Consultation with the European Economic Community on Tobacco

Draft Agreed Minute

1. The consultation on tobacco under Article XXII of the General Agreement with the European Economic Community, which was held at the request of the Government of the Federation of Rhodesia and Nyasaland, and which opened in Geneva on 23 October 1958 and 4 and 17 November 1958, was resumed in Geneva on 17, 19 and 25 February 1959.

2. The European Economic Community was represented by delegates from Member States and from the Community Institutions. Other contracting parties participating in the consultation were the Federation of Rhodesia and Nyasaland, Brazil, Canada, Cuba, the Dominican Republic, India, Indonesia, Turkey and the United States. The Chair was taken at the opening meeting by a representative of the Federation of Rhodesia and Nyasaland and at the later meetings by a representative of the European Economic Community.

3. The consultation was carried out in the light of previous discussion within the framework of the General Agreement on the association of the overseas territories of the Six with the European Economic Community, discussion at the previous consultation under Article XXII, and the various memoranda previously exchanged on tobacco.

Common External Tariff

(a) Implementation of the Common Tariff

4. The representative of the Community stated in reply to questions about the present level of duties on tobacco that the position so far as France and Italy were concerned remained unaltered, i.e., State monopolies continued to operate and no duty had yet been imposed; in the case of the Federal Republic of Germany and Benelux the position was:

(a) Federal Republic of Germany

Unmanufactured Tobacco - The duty of DM.180 per 100 net kgs, remained unaltered for third countries as tobacco was a liberalized

Spec(59)28
agricultural item, but had been reduced on 1 January 1959 by 10 per cent to DM.162 per 100 net kgs. for EEC countries; no consumer tax was applied.

Cigarettes - The rate of duty for cigarettes which had been negotiated under GATT with the United States in 1956 remained unaltered at DM.7,500 per 100 net kgs. both for members of the Community and for other countries.

(b) Benelux

Unmanufactured Tobacco - The rate of duty applied to members of the Community had been reduced by 10 per cent on 1 January 1959 to Fl.28.71 per 100 net kgs. in the Netherlands and to Fl.371.30 per 100 net kgs. in Belgium; no internal taxes were applied. The 10 per cent reduction had not been applied to third countries.

Cigarettes - The rate of duty applied to third countries remained unaltered at 45 per cent, but had been reduced by 10 per cent within the Community to 40.5 per cent.

(b) Assessment of the Common Tariff

5. In discussion on the assessment of the common tariff, representatives of participating countries other than the Six expressed the opinion that the rate of 30 per cent ad valorem for tobacco which had been agreed upon by the Community was unduly high considering that in France and Italy, where imports were effected by State monopolies, there had been no tariff on tobacco on 1 January 1957, and in Benelux the duty had been low.

6. These representatives recalled that during the previous consultation the spokesman for the Six had stated that the protection afforded by the monopolies was "total, complete or absolute" and that if a tariff equivalent were to be sought it would have to amount to at least 50 per cent ad valorem (MGT/59/3(b)/Annex 1). They asked why, if the monopolies in France and Italy were to continue to exist, it had been thought necessary to take the protection afforded by these monopolies into account in establishing the common tariff. In their opinion a barrier to trade, not in conformity with the provisions of Article XXIV of the General Agreement, would be created by the double protection afforded by the continued existence of State monopolies in France and Italy together with the overall introduction of a common tariff calculated by reference to these monopolies.

7. Representatives of the Six recalled that they had stated during the previous consultation that the duty on tobacco had not been established by means of an arithmetical or weighted average and that in fact it would have been meaningless
to have attempted to seek a fictitious tariff equivalent for the protection afforded by the monopolies in order to make such a calculation. As it was intended that the French and Italian monopolies should continue to operate indefinitely, though they might have to be adapted to conform to the provisions of the Treaty of Rome, the common tariff of 30 per cent had been established by negotiation among the member countries. As the monopolies would continue to control trade and to import tobacco within their needs, the representatives of the Six did not agree that the imposition of a 30 per cent duty would alter the existing situation or create an unnecessary barrier to trade.

