of Tobacco to the Community in 1956 (’000 tons)

<table>
<thead>
<tr>
<th></th>
<th>Be-Lux</th>
<th>Germany</th>
<th>France</th>
<th>Italy</th>
<th>Netherlands</th>
<th>Total to all destinations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>I</td>
<td>II</td>
<td>I</td>
<td>II</td>
<td>I</td>
<td>II</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cuba</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rhodesia-Nyasaland</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

I: Cigar leaf
II: Other tobacco

Varieties

9. Tobacco can be grown in a great variety of soils and climates which affect the quality of the tobacco leaf traded, which further varies according to the method of curing (flue-, fire-, air- or sun-curing). About \( \frac{1}{4} \) per cent of world exports of unmanufactured tobacco consist of cigar leaf. The principal cigar leaf exporting countries are Brazil, Indonesia, Cuba, Dominican Republic. Total cigar leaf exports to the Six in 1956 were about 39,000 tons, of which the four GATT countries mentioned supplied about 27,000 tons.
10. Manufactured products

There is a large trade in manufactured tobacco, particularly in the United Kingdom and the Netherlands. The United Kingdom is a large importer of cigars and cigarettes, and her exports of cigarettes to the Community are important.

11. Entrepot trade

The re-exports of unmanufactured tobacco from the United Kingdom are not important, but a large entrepôt trade takes place through the Netherlands. This concerns especially Indonesian tobacco but also, to some extent, tobacco originating in the other cigar leaf exporting countries and in the United States. According to data communicated by the Netherlands delegation, the situation was as follows in 1956:

<table>
<thead>
<tr>
<th>Total entered into bonded warehouse</th>
<th>Total re-exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>88,900 tons,</td>
<td>76,700 tons,</td>
</tr>
<tr>
<td>of which 44,000 tons from Indonesia</td>
<td>of which 58,800 tons to the Community</td>
</tr>
</tbody>
</table>

12. Prospects of world supply and demand

[Text to be drafted]
PART THREE

THE SHORT AND LONG-TERM PROBLEMS WHICH THE ASSOCIATION OF THE A.O.T's RAISED FOR THE TRADE OF OTHER CONTRACTING PARTIES TO THE GENERAL AGREEMENT

I. The New Tariff Regime

A. Effects within the Community and the A.O.T's

1. Representatives of most of the non-Six producers pointed out that the ad valorem common tariff of 30 per cent was unjustifiably high and, unlike the specific duties at present applied, discriminated against producers of the higher grade, and consequently higher priced, leaf tobacco. In this connexion it was pointed out that the FAO Commodity Bulletin No. 29 supported this contention. Attention was also drawn to the large number of types and varieties of leaf tobacco and to the fact that cigar-leaf was a commodity distinct from cigarette-leaf tobacco as cigar-leaf tobacco was not normally interchangeable with cigarette-leaf tobacco for cigar production. These representatives also considered that the application of a uniform ad valorem duty to all types and varieties of leaf tobacco would accentuate the harmful effects of the common tariff of 30 per cent.

2. The representatives of the Six replied that they could not accept that the tariff of 30 per cent was excessive since for a long time past tobacco duties had been an important source of revenue without unduly affecting consumption. Moreover, a rate of 30 per cent, while an exceptionally high rate in the common tariff, was a normal rate in the tariffs of many countries. They agreed that there were many different types of leaf tobacco, but they considered that the new rate of 30 per cent should not disturb the traditional pattern of trade, particularly if it was taken into account that the new duty would be higher than the present duty only in the case of raw tobacco imported into the Benelux countries.
(1) **Effects on price levels in the Community and the A.O.T's**

3. Representatives of most of the non-Six producers considered that the discriminatory element in the tariff would be reflected in a corresponding difference between the price offered by importers in the Six to exporters in the A.O.T's on the one hand, and to exporters in third countries on the other. An ad valorem tariff on low-priced types of tobacco produced in the A.O.T's would accentuate this price differential. The representatives of the Six doubted if this would take effect; furthermore, experience had shown that a preferential margin was never fully reflected in the remuneration of the producer.

