GENERAL AGREEMENT ON
TARIFFS AND TRADE

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WORKING PARTY ON THE ASSOCIATION OF OVERSEAS TERRITORIES
WITH THE EUROPEAN ECONOMIC COMMUNITY

COMMODITY NOTE: TOBACCO

Submitted by the Federation of Rhodesia and Nyasaland

1. Imports of unmanufactured tobacco into the Six from all sources have risen since the war. In recent years there has been some decrease of imports into France following an increased production there, but this decrease has been more than offset by increased imports into the other five countries, particularly the Federal German Republic which is now the second largest importer of tobacco in the world.

2. The Federation of Rhodesia and Nyasaland has shared in this expansion of imports, the quantity exported to the Six almost doubling in three years from 6.3 thousand metric tons in 1954 to 10.6 thousand tons in 1956. This represented in 1956, over 14 per cent of the total quantity of tobacco exported by the Federation of Rhodesia and Nyasaland, compared with slightly over 10 per cent in 1954. These figures reveal the increasing importance of this market to the Federation. Indeed, the expansion of the Federal tobacco industry is largely dependent upon increasing its exports to the countries of the European Economic Community, which area is now the Federation's second largest market. There are many types and grades of tobacco, and it should be noted that the grades exported to the Six tend to differ from those exported to the Federation's largest single market, the United Kingdom. The export trade to these two markets is, therefore, partly complementary rather than competitive.

3. Indications are that total Federal exports to the Six in 1957 were about the same as in 1956, but this was undoubtedly due to the unfavourable season in 1957, resulting in a short crop. Given a normal season there is no doubt that the 1957 exports to the Six would have maintained the rising trend of the previous years. A feature of the trade in 1957 was a substantial switch in the direction of exports from the Netherlands to Germany. This was no doubt due to the direct movement of tobacco to Germany instead of as a re-export from the Netherlands. During the first eleven months of 1957 Federal exports to Germany were 3.2 thousand tons compared with 1.6 thousand tons in the year 1956.
4. In addition to these exports to the Common Market Area, 4.1 thousand tons of tobacco were exported in 1956 to the associated territories of the Six. This trade is expanding, particularly to the Belgian Congo, and that territory may be expected to increase its imports of tobacco from the Federation. It is not known whether, following on the association of the overseas territories with the Six, their tariffs will remain at their present levels or whether changes will take place. It is impossible in these circumstances to come to any conclusions about future trade between the Federation and the associated Overseas territories, and this is a matter which will require further attention in the future.

5. The figures of the Federation's exports to the Six show that this trade represents only a comparatively small proportion of the total tobacco imports of those countries. However, the Federation is still a young and developing country, and the quantities concerned are an important part of its total production. Hence any changes governing international trade resulting in an adverse effect on these exports could have a disproportionately large adverse effect on the economy of the Federation.

6. Under the Rome Treaty provision has been made for an ad valorem duty of 30 per cent on imports of unmanufactured tobacco into the Six. This change from the existing position in the various member countries is of great importance to the Federation. In 1956 the Benelux countries imported 8.8 thousand tons of Federal tobacco, and under the common tariff the duty on these imports will be raised from 3d. a lb. unstripped (4½d. lb. stripped) to 30 per cent ad valorem. On Virginia flue-cured leaf, which is the bulk of the Federation's export, this is an increase of the order of two to three times the existing duty, varying with the prices for the various grades. With regard to Germany, there will be a slight reduction of duty. This, however, will not compensate the Federation of Rhodesia and Nyasaland for the relative advantage of a margin of preference of 30 per cent which will be given to producers within the Common Market area and the associated overseas territories.

7. The principal effect of the high level of the common tariff will be to encourage the production of tobacco in France, Italy and Algeria for consumption within the Six. Similarly, the granting of a preferential market to the associated overseas territories will inevitably stimulate production there too. Any increased production in these areas arising from preferential price and marketing treatment clearly must have a damaging effect on the remaining international tobacco trade.

8. In addition to the loss of markets, there is also the depressing effect on prices in the rest of the world to be taken into account. It is difficult to forecast whether increase in consumption, if any, will be sufficient to take up the increase in production. Nevertheless, as an ad valorem duty acts as a deterrent to the importation of the higher priced better quality tobaccos (such as are produced in the Federation), the general level of tobacco prices will tend to be reduced. Experience has shown that substitution of one type or grade by another can be effected over a period of time without decreasing overall consumption.
9. It may be noted here that the 30 per cent is not an average of existing tariffs, so that "what is lost on the roundabouts" will not "be gained on the swings". Only one country (the Federal German Republic) has an existing tariff that averages over 30 per cent on its imported tobacco. France and Italy have no import duty on unmanufactured tobacco, but control their imports through state monopolies. Under the Treaty it would appear that monopoly import control into these countries will continue. Thus, in those countries the 30 per cent ad valorem duty is a straight addition to the existing barriers to trade, not an alternative.

10. The FAO, in its Commodity Series Bulletin No. 29 "Agricultural Commodities and the European Common Market" has relevant observations on the effects of the 30 per cent import duty on the tobacco trade. It states (page 26):

"... For most leaf types of good quality, this rate will represent a substantial increase over the specific duties currently applied by Western Germany and the Benelux countries; France and Italy where State monopolies for tobacco have exclusive rights to import leaf, have at present duty-free imports. Thus, the 30 per cent duty has not been established as an arithmetic average of existing tariffs as is the case for most other commodities.

"Manufacturers and leaf importers in Western Germany, Belgium, and the Netherlands, are seriously concerned about the possible effects of the high ad valorem rate on leaf prices, and exporters in other countries are worried about the preferential import position for such types of leaf which are produced for export in Italy and France (including the latter's overseas territories) ....

"At present prices, in the leaf market as a whole only tobacco of inferior grades might benefit from the change of duties to an ad valorem base, and so far as quality standards for manufactured products are concerned this would not be a desirable development."

11. It can only be concluded that the principal effect of the 30 per cent tariff will be to encourage the production of tobacco, both in the Common Market area itself and in the associated overseas territories, in regions where this would not otherwise be economic, to the detriment of countries such as the Federation which have long proved their suitability for growing tobacco at an economic cost. Further, this artificial encouragement can only result in the production of types and qualities not at present favoured by consumers in some of the countries of the Six. However, as has already been stated, experience has shown that gradual substitution of grades can be effected.

12. The present specific duties in four of the Common Market countries have at least had the effect of tending to assist the trade in the better quality tobaccos, whereas the ad valorem duties will favour the cheaper grades.
13. This Working Party is concerned with the effects of the association of the Overseas Territories of the Six on the trade of third countries, but attention must be drawn to the fact that, with regard to tobacco, the level of the common tariff is the most important factor likely to damage the interests of the Federation, and it will be necessary to refer again to this at an appropriate future stage.