8. In discussion on cigarettes, the representatives of the Six stated that no common tariff had yet been established as member countries might wish to invoke the provisions of Article 17(2) of the Treaty of Rome in respect of the fiscal element in duties in effect on 1 January 1957.

9. The representative of the Six agreed that where rates of duty which had previously been the subject of tariff concessions under GATT were involved, negotiations under Article XXIV(6) of the General Agreement would have to be held. He reminded the other participating countries however that while it had been agreed that such negotiations should take place before the Common Tariff came into effect, there had been no suggestion that they need take place before the first modifications in individual tariffs.

DEVELOPMENTS IN THE ASSOCIATED OVERSEAS TERRITORIES

10. The representatives of participating countries other than the Six noted that since 1 January 1959 tobacco producers in the associated overseas territories had had access to the German and Benelux markets at a rate of duty 10 per cent below that applied to producers in third countries. They considered that the introduction of a 30 per cent margin of preference was bound to act as an incentive to greatly increased production in the overseas territories and stated that reports had already been received and official statements made that producers in these territories were planning to expand production. While other producing countries had no objection to expansion of production in the associated overseas territories, they did object to this being facilitated by the introduction of a 30 per cent margin of preference. They recalled the views on possible increases in production in the overseas
territories which had been expressed in the Report of the Working Party on the Association of the Overseas Territories with the EEC (L/805/Add.6) and said that nothing had developed which altered those views.

11. Representatives of the Six stated that while it was hoped that tobacco production, like that of other commodities, both in the associated overseas territories and within the Community would increase as a result of the expanded development which it was hoped that the Treaty of Rome would bring about, it was expected that this would be limited by ecological and other factors. The statistics which they had available for production in the overseas territories, and which did not agree with those quoted in the United States memoranda, though it was stated that they had been provided by officials of the territories concerned, indicated that production was fairly low and that there had been no overall increase in recent years. They further stated that the increases in consumption which it had been estimated would occur during the next few years, partly as a result of increased standards of living within the Community and its overseas territories, would more than offset normal expansion of production within the area.

**POTENTIAL DAMAGE TO NON-SIX PRODUCERS**

(a) **Diversification of Trade**

12. In the view of participating countries other than the Six the introduction of a discriminatory common tariff of 30 per cent on unmanufactured tobacco would, because of the effect on prices and of the stimulus to production which it would provide in the associated overseas territories, result in the gradual loss to producers in third countries of their markets within the Community. This diversion of trade would also cause damage to the cigarette trade where it was necessary for manufacturers to plan their blends well in advance, as the types of tobacco which they required might suddenly cease to be available to them at competitive prices.

13. In reply, representatives of the Six stated that little diversion of trade was likely to result from the implementation of the common tariff. France already purchased a substantial amount of tobacco from the overseas territories and though imports from those territories might increase slightly, consumer
demand was expected to increase by a much higher proportion. Italy on the other hand already produced about 80 per cent of the tobacco required by the Monopoly and while it was probable that production would expand gradually there would be no substantial or abnormal increase, and in this country the consumer demand was expected to increase substantially during the next few years.

(b) Substitution

14. Representatives of participating countries other than the Six stated that in the case of tobacco there was danger of substitution as manufacturers within the Community would turn more and more towards the type of tobacco produced within the preferential area, and, as consumer demand tended to be affected by price, the wide price difference permitted by a 30 per cent margin of preference would reflect heavily on all types of tobacco but more immediately on the more expensive types, and would thus cause a decrease in demand for tobacco imported from third countries. There was also, in their opinion, the additional possibility that the more expensive types of tobacco (e.g. oriental and flue-cured) might begin to be cultivated within the preferential area and thus replace even the amounts of such tobacco which might have continued to be imported from third countries for blending purposes.

15. Representatives of the Six disagreed with the views expressed by the other participating countries. Increases in production in the associated overseas territories were expected to be moderate and it was not thought possible for ecological and other factors for the more expensive types of tobacco to be produced there in any quantity. In Italy too increases in production were expected to be moderate and in any case increased agricultural expansion generally would limit the amount of land available for expansion of tobacco production.