(11) **Effects on demand in the Community and the A.O.T's**

4. Representatives of most of the non-Six producers pointed out that the discriminatory prices offered in the market of the Six would enable A.O.T. exporters to obtain as much of that market as they desired for the types and qualities they could offer. While the French and Italian requirements were already filled to a large extent by their own and A.O.T. production, this applied especially to Germany and Benelux, which were the main outlets for cigarette- and cigar-tobacco producers outside the Six. In the long run, as production in the A.O.T's increased, there would be a switch in demand away from tobacco produced by third countries to the duty-free tobacco offered by the A.O.T's.

5. The representatives of the Six replied that by stimulating the economic development of the A.O.T's, the implementation of the Treaty would result in increased consumption from which third countries would inevitably benefit. Furthermore - as already mentioned in the case of other commodities - the creation of the Common Market of the Six would lead to a more stable market situation, which was very important to producers throughout the world.

6. Representatives of most of the non-Six producers considered that the effect of the preference on different types of tobacco would be somewhat different. First of all, tropical cigar tobacco is divided into three types: wrapper, binder and filler. The wrapper leaf is
a high-priced speciality, imported at present principally from Indonesia and Cuba; binder leaf is similar but not quite such a specialized, expensive product and is exported from Brazil and the Dominican Republic as well as Cuba and Indonesia. The effect of a 30 per cent duty would be to raise very considerably the price for imported wrapper and binder tobacco, and this would tend to keep down, if not actually reduce, their consumption in the Six. Even more serious would be the economic effect on the trade of filler tobacco, a more ordinary quality which is the mainstay of the export of cigar tobacco to the Six from third countries. Some of these representatives felt that there could be no doubt that with the incentive of a 30 per cent preference, the tobaccos that could be produced in the A.O.T's would replace a considerable part of the present imports of filler leaf from non-Community countries which are contracting parties to GATT, like the Dominican Republic, Brazil and Cuba.

7. Cigarette tobacco might be divided for these purposes into Oriental or Turkish types, flue-cured Virginia type and other types, including fire-cured, sun- or air-cured tobaccos. The two types (Oriental and Virginia) have distinctive characteristics and flavours. Since Oriental types could apparently not easily be produced in any significant quantity in the A.O.T's, the effect of the 30 per cent duty would be to raise the price of Oriental types to consumers and thereby tend to lower the demand, or to depress prices to producers as a consequence of the necessity to offset a part of the increased preferential duty. These adverse effects on demand would be accentuated by the fact that the considerable ad valorem duty would be particularly severe on the high-priced Oriental tobaccos. Greece and Turkey, both contracting parties to GATT, are among the countries that would be especially affected.

8. In general, Oriental type cigarette tobacco is used for blending with flue-cured and other types of tobacco, and in the Six it is the flue-cured and fire-cured tobaccos that account for the greater proportion of cigarette tobacco consumption. Production of flue-cured tobacco requires capital and skill, and it can only be grown
successfully within a fairly narrow range of soil and climate conditions. It is, in consequence, a high-priced product in comparison with fire-cured tobacco, which can be grown comparatively easily under tropical and sub-tropical conditions, and requires little skill. In fact, fire-, sun- and air-cured tobaccos are ideal cash crops for peasant production, and given price and market incentives it can be foreseen with certainty that their production in the A.O.T's will be increased.

9. While flue-cured tobacco has very different characteristics from fire-, sun- or air-cured, experience in France and Italy, however, has shown conclusively that consumers will, in the long run, accept the substitution of flue-cured by these other types. In France, flue-cured is now down to about 3 per cent of the blend, as compared with around 30 per cent in Germany. Due to this wide margin a shift in demand can be foreseen. Under a 30 per cent preference, the existing price differential between flue-cured and fire-cured tobacco imported from non-Six countries and the A.O.T's respectively will be greatly widened, and this artificial distortion of existing price relationship, which reflects the existing demand pattern, must lead to the gradual replacement of a large part of the flue-cured tobacco imported from non-Six countries by fire-cured types produced in the A.O.T's, Italy and Algeria.

