

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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PROGRAMME OF CONSULTATIONS ON TRADE LIBERALIZATION

TOBACCO AND TOBACCO PRODUCTS

Informal record prepared by the secretariat

Revision¹

1. The consultation on tobacco and tobacco products was held on 11 March 1982 under the acting Chairmanship of Mr. P. Barthel-Rosa (secretariat).
2. As a basis for the consultation, the secretariat had prepared document COM.TD/W/351 containing information on product characteristics and varieties of tobacco, the commercial policy situation, trade flows and consumption.

General comments on production, consumption, trade flows, and the commercial policy situation

3. Delegations noted that world production and consumption of tobacco and tobacco products had reached a peak in the mid-1970's and had since tended to level off. However, reflecting an increasing demand for light and blended cigarettes, flue-cured and burley-type tobaccos had increased their share in world tobacco production and exports. There had been an overall trend in consumption switching from cigars, cigarillos and pipe tobacco to cigarettes. Trade in tobacco and tobacco products by volume had also tended to stabilize with exports of unmanufactured tobacco ranging between 1.3 and 1.4 million tonnes per annum in recent years. Developing countries had registered some increase in their share of the market from 47 per cent by volume in 1969 to 53 per cent in 1974 and 54 per cent in 1979.
4. Representatives of a number of exporting developing countries stressed the importance of production and trade in tobacco for their export earnings and economic development. Specific reference was made to different types of tobacco (virginia-type, oriental, dark type, etc.) exported by these countries. These representatives expressed appreciation for the progress made in the Tokyo Round and thereafter in the liberalization of trade in tobacco and tobacco products as recorded in COM.TD/W/351. They noted

¹The revision takes into account comments and additional information provided by delegations after the consultations.

however, that in most developed country markets tariffs were maintained on these products often at significant levels for protective and/or revenue purposes. In a number of these markets various other measures including production supports, import restrictions, mixing regulations, State trading and selective internal taxes were also applied. Having regard to the provisions of Part IV of the General Agreement, these representatives expressed the hope that this consultation could lead to further progress in the liberalization of trade in tobacco and tobacco products.

5. Certain delegations from importing countries stated that the stagnation of tobacco consumption in a number of markets was due primarily to anti-smoking campaigns conducted for health reasons.

6. The representative of the EEC said that the EEC's imports of leaf tobacco had accounted for some 35 per cent of world imports in recent years and that the share of developing countries as suppliers to the EEC market had increased from 36 per cent in 1973 to 55 per cent in 1979. He also said that improvements in the quality of tobacco exports from certain developing countries and the EEC's trade liberalization measures for tobacco were among the factors which had contributed to the favourable development of imports from developing countries. By way of example, the EEC had trippled the level of tariff quotas for tobacco imports under the GSP since 1974, and had reduced its m.f.n. duties as a result of the Tokyo Round without requesting reciprocal concessions from developing country suppliers.

7. The representative of Japan stated that tobacco consumption had recently grown only marginally in his country. Because of an imbalance in supply and demand and an accumulating stock of tobacco, the Japan Tobacco and Salt Public Corporation had taken measures to reduce domestic tobacco production. In spite of this situation, the Government of Japan had taken a number of trade liberalization measures including significant tariff reductions with respect to tobacco and tobacco products as a result of the Tokyo Round and certain negotiations held thereafter. For example, the m.f.n. duties on cigars and cigarettes were reduced from 60-90 per cent to 35 per cent on 1 April 1981.

Identification of trade problems; clarification
and additional information

8. Representatives of a number of tobacco exporting countries stated that specific duty rates applied to tobacco in some importing countries had resulted in tobacco at the lower end of price ranges (often from developing countries) being subject to higher ad valorem incidences than those on higher-priced tobacco. Some of these representatives stated that the tariff structure of the EEC was disadvantageous to the suppliers of low-priced tobacco and that a Tokyo Round m.f.n. concession granted by the EEC had resulted in the incidence of the m.f.n. duty on "other tobacco" being increased when prices were within a certain range. Some other representatives of exporting countries stated that the m.f.n. duty of Canada on "leaf tobacco, if not imported by cigar manufacturers" had been reduced as a result of the Tokyo Round, but no tariff reduction had been made by the country on "leaf tobacco, if imported by cigar manufacturers".