16. Representatives of the Six also pointed out that tobacco consumption within the Community and the associated overseas territories was expected, because of the rise in population and standards of living, to increase by 1965 to a level which was approximately four times greater than the rise in production which had been forecast in the United States memorandum for the next two decades.
(c) **Assessment of Damage**

17. No agreement was reached during the Consultation on the question of how damage to third countries could be assessed at this stage. Representatives of the Six stated that there was no proof that other producers were suffering actual damage already, and while they recognized the apprehensions of the other producing countries about the future position, they did not believe that they would prove to have been justified. Without concrete evidence they could not accept the argument of the other participating countries that import and production trends within the Community and the associated overseas territories were already changing and that a serious threat to their trade was imminent.

18. The participating countries other than the Six urged the representatives of the Six to reconsider the arguments which they had brought forward in support of their case. They pointed out that they could not afford to wait until concrete evidence of damage became available (e.g. in statistical form) because by that time consumer tastes would have been altered and it would be very difficult to prevent lasting damage to their producers.

**CONCLUSIONS**

(a) **Views of the Non-Six**

19. Representatives of participating countries other than the Six stated that they were greatly concerned about the effects which the imposition of a discriminatory 30 per cent tariff would have upon trade in tobacco which was of great importance to their economies. In their opinion the imposition of a 30 per cent tariff calculated by reference to the French and Italian monopolies, which would, however, continue to operate, would constitute an unnecessary barrier to trade, in particular in the case of Benelux and the Federal Republic, and they urged the Community to reconsider their decision to impose such a high tariff and to consider whether it should not be replaced by non-discriminatory internal taxes. They further expressed their apprehensions about the possible application of Articles 39 to 46 of the Treaty of Rome.
20. They expressed their disappointment that they must report to their Governments that no progress had been made during the consultations and that there was no sign of any practical action being taken by the Six to mitigate the effects of the damage to their tobacco exports which they felt must result. It was also disappointing in their opinion that the representatives of the Community had not been able to agree, despite the arguments which had been presented to them, that there was cause for concern about the future amongst other producing countries.

(b) Views of the Six

21. The representatives of the Six stated that they did not think the outlook for the future was as gloomy as the other participating countries feared. The adaptation of the French and Italian monopolies in accordance with the provisions of the Treaty of Rome would improve the position of non-Six producers and the German tariff would be reduced from 32 per cent to 30 per cent. The Benelux tariff would rise, but it was not expected that there would be any appreciable rise in consumption in Benelux during the next few years; on the other hand, however, it was estimated that a considerable rise in consumption in other parts of the Community and in the overseas territories would result from increases in population and in standards of living and this in turn would lead to increased tobacco imports.

22. While they recognized the apprehension of the other participating countries about future damage to their trade, they felt that any discussion on the future was subject to uncertainty and that the fact that discussion had centred on possible future damage indicated that no actual damage was being suffered by third countries. They undertook to report the views expressed by other participating countries to the Community institutions and, on the request of the Federation of Rhodesia and Nyasaland, the United States and Turkey, to reply in writing to the memoranda submitted by those countries.
ANNEX A

Statement made by the Representative of the Federation of Rhodesia and Nyasaland during the Tobacco Consultation

In approaching the current round of tobacco consultations we on this side of the table are unanimous in our opinion that the level of duty proposed by the Six is too high, will present a material change in the conditions under which we will be allowed to trade in Europe, will result in the distortion of that trade and in substitution. But just as tobacco is of many types and varieties, so also there are many differences in the particular circumstances of each of the consulting countries and each is making its own points to a common end.

Speaking for the delegation of Rhodesia and Nyasaland, I would like to reiterate for the sake of the record some of the points which have been made previously and also to introduce some new points. Those points will not refer in any way to technical questions of types of tobacco nor to legalities or principles but will be concerned solely with the practical position. I do not intend to reiterate our arguments about the factors which were said to constitute the reasons for the decision by the Six to adopt the level of 30 per cent ad valorem. Without accepting those arguments I will base my present submission on the fact that the 30 per cent ad valorem rate has been adopted.