10. It was stated that the history of the tobacco trade shows clearly that consumption habits regarding the various types of tobacco can be permanently influenced by price or supply conditions. In that connexion reference was made to the shift in consumer preference in the United Kingdom toward Rhodesian tobacco and away from American tobacco, as a result of import restrictions introduced on imported tobacco as a consequence of balance-of-payments difficulties. A similar development has occurred in France, and reference was made to the United States Department of Agriculture Foreign Agriculture Circular of 15 July 1955, which states on page 6:
"The decline in United States exports of fire-cured tobacco to France during the post-war period can be attributed to increased demand for milder dark cigarettes and smoking mixtures. During the war, when supplies of United States fire-cured were cut off, consumers became accustomed to milder tobacco products than those smoked in pre-war. As a consequence, the quantity of United States fire-cured types used in cigarettes and smoking mixtures is considerably below pre-war proportions. Pre-war, about 20 per cent Kentucky was used in the ordinary cigarettes, such as Gauloises and Celtiques; this proportion declined to about 15 per cent during the early post-war period, and has further declined to less than 5 per cent during the past few years.

"The acute dollar shortage resulted in increased imports of Oriental types of tobacco, which further modified consumer taste for fire-cured leaf. Also, the relative price differential between United States fire-cured tobaccos and other foreign dark and sun-cured tobaccos, has resulted in reduced purchases of our dark leaf. The price factor in sales of United States tobacco to France has always been important, and became especially significant during the period of dollar exchange difficulties."

The account given in this bulletin of changes in French consumption habits showed conclusively how first the supply position and later the price factor have both had permanent influences on the types of tobaccos smoked.

11. The representatives of the Six recalled in reply to the statements reproduced in paragraphs 6 to 10, in the first place, that it was impossible to assess the extent to which a rate of duty was reflected in prices; in general, price formation was governed by complex factors among which a customs preference was often only a minor element. In their opinion it was difficult to infer from such a precarious basis that at the end of the transitional period the A.O.T.'s would be in a position to produce tobaccos which could be substituted for all those types at present imported from third countries. In any case experience had shown that even with monopoly protection A.O.T.'s in the French franc area had not developed production of those types of tobacco, and that the total quantities produced were still very small."
12. These representatives agreed that consumer taste might change. They pointed out however that such a change usually came about very slowly and in rather exceptional circumstances, for instance in times of shortage as had been the case during the last war. With regard to the example cited in paragraph 10 above, the representatives of the Six thought that the shift in favour of Rhodesian tobaccos which had occurred in the United Kingdom was attributable not so much to price considerations but rather to dollar import restrictions. They also argued that in order to determine to what extent the common tariff duty was likely to influence consumer taste, one should first consider to what extent the duty would be reflected in consumer prices; as had already been indicated, a preferential margin was very seldom reflected automatically and fully in price levels. It was obvious that consumption was affected by price levels and the supplies available, but it was also influenced by other factors among which price levels were relatively of secondary importance in the case of a product like tobacco which was not an essential commodity.

13. These representatives also recognized that the price impact of the duty, to the extent that it was reflected in prices would vary depending on the types of tobacco concerned. In general the duty would affect cheaper quantities to a lesser extent; as regards higher grades, they again emphasized that such tobacco was a luxury product and that consumers of such varieties were relatively well off so that in general any increase in prices would only have a very limited effect on consumption. Experience had shown that in general, above a certain income level the influence of prices decreased proportionately, and the representatives of the Six again reminded the representatives of the non-Six producers that in their opinion the discussion should, as in other cases, be based on the hypothesis of an expanding economy, and therefore of an increase in consumption.
14. Some representatives of the non-Six producers expressed the view that there would be a decrease in demand for imported tobacco which might eventually recover again with increasing wealth in the Community, though probably after the end of the transitional period, but it was by no means certain that such increases in wealth would necessarily result in increased tobacco consumption. In any event, such increase as might take place would be taken up first on a preferential basis by producers of the A.O.T's, thus the percentage share of the market supply by the non-Six countries would decline.