9. The representative of the EEC stated that because of a change in consumer tastes, the demand for tobacco for use in the manufacture of light, high quality cigarettes had been increasing. Hence, the EEC's policy was to open its market for such tobacco, which was not produced in the EEC. As developing countries were generally increasing their production of light, high quality tobacco, they were also in a position to benefit from tariff reductions for such tobacco leaf. The incidence of the EEC's mixed duties on tobacco was relatively high when prices were low. While some improvements had been made in the tariff treatment for low-priced tobacco under the GSP, further improvements would be rather difficult for such tobacco.

10. In response to an enquiry by the representative of Indonesia, the EEC representative stated that while the EEC had applied its tariffs on fire-cured tobacco to tobacco from Indonesia, doubt had arisen as to whether all of its tobacco imports under this category from Indonesia were fire-cured. This matter was being examined and some EEC experts had been sent to Indonesia for an on-the-spot investigation. He also stated that no tariff changes had recently been made with respect to tobacco.

11. The representative of Austria stated that tobacco and tobacco products were under State trading in his country, principally to raise revenue and that it would not be possible to modify the present system or to grant certain varieties of tobacco (e.g. oriental tobacco) special treatment. While Austria had once been an important importing country of oriental tobacco, it imported virginia-type tobacco increasingly because of a change in consumer tastes.

12. After the consultation the delegation of New Zealand provided the following information. "As a result of a study on the tobacco industry, some restructuring is currently taking place in New Zealand. Duty on unmanufactured tobacco has been halved since the Tokyo Round of multilateral trade negotiations. A large proportion of specific duty of the manufactured tobacco is excise duty which also applies to domestic manufacturers. Developing countries, moreover, benefit from a lower ad valorem tariff and, in several tariff items, a lower specific duty rate."

Possibilities for further progress in trade liberalization

13. Importing countries were requested by certain developing country suppliers to examine the following specific suggestions for possible liberalization of trade in tobacco and tobacco products:

- Austria: Elimination of duties on oriental and black tobacco¹, favourable treatment under State-trading for oriental and black tobacco and inclusion of cigars in the GSP with a preferential margin of 50 per cent.
- Canada: Separate tariff classification for "stemmed unmanufactured tobacco imported by cigar manufacturers for use exclusively in the manufacture of cigars in their own factories (ex 14204-2)" and reduction of the m.f.n. duty on the item.

¹ Imports by the Tobacco Monopoly are already duty-free.

- Czechoslovakia: Reduction of the m.f.n. duty on oriental tobacco to zero and favourable treatment for oriental tobacco under State trading.
- EEC: An increase of GSP quotas for virginia-type tobacco, reduction of the GSP rate on "other tobacco" (black tobacco, etc.), in particular "a minimum rate of 33 EUA per 100 kg.", and reduction of duties on unmanufactured and manufactured tobacco as well as internal taxes and other restrictive measures.
- Japan: Reduction of duties on manufactured tobacco, in particular cigars.
- New Zealand: Duty-free treatment for oriental tobacco.
Reduction of the m.f.n. rate on black tobacco to \$35 per 100 kg.

Relaxation of quantitative restrictions and reduction of duties on manufactured tobacco.
- Norway: Duty-free treatment under the GSP for cigars.
- Switzerland: Duty-free treatment under the GSP for cigars.
- United States: 17010 wrapper tobacco, not stemmed - duty-free treatment under the GSP

17015 wrapper tobacco, stemmed - duty-free treatment under the GSP

17028 oriental tobacco, not stemmed, not over 8.5 inches in length - duty-free treatment

17032 other unstemmed tobacco - duty-free treatment

17060 scrap tobacco - duty-free treatment on an m.f.n. basis or under the GSP

17065 cigarettes - duty-free treatment under the GSP and reduction or removal of excise taxes

17066 cigars and cheroots, valued 15¢ or more - duty-free treatment under the GSP

17072 cigars and cheroots, valued less than 15¢ - inclusion in the GSP