Tobacco is grown in the Federation of Rhodesia and Nyasaland by an estimated number of some 70,000 farmers whose holding average only 5 acres per family. This is a large figure in a country of this size and it reflects the number of families which are almost wholly dependent upon tobacco as a cash crop and the majority of this number are peasants. They are the main producers of the dark fired types which are grown in the A.O.T.s and in Italy, and they will therefore be the people most likely to suffer initially as entrance to the markets of the Six becomes progressively more difficult in the face of the import duty differential in favour of the A.O.T.s and Italy. The remaining producers, mainly of the flue-cured Virginia type will also be affected as substitution of imports by local production takes place under the protection of 30 per cent ad valorem.
All the tobacco which we produce is sold within the Federation under an auction system which appears to be unique as there is no governmental interference, and no assistance or artificial price stimulation of any type. The success of the auctions and the resultant average price of the crops is dependent entirely upon the number and volume of orders held by the individual buyers and the pressures which they create to fulfill those orders. There is no need, I am sure, to demonstrate that under a public auction system in free competition the presence or absence of even one country's orders has a snowballing effect upon prices far in excess of the monetary value of that order. There is also little need to repeat that some 94 per cent of all of our production is exported and the success of the sales therefore is dependent entirely upon our success in entering export markets. Unlike the position in some other countries consulting here today, there is no action which can be taken locally to offset decreases in prices as a result of decreases in export opportunities. It may, however, be news to many of the Six to know that the tobacco auction period of some 6-7 months annually is regarded with so much importance by the community as a whole that daily average prices are the subject of quotation on the national radio service. Moreover, and probably more important to exporting countries which regard the Federation as one of their markets, permanent downward trends of the daily average prices during the season cause our merchants to re-examine their indents for imported goods since the movement of a few pence per pound can affect the overall value of the crop by several millions.