15. The representatives of the Six said that in considering the future pattern of trade, it must be taken into account that consumption would probably increase substantially. The present needs of the Six and the A.O.T's amounted to 300,000 metric tons per annum, of which they produced only about 4 per cent, and it was estimated that by 1965 requirements would have risen to 375,000 metric tons.

(iii) Effects on Production in A.O.T's

16. Attention was drawn by some representatives of the non-Six producers to the fact that in 1953, the last year for which complete figures are available, production of tobacco in the A.O.T's was nearly 12,000 metric tons, and appeared to be increasing. Although this was a considerable increase on production ten years ago, it could nevertheless still be considered a small quantity. It must, however, be mentioned that so far as the French overseas territories are concerned their production had already reached the limit of the market available to them in France, the greater part of their tobacco requirements, other than that imported for blending purposes, being already grown by home producers in France and Algeria. It would have been difficult to find economic outlets for any greater production. The proposal to give the A.O.T's duty-free entry into the Six, however, would completely alter the picture. It might be foreseen, as already mentioned, that under these conditions their type of tobacco would gradually replace that presently imported from non-Six countries.
17. Imports of cigar-leaf tobacco were currently about 33,000 metric tons per annum into the Six, and four contracting parties to GATT (Brazil, Cuba, Dominican Republic and Indonesia) accounted in 1956 for 84 per cent of that amount. There were strong possibilities of a marked increase in production of this type of tobacco in Madagascar and some of the other A.O.T's. With the 30 per cent price advantage, it could be assumed that the production of cigar tobacco from those territories would replace a high proportion of such imports. The land and labour required to produce this relatively small quantity would not be great, but the consequences would be.

18. Production of fire-cured and sun-cured tobacco could very readily be increased in large areas of the A.O.T's. As already stated, it is a cash crop highly suited for peasant cultivation, requiring no capital and well suited to a wide variety of tropical and sub-tropical regions. Apart from the extensive production of tobacco by Africans in the Federation of Rhodesia and Nyasaland, tobacco-growing is expanding rapidly in all parts of Nigeria and is being developed in Ghana. There seemed no reason why similar developments should not take place in most of the A.O.T's. The price advantage which tobacco from these areas would have over tobacco from third countries was such that there would be a new and considerable demand for it from the Benelux countries and Germany, and this demand could easily be met over a period of years by increased production in the associated territories.

19. Referring to the views expressed in paragraphs 15 to 17, the representatives of the Six pointed out that neither the qualities nor the quantities currently produced in the A.O.T's could probably replace those at present consumed in the Community countries, and that there were no grounds for assuming that the A.O.T's would be in a position to do so in future, and that account should be taken of the fact that consumption was increasing in those territories which were importing greater quantities of tobacco each year. An article in "Tobacco Intelligence", published by the Commonwealth Economic Council (Vol. 9 No.2 - May 1957) confirmed the view that it was
unlikely that production in the A.O.T's could be expanded sufficiently to meet the Community's requirements. These representatives stressed the point that, in 1953 the A.O.T's had produced about 12,000 tons of tobacco, as compared with a production of about 10,000 tons twenty years ago; in that time, production had therefore only increased by 20 per cent, which was virtually negligible, both in terms of absolute and relative value. A rapid development also in the future was moreover unlikely, because of limiting factors such as the amount of capital available for investment, and also labour, particularly in the Belgian Congo, where the density of population was very low.

