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Approved by:

Mary Revelt

U.S. Mission to the European Union, Brussels

Prepared by:

Danielle Borremans

Report Highlights:

EU tobacco production in 1999 decreased by less than 1 percent from the previous year. The incidence of smoking has decreased for a number of years, but EU legislation aiming at reducing it further is in preparation. At the same time, EU authorities have undertaken measures to tackle the problem of cigarette smuggling.

Includes PSD changes: Yes
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Executive Summary

2000 was the second year for EU tobacco farmers to receive premium payments which comprise a fixed aid paid directly to the producers through member state intervention agencies, a specific aid paid directly to producer groups for production improvements, and a variable, quality-related aid paid through the producer groups to the producer. Total EU production of unmanufactured tobacco amounted to 339,000 MT in 1999, a decrease by less than 1 percent from the previous year. Contracted tobacco volumes in 2000 could not be calculated for the EU-15, because administrative problems in Italy prevented the insertion of Italian contract data. Greece and Italy combined account for three quarters of EU tobacco production.

EU smokers consumed 595 billion cigarettes in 1998, a decrease of 2.7 percent compared to 1994. This modest decrease, combined with scientific facts around the damaging effects of tobacco on human health, encouraged EU policy makers to draw up measures in order to reduce the incidence of smoking. One legislative act in the making is the proposed EU Directive on the manufacture, presentation, and sale of tobacco products. Another EU Directive of 1998, which regulates advertizing of tobacco products and sponsorship of events on behalf of tobacco products, was annulled by the European Court of Justice in October 2000.

The EU remains the world's largest importer of tobacco leaves, importing 528,000 MT of unmanufactured tobacco in 1999. Given that the EU imported lower volumes of Brazilian tobacco in 1999, the U.S. has regained its position of leading supplier of unmanufactured tobacco to the EU. The EU trade of manufactured tobacco products, i.e., cigarettes, is having to deal with the problem of smuggling, which, according to estimates of the EU's Anti-Fraud Office, resulted in foregone tax revenue of EUR 4.7 billion during 1998.

Note: EUR 1= \$0.89 on December 20, 2000.

Production - Supply - Demand Table

PSD Table						
Country:	European Union					
Commodity:	Tobacco, Unmfg.					
		1998		1999		2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Planted	139100	139100	133470	130353	0	126345
Beginning Stocks	244942	244942	206565	226565	0	212319
Farm Sales Weight Prod	342022	342021	345725	339072	0	337000
Dry Weight Production	306794	306794	310116	304148	0	302289
U.S. Leaf Imports	111141	111141	115000	116620	0	118000
Other Foreign Imports	422270	422270	425000	412162	0	410000
TOTAL Imports	533411	533411	540000	528782	0	528000
TOTAL SUPPLY	1085147	1085147	1056681	1059495	0	1042608
Exports	178582	178582	185000	172176	0	170000
Dom. Leaf Consumption	120000	120000	115000	115000	0	120000
U.S. Leaf Dom. Consum.	115000	115000	115000	120000	0	120000
Other Foreign Consump.	465000	445000	455000	440000	0	440000
TOTAL Dom. Consumption	700000	680000	685000	675000	0	680000
TOTAL Disappearance	878582	858582	870000	847176	0	850000
Ending Stocks	206565	226565	186681	212319	0	192608
TOTAL DISTRIBUTION	1085147	1085147	1056681	1059495	0	1042608

Production

Production policy - Guarantee thresholds

Tobacco farming is currently governed by Council Regulation 2075/92 (as amended). Since the 1993 harvest, the common market organization for tobacco limits subsidized production and has no provisions for intervention buying or export subsidies. The system covers all varieties of tobacco grown in the EU. The goal of the system is to ensure a certain level of income for tobacco producers who are generally located in the most economically challenged, poorest regions of the EU. This is accomplished by paying producers premiums, which vary for each of the 8 tobacco variety groups. The European Commission classifies the varieties of tobacco produced in the EU into eight categories based on the method used to dry the leaves. It also bases its statistical information on these categories. The eight are: Flue-cured (e.g. Virginia); Light air-cured (e.g. burley); Dark air-cured (e.g. Paraguay); Fire-cured (e.g. Kentucky), Sun-cured (e.g. Herzegovina), Basmas, Katerini and Kaba Koulak (Classic). The latter three are only grown in Greece.

In order to guard against excessive production, a quantitative limit called the guarantee threshold, is set on the

amount of production which is eligible for premium payments. EU Council Regulation 660/99 of March 22, 1999 sets the guarantee thresholds per variety group for each of the EU tobacco producing member states for 1999, 2000, and 2001. Member States are responsible for dividing production quotas among all producer groups. The allocation is done in proportion to the average quantity of tobacco delivered for processing by each producer group over the three years preceding that of the most recent harvest. See Table 1 for details on the 2000 guarantee threshold. In 2000 and 2001, guarantee thresholds are gradually reduced from 1999 levels to 347,475 MT and 347,055 MT, respectively. See Table 2.

By April 2002, the European Commission will submit a report to the Council, reviewing the operation of the current Common Market Organization for tobacco.