Our market for manufactured goods is, in terms of your trade figures, a small one, but it is a rapidly developing one and a tremendous factor in the rate of this development is the creation of this purchasing power amongst the many families whose livelihood depends upon the cash value of the tobacco produced. Throughout the period of currency shortages the Federation progressively liberalised imports of manufactured goods from Western Europe, including all the countries of the Six, and for some years now has not maintained any restrictions on trade from Europe for currency reasons. At the same time, because tobacco is (after copper) our second largest export item, it is of extreme importance that the maximum realisation in foreign currencies be obtained therefrom. For this reason my Government has recently offered opportunities of trade to countries which had not previously purchased our tobacco, in order to attract them to our market. In making these offers, the Government has been extremely careful to ensure that such countries (towards which we had no obligations under the GATT) should not be allowed to trade with us throughout the full range of our imports, nor in a manner which would injure the trade of our traditional suppliers, such as the Six. Our special need to export tobacco has not been allowed to interfere with what we consider to be our reasonable and deliberately assumed obligations towards our traditional suppliers.
Now to revert to this question of concrete damage. Firstly, and most important of all, there is naturally an inevitable time lag in statistics. Next, we are dealing with a commodity which has many different grades and types and which is particularly sensitive to price fluctuations within those grades. Moreover, the crop itself varies in the quantities of the different grades which are produced each year. The statistics of our exports are interesting. A single market such as the United Kingdom will show variations in quantities, between individual years, of as much as 7 or 8 million lbs. of leaf upwards or downwards, which represents some 10 per cent increase or decrease in their normal requirements. We could not conclude from any such variation that we had lost permanently or gained permanently in our share of the trade of the United Kingdom. We know instead that it has been the result of a greater or lesser proportion of tobacco leaf in our crop of a type suitable to the United Kingdom market or, alternatively, that stocks purchased in the previous season by the United Kingdom manufacturers have been consumed faster or more slowly than was anticipated. A similar pattern is evident over the whole range of our tobacco exports. It would take several years' statistics and a close study of the composition of each year's crop before we could prove either a marked trend upwards or a marked trend downwards. When therefore can we demonstrate concrete damage? Would the Six wish us to wait until we are able to show large numbers of our people driven back to a level of subsistence agriculture? Would the Six then reply to the effect that the artificial stimulus of the 30 per cent ad valorem has resulted in a large development within their own territories which they were then enabled to stop? This is a development which has taken place in many countries and has resulted in so many international commodity problems. It is naturally conceded that the Six should not stop development in tobacco growing merely because production is already established elsewhere in other countries. It is also conceded that the Six would wish to increase tobacco production but it is considered that the high level of 30 per cent absolute protection will stimulate production even, possibly, on unsuitable soils and in competition with other essential crops. This 30 per cent is a resounding figure - it is a figure to toy with in the imagination. It is a figure which can bring the Six domestic production troubles. It will inevitably increase the price of tobacco to the consumer. It will ensure that a large proportion of the now found prosperity and purchasing power of the consumers within the Six, resulting from the expected general economic development, is earmarked for the producers of tobacco.
Over and above this 30 per cent ad valorem we were disturbed by the position which was revealed by the representatives of France in regard to the monopolies. We have been told the 30 per cent contained an element of the protection previously afforded by the monopolies. Now, however, it appears the Six will move towards the 30 per cent and retain the monopolies in the transition period. During this period the French monopoly at least will have opportunities to sell cigarettes in the markets of the other countries of the Six but those other countries will not enjoy the same facility in France. We have therefore to face not only a progressively increasing barrier of import duty on our tobacco leaf but a favoured position for the French monopoly which is the largest user of just the type of tobacco which we fear will be substituted for our own. The other countries of the Six, which we have regarded as markets for substantial quantities of our tobacco, will face competition within their own markets from the monopolies, without enjoying equal opportunity to regain their lost sales by selling cigarettes in the monopoly countries. The representative of France said that he could not foresee any change in the position for some years. It might be said now that the present arrangements are only a temporary feature. One may remind the French that it was a great Frenchman who coined the phrase "Rien ne dure autant que le provisoire". We have heard nothing to suggest that the temporary arrangement will not endure until substitution is complete. The European Economic Community was established to share its strength and its expanding prosperity but this does not apparently apply to the cigarette trade.

We can speak with some authority about the operation of duty differentials. We have had a great deal of experience of production under a differential import duty system but nowhere, and never, have we enjoyed a clear margin of 30 per cent ad valorem. Nor have we ever had any of our advantages reinforced by a monopoly system. Nevertheless the increase in our production and in the quality of our tobacco has been spectacular under precisely similar climatic and ecological conditions as exist in certain of the overseas territories of the Six.

I could perhaps remind the representative of France more particularly that in our previous trading arrangements with the Union of South Africa sparkling wines from that country enjoyed a margin of difference in import duties of 33 1/3 per cent - still wines enjoyed a lesser advantage and brandy enjoyed only some 10 per cent. I am using, as an illustration, a commodity in which France is renowned for its quality and its international reputation. We are also discussing a market which is not composed of wine-drinkers. When the average Rhodesian drinks wine, it is an occasion and one would expect that in order to enjoy the full quality of French wines or even the snob value if he does not understand quality, the celebrating Rhodesian would have been prepared to pay just the extra few shillings per bottle to obtain the best. This was not so, and in spite of the favoured arrangements given to French imports under an agreement during our currency controls, the French exporters still found this differential system of import duties almost insurmountable. Since 1955 the present agreement with the Union of South Africa has not maintained a differential system of import duties on wines and brandy and the representative of France will be
aware how much the trade of French exporters has increased. I would, in fact, remind the French representative that when at the end of 1955 we reported to GATT that some part of this differential might be restored to South Africa, we received a formal approach from the French Government asking us to maintain the non-discriminatory tariff on the ground that any alteration would be damaging to French trade. These are simple illustrations to show you what can happen under conditions of a high level of differential duties.