20. With regard to the different types of tobacco, these representatives observed that at least two of the varieties consumed in the Community countries were not produced in the A.O.T's. The first type - Oriental tobaccos - required such ecological and other (especially soil) conditions that it was impossible to expect that production would expand to any appreciable degree. Moreover, because of their special taste features, these tobaccos cannot be replaced by other varieties, and no increase in imports of this type can therefore be expected. In Germany, which is the principal importer of Oriental tobaccos (25,000 tons out of a total of 44,000 tons), the average price paid is DM 6 per kg. The common tariff duty which has been established by the Treaty at 30 per cent, will therefore amount to DM 1.80, which exactly corresponds to the present specific duty of DM 1.80 levied on tobacco imported into Germany. The second type - cigar-leaf tobacco - is not produced in any notable quantities in the overseas territories, with the exception of a very small production in the Cameroons, and the Community's present requirements are about 30,000 tons per annum. It is difficult to see how in future years the A.O.T's could develop production, since it is specialized and requires skilled labour and certain established techniques, not to mention the capital required for planting on a large scale. Production in the Belgian Congo is very limited and there are no indications that it is developing to any extent.
21. It was not impossible that production of certain types of tobacco might develop in some of the associated territories, but experience has shown that there would be many difficulties and that even if any such development was undertaken, it would only yield results very slowly. The representatives of the Six recognized that in the case of Rhodesia successful results had been achieved, but pointed out that many other countries which had similar conditions of soil and climate were nevertheless not tobacco producers. They pointed out that for a long time past, the indigenous inhabitants in Africa had been producing small quantities of tobacco of rather mediocre quality in their fields and around their villages; efforts had been made to improve the quality of this tobacco and to encourage the producers to extend their plantings, but such efforts had met with many difficulties as could be seen from the production statistics. The representatives again emphasized that tobacco for export required special attention as well as certain installations, such as dryers, which, however modest in some cases, nevertheless represented a not inconsiderable investment on the part of these populations whose standard of living was still very low.

B. Effects on Trade of Third Countries

22. Representatives of most of the non-Six producers considered that the change in market preferences arising from the discriminatory tariff would begin by the end of the first stage of the transitional period to divert purchases within the Six from third country suppliers to the tobacco of the A.O.T's. This diversion of trade would increase rapidly as the discriminatory element in the tariff increased and production in the A.O.T's rose. The effect would be most immediate on the dark-fired cigarette tobacco exported by third countries, e.g. Nyasaland and India, and that trade would disappear completely within a few years. Thereafter, the flue-cured tobacco imports from non-Community countries would be increasingly displaced by dark-fired tobacco from the A.O.T's. As already remarked, the much
smaller cigar-leaf tobacco market would suffer even more heavily and imports into the Six from non-Community countries might virtually disappear.

23. Markets for cigarette-type tobacco from third countries would be progressively reduced. Outside producers would thus tend to be reduced to the position of residual suppliers to the Six, only supplying such part of the demand as could not be met by the A.O.T's. This would be particularly important in any period of general recession. The additional quantities of tobacco forced on to the remaining world market must lead to a reduction in the world prices of tobacco. Non-Community producers would therefore suffer both from a loss of markets into the Six and from depressed prices for their markets into other importing countries.

24. The representatives of the Six stated that, in order to make an accurate assessment of the effects of a 30 per cent duty on the trade of third countries, it was necessary to know what effect such a duty would have on prices; moreover, a 30 per cent duty could not be considered as being higher than the average of the duties at present applied in the various countries of the Community. They added that there was nothing to indicate that the present pattern of trade would be modified to any appreciable degree in the near future, and stressed once more that consumption in the European countries would increase in coming years, thus creating new outlets. They also pointed out that the A.O.T's which were not tobacco producers represented an expanding market.

25. The representatives also drew attention to the fact that, on the assumption that the quantities at present produced in the A.O.T's would increase sufficiently to affect trade, it was in any case in the interest of those territories, as well as of other producers, to avoid any action which might have a depressing effect on prices. They added that before there could be any diversion of the present pattern of trade to the benefit of the A.O.T's, those territories would have to be in a position to offer purchasers in importing countries those qualities and quantities of tobacco which they required. There was nothing to indicate that the A.O.T's would be
able to meet even part of the requirements of the Community for a very long time to come.

II. Quantitative Restrictions and Agricultural Provisions of the Treaty

(a) Quantitative restrictions and agricultural provisions

26. Representatives of most of the non-Six producers considered that the application of quantitative restrictions or of the agricultural provisions of the Rome Treaty could be particularly serious in the case of tobacco. These representatives furthermore drew attention to the fact that in documents submitted by the Six the words "State Monopoly" appeared in the columns of France and Italy instead of the description of the existing tariff rates and quantitative restrictions, while for the same countries a duty rate of 30 per cent had been provided in the future common tariff. They pointed out that the State monopoly system operated by those two Governments would undoubtedly continue after the introduction of the new tariff, thus creating an additional burden on tobacco imported from third countries, beginning with the introduction of interim duties of 9 per cent after four years and 18 per cent after the second stage of the transitional period.

27. The representatives of the Six replied that the State monopoly was operated in such a way as to yield the maximum fiscal effect. If therefore the State, which operated the monopoly, had itself to pay duty, the total fiscal burden of the consumer could not be altered. Furthermore, they drew attention to the fact that Article 37 requires the Member States to adjust their monopoly system in such a manner as to remove all discrimination between their nationals. If this stipulation was read together with the other provision contained in the same Article, namely that the obligations incumbent on Member States shall be binding only to such extent as they are compatible with existing international agreements, it seemed to them that the future development could not lead to an intensification of the existing system but would tend rather towards a relaxation.
(b) **State monopoly**

28. Representatives of most of the non-Six producers stated that a monopoly system was at present applied by France and Italy to tobacco from all sources. Under the Treaty of Rome the monopoly system might be extended to the other members of the Community. In view of the financial importance of these monopolies in France and Italy in raising revenue, there appeared to be little likelihood that they would be dissolved, and if this was the case, then the only practical alternative when the Treaty was in full effect would seem to be for all Six countries to have a unified monopoly system. This could be used to give the tobacco production of the A.O.T's and from within the Six themselves a non-tariff preference in their markets, and this could not fail to worsen the position of third parties in respect of their exports of tobacco.

29. The representatives of the Six replied that any extension of the French and Italian monopoly systems to the whole Community was unlikely, though it was a possibility permitted under the Treaty; but in any case, if such a system acted as a stimulus to production, as assumed by some governments, the question arose as to why the development of tobacco production had been so slow in territories such as Madagascar since the end of the 1914-18 war, in spite of the existence of the French tobacco monopoly.
(i) **Short-term**

1. Representatives of most of the non-Six producers considered that by the end of the first period of five years, the effects of increased production in the A.O.T’s would begin to be increasingly felt on the markets of the Six, and the impact on third countries would be strengthened by the development of production within the Common Market itself following the establishment of the common tariff and the preferential arrangement for the A.O.T’s.

2. These representatives said that in the A.O.T’s every encouragement would be given to the development of tobacco production by peasant farmers, while in contrast it would be necessary in third countries to take immediate steps to adjust development plans now in hand. Those third countries included many which were underdeveloped contracting parties to GATT and to which the prospects of increased tobacco sales were particularly important. Even by the end of this comparatively short period, prices of tobacco on the world markets would show a decline.