Production in Italy is already at a high level and the likelihood of a substantial increase is beyond dispute. While we have little knowledge of conditions within the other A.O.T.s, we have a great deal of knowledge of conditions within the Belgian Congo. Our officials have travelled extensively there and our own information was strengthened by a report which we have received of an extract from a speech made on 1 September 1958 by H.E. Governor Jean Paclinck at the opening session of the Provincial Council of the Katanga Province. In the course of the speech the Governor referred to precise plans of tobacco production in certain areas of the Congo. The following is reported as a free translation of the words of the Governor in the course of his address:

"Realisation of the full potentialities of tobacco culture would be part of this second solution. Considering that growing conditions, climate and soil are about the same here as in the Rhodesias and considering how much revenue is derived in the Rhodesias from tobacco etc., we should look forward to the future with confidence."

We cannot prove damage as yet because of the facts stated above, but we submit that these same facts are sufficient grounds for our apprehension that this high level of protection combined with the distortion of trade arising from the monopoly system will cause an injury to our trade.

The tobacco trade is perhaps different from that in most other commodities. The introduction of new types, varieties and flavours of tobacco to the consumers' palate is a slow process. It has to be carried out over a period of years. But once a type of tobacco is established in blend - once a particular flavour has been accepted by the public, it is extremely difficult to change it again. Our point is that by the time we are in a position to prove concrete damage it will be impossible to redress. Those engaged in the highly competitive business of manufacturing and selling cigarettes are already turning their minds to the possibilities of the increased utilisation of the types and qualities of tobacco most likely to be produced either within the Six or their dependencies under the stimulus of the high level of preference which has been indicated up to the present time.
We have listened with attention to the Representative of the Six during the consultations on Tea this morning, when in talking about concrete damage he stated that damage cannot be achieved in a moment and that there must be stages in the assessment of damage. We can agree with this statement but must point out that the Six did not announce only the first stage of their progression towards their final objective in the tariff, and so give us an opportunity to assess damage stage by stage. Instead, the Six announced at the outset their final figure for the tariff and left us with the impossible task of proving concrete damage in the initial stages. It was the announcement of the 30 per cent which created so much concern in my country since the farmers are familiar with the expressed intentions of our neighbours in the Belgian Congo, while the fear of increased production in Italy, and in the other overseas territories, have also been apparent.

I must therefore repeat our initial request that this highly discriminatory import duty should be removed and replaced by a non-discriminatory excise or home consumption tax bearing in mind that the monopolies will continue to exist during the transitional period at least and will accordingly provide any protective element which the Six might seem to require.
ANNEX B

Statement made by the Representative of the United States during the tobacco consultations

To date the Six have refused to accept any basis in reference to diversion of trade or imminent damage except in terms of damage demonstrated by statistics after there has been a decline in the trade of present supplies. This is not an acceptable framework of reference for these discussions as effects of the duties will mainly be in the future, although there are already indications of shifts in purchases to meet blend changes developed because of the announced high duty of 30 per cent as proposed in the Rome Treaty.

We would like to know whether a change in blends indicated as directly due to the proposed 30 per cent duty would be accepted by the Six as evidence of (1) an increase in barriers to trade of the country adversely affected or (2) evidence of concrete damage or imminent threat of damage to the trade of the third country supplier adversely affected.

We would like to know whether an increase in duty incidence of 80 per cent or more above previous levels would be accepted by the Six as an increase in the barrier to the trade and threat of damage to the trade of the third country suppliers affected.

As Italy, Belgian Congo and certain other AOT's are already increasing exports of tobacco to the EEC Member States without any duty preference this clearly seems to indicate that no external duty on tobacco is required in order to accommodate a further moderate expansion of production in these areas.

Change in terms of access to the EEC market

The elimination of duties between the EEC Member States increases the barriers to third country tobaccos even with no external duty as the EEC producing and exporting areas (mainly Italy and Algeria) have free access to the total EEC market. However, elimination of duties between Member States is essential if there is to be an operational customs union. Unlike tropical products tobacco is produced in both the EEC and AOT's so the effect of the proposed duty changes must take into account its influence on production within both the EEC and AOT's. As you know by now the 30 per cent rate proposed is about three times the arithmetic average and 80 per cent above the weighted average of duties charged on total third country imports in 1957. In addition to an increase in duty protection on EEC production there is to be duty-free entry on production from the AOT's. Production could be expected to expand sharply in Italy, Algeria, Madagascar, Belgian Congo, Cameroons and to a lesser extent in certain other areas with the very high duty of 30 per cent (you have the United States paper of 8 November 1958 which outlines this in considerable detail). Some expansion will occur even with no duty and more with even a low duty but the 30 per cent proposed would unnecessarily stimulate production and divert the trade of present third country suppliers.
We have already made statements about blend changes and the proposed shifts that manufacturers will be practically forced to make in response to such an import duty. Purchases by EEC buyers made in 1960 and 1961 will be used after external duty begins to rise in 1962 (which could be changed earlier according to the Rome Treaty). For such purchases, the manufacturer must make plans in advance. These plans must take into account the change in relative cost which they will face in 1961, 1962 and thereafter. This is an important consideration in planning blends and is the major factor in the diversion of trade of present third country suppliers. Because of the advance planning for changes in blends and sources of supply of purchases it is essential that the EEC promptly take steps to eliminate the discrimination to third country suppliers.

There is already a 10 per cent discrimination against third country suppliers in Germany and Benelux. This will increase according to the Rome Treaty until the full elimination of the duties on EEC-AOT tobaccos is completed. The external duty in Benelux, Italy and France will start rising in 1962, and discrimination against third country suppliers will increase throughout the transition period.

Because of the influence of the EEC duty changes on the choice of alternative sources of supplies, it is requested that the Commission of the European Economic Community inform the exporting countries a year in advance of the schedule of import duty changes that will be put into effect (in reference to changes in the schedules of rates of both the external duties as well as the schedules of eliminating duties on trade between Member States including the AOT's).

In the process of adjusting to a common external tariff as proposed there will not be any lowering of duties or barriers to third country trade in a single area in the EEC. The protection of the monopolies (which the French and Italian representatives admitted was equivalent to an import duty of at least 40 to 60 per cent) continues and the discrimination against third country suppliers will be increasingly pronounced in Benelux and Germany in the 1959-62 period prior to 1962 when the external rate begins to rise in Benelux, France and Italy. Even on the basis of the European Economic Community as a customs union without the association of overseas territories, we think as a third country supplier, that there should be no discrimination as to import duties against third country tobacco in the Benelux and Germany while monopoly protection exists in France and Italy. These taken together constitute a significant rise in the barriers to trade of third country suppliers and is in conflict with the concept that the monopoly protection has been incorporated into an import duty as was specified by the Six in the November 1958 consultations as the main reason why the Six proposed the very high common external rate of 30 per cent ad valorem.
Obviously it was intended under Article 37 of the Rome Treaty that monopolies such as those for tobacco in France and Italy should be abolished or their operations brought into line with the framework of operations faced by the private producers, manufacturers and distributors in the other EEC countries.

Taking into account the various provisions of the Rome Treaty in regard to free access of EEC-AOT production to the entire EEC area (which in the aggregate greatly improves the competitive position of EEC-AOT production in relation to third country suppliers even with no common external duty) it seems reasonable that the proposed EEC import duty be removed and replaced with an excise tax on manufactured products.

Without reference to legal issues, on the basis of the association of overseas territories as a free trade area with the EEC, the United States is prepared to continue to make every effort to get the EEC import duty on tobacco eliminated or reduced to a very low rate. Even without the associated overseas territories as a free trade area the proposed 30 per cent rate is much higher than can be justified on any reasonable basis. If tobacco requires this much protection perhaps it would be preferable that practically all requirements be imported rather than produced in the EEC and AOT's.

The United States has over 582,000 tobacco producers (who produce small acreage per farm) and many exporters who are greatly concerned about the adverse effects of the proposed 30 per cent ad valorem duty. These groups have been strong proponents of a liberal trade policy. Because of this prompt action to ameliorate the imminent damage of the unnecessarily high proposed rate of 30 per cent is highly desirable.