3. The representatives of the Six replied that those views did not take into account the growing needs of the Community which, according to reasonable estimates, would rise from 300,000 tons in 1956 to about 375,000 in 1965 - an increase of 75,000 tons - nor did they take account of the actual production possibilities in the associated territories. They reminded the representatives of the non-Six producers that, although tobacco trade had been protected by the French State Monopoly, and in spite of the great efforts which had been made to increase production of this very profitable crop, tobacco production had nevertheless remained at the same level for the last twenty years; even assuming that this production might increase two- or even three-fold - though such an assumption was contradicted by past experience - the growing needs of the Community would still be far above what the territories could produce. It would therefore be
necessary to import from third countries even more than today. The representatives of the Six also pointed out that from 1948 to 1956, i.e. for a period of almost ten years, tobacco production in a country such as Rhodesia seemed to have reached a maximum level; it was difficult to compare the position of Rhodesia with that of the associated territories since in that country most, if not all, of the tobacco produced was grown on plantations owned by Europeans, but nevertheless this example seemed to indicate that production possibilities were not inexhaustible. These representatives also said that they could not see how, with these reasonable estimates for a larger market, tobacco prices could fall; they emphasized, as on other occasions, that if any such price falls were to occur, they would have the same effects on producers in the associated territories as on those in producing countries which were not members of the Community.
(ii) Long-term

4. Representatives of the non-Six countries feared that in the long-term the dislocation of patterns of trade would be serious. It could be expected that cigar-leaf tobacco from non-Six countries which were contracting parties to GATT would be particularly severely hit as the present quantity imported from them - about 28,000 tons - was not large in relation to the production potential of the A.O.T's, having regard to the relatively small acreage needed. With regard to other types of tobacco, while it was not foreseen that the present imports from non-Community countries could be entirely replaced in the near future by increased production in the A.O.T's, nonetheless the increase that would take place would have serious repercussions. Current total imports of non-cigar types of tobacco into the Six were roughly of the order of 140,000 metric tons per annum, and even if the A.O.T's increased their production to replace only one-quarter of this market, this could completely alter the economy of the tobacco export trade because of its depressing influence on world prices of tobacco. There appeared to be no reason why, in the very long run, after the end of the transitional period, the proportion supplied by the A.O.T's could not rise still further.

5. Tobacco producers in third countries would be in a particularly vulnerable position as they already relied to a large extent on tobacco as an important cash crop. In their case a depressed world market would tend not simply to prevent expansion, but force them to reduce production, with a corresponding adverse effect on their standard of living, while at the same time A.O.T. producers, having the benefit of the 30 per cent preference, would be induced to expand their production. If the latter producers were also to be protected by monopoly control, as seemed highly probable in view of the existing State monopolies in France and Italy, the
the effects would be still more serious. Even a much higher level of efficiency by non-Community producers would not enable them to compete in the Common Market. Contracting parties to GATT who were particularly liable to be affected included the Dominican Republic, Cuba, the Federation of Rhodesia and Nyasaland, Indonesia, India, the United States, Turkey and Greece. Some other countries, such as Canada, who have a small but rapidly growing export trade in tobacco with the Six are also likely to be affected.

6. With reference to the probable long-term effects of the Treaty, i.e. after 1965, the representatives of the Six considered that it would be risky to make forecasts for any period later than 1965, but said that in any case there was no cause for predicting that there would be a drop in consumption or a disruption of trade. That seemed to them to be a pessimistic view which was contradicted by the prospects of expansion that were held out by the Treaty. The representatives of the Six reminded the representatives of the non-Six producers that at present the French dependent overseas territories exported only about 200 tons per annum of cigar-leaf tobacco, and that there were no exports from the Belgian Congo; before it could meet the Community's requirements, present production would have to increase thirty-fold. It could be seen from instances where there had been a spectacular increase in production, such as Rhodesia, for example, that it was difficult to do more than treble production over a period of twenty years. This example, which was valid in the case of cigar-leaf tobacco, was also applicable to the other types of tobacco imported by the Community countries and which amounted to more than 140,000 tons. In these circumstances, it was hard to see why third countries should be obliged to reduce their production, or how the world market could suffer a depression as a result of the small quantities
of tobacco which the Associated Territories might eventually produce at some future time. The representatives of the Six also pointed out once more that any drop in prices on world markets would also be felt by producers in the Associated Territories, and that therefore it was in the interest of the latter as well as of producers in third countries to avoid such fluctuations.