Table 1: EU guarantee thresholds, harvest year 2000 (Metric tons)

Tobacco type	Italy	Greece	Spain	Port.	France	Germ.	Belg.	Austr.	TOTAL
Flue-cured	48500	31200	29000	5500	9500	3000	-	30	126730
Light air-cured	47000	12400	2470	1200	8300	4125	191	446	76132
Dark air-cured	17900	-	10800	-	8548	4500	1662	100	43510
Fire-cured	6965	-	30	-	-	-	-	-	6995
Sun-cured	10100	12640	-	-	-	-	-	-	22740
Basmas	-	26330	-	-	-	-	-	-	26330
Katerini	1500	22750	-	-	-	-	-	-	24250
K.Koulak	-	20788	-	-	-	-	-	-	20788
TOTAL	131965	126108	42300	6700	26348	11625	1853	576	347475

Source: EU Council Regulation 660/99 of March 22, 1999, L83/10

Table 2: Guarantee thresholds for the 1999, 2000 and 2001 harvests (MT)

Tobacco variety group	1999 harvest	2000 harvest	2001 harvest
Flue-cured	125,855	126,730	127,430
Light air-cured	75,787	76,132	76,132
Dark air-cured	43,666	43,510	43,510
Fire-cured	7,203	6,995	6,995
Sun-cured	26,800	22,740	21,100

Basmas	26,100	26,330	26,330
Katerini	22,750	24,250	24,770
Kaba Koulak	20,407	20,788	20,788
Total	348,568	347,475	347,055

Source: EU Council Regulation 660/99 of March 22, 1999, L83/10

Production policy - Premiums

In addition to the market price received from processors, EU tobacco growers are eligible for support payments (premiums) up to the guarantee threshold. In 1999, total EU expenditures with regard to these premiums amounted to EUR 974 million. EU Council Regulation 660/1999 of March 22, 1999 fixes, for the harvest years 1999, 2000, and 2001, the premiums for leaf tobacco by group of tobacco varieties. See Table 3. For flue-cured, light air-cured and dark air-cured tobaccos grown in Austria, Belgium, Germany and France, a supplementary amount is granted equal to 65% of the difference between the premium applicable to the 1998 harvest and the premium applicable to the 1992 harvest for those tobaccos. These supplementary amounts are also listed in Council Regulation 660/1999. See Table 4 for details.

The average quality of tobacco grown in the EU is very low with the exception of Greek Oriental tobaccos (Basmas, Katerini, Kaba Koulak) which are of good quality and are sold at high prices. Poor quality is particularly evident for most of the Greek and Italian Virginia and burley tobaccos whose support premiums are many times larger than the producer price of a kilogram of tobacco. The only market for such tobacco is as filler in cheap mixtures.

Until 1999, support premiums were fixed amounts, equal for all tobacco farmers, and increased by supplementary amounts for specific tobacco varieties grown in certain EU member states. As from the 1999 harvest, the European Commission has made amendments to the premium scheme and the guarantee thresholds. The principal objective behind the reform was to increase quotas for varieties which have assured outlets and attract high market prices. Furthermore, support payments were to be "modulated" or adjusted according to tobacco quality, i.e. part of the premium was to be linked to the value of the tobacco produced.

From the 1999 harvest onwards, the premium comprises:

- a fixed aid, which remains constant for all producers, regardless of quality;
- a specific aid, i.e., 2 percent of the premium;
- a variable, quality-related aid (for the 1999 harvest year: between 15 and 25 percent of the total premium, depending on the group of tobacco varieties; increasing to between 30 and 40 percent for the 2001 harvest year);

Both the specific aid and the variable part of the premium will be paid to producer groups for distribution to their group members. Consequently, tobacco farmers not belonging to a producer group will only be eligible for the fixed part of the premium. These are, however, very few in number. In 1999, 99.94 percent of the 339,000 MT of raw tobacco delivered to processors, was delivered by producer groups.

The calculation of the variable part of the premium for each batch of tobacco delivered to processors will

generate a lot of bookkeeping for each producer group. The purchase price paid by processors for each batch delivered will determine the level of the variable aid payable to the tobacco grower. Rules for the breakdown of the premium, as well as the relation between the variable part of the premium and the total premium, are listed in Annex V of Commission Regulation 2848/1998 of December 22, 1998.

Commission Regulation 2848/98 also specifies the purposes for which specific aid may be used. These are, among others, the employment of technical staff to assist members in improving the quality of their production, purchase of higher-quality inputs, and implementation of environmental protection measures.

Table 3: EU premiums for leaf tobacco for the 1999, 2000, and 2001 harvests

Category	Premium (EUR/kg)
I. Flue-cured	2.98062
II. Light air-cured	2.38423
III. Dark air-cured	2.38423
IV. Fire-cured	2.62199
V. Sun-cured	2.38423
VI. Basmás	4.12957
VII. Katerini	3.50395
VIII. Kaba Koulak	2.50377

Source: EU Council Regulation 660/1999 of March 22, 1999, L83, page 10.

Table 4: Supplementary amounts for specific tobacco varieties grown in certain EU member states

Tobacco variety	EUR/kg
Badischer Geudertheimer, Pereg, Korso	0.5509
Badischer Burley E and hybrids thereof	0.8822
Virgin D and hybrids thereof, Virginia and hybrids thereof	0.5039
Paraguay and hybrids thereof, Dragon vert and hybrids thereof, Philippin, Petit Grammont (Flobecq), Semois, Appel terre	0.4112

Source: EU Council Regulation 660/1999 of March 22, 1999, L83, page 10.

Actual production volume

EU tobacco production in 1999, totalling 339,072 MT, decreased by less than 1 percent from the previous year. The 6-percent area decrease was almost entirely compensated for by a 6-percent rise in average yield levels.

Data for total EU hide, however, large fluctuations on member state level: France and Germany saw a considerable increase in tobacco output, while production in Spain, Italy, and Portugal decreased in line with reductions in planted area.

Contracted tobacco volumes in 2000 could not be calculated for the EU-15, because administrative problems in Italy prevented the insertion of Italian contract data. In the Production-Supply-Demand Table, we estimated total EU contracted volumes for the 2000 harvest at 337,000 MT, well below the guarantee threshold of 347,475 MT. Final production data for 2000 will be available when all tobacco from the 2000 harvest will have been delivered to processors.

Greece and Italy combined account for three quarters of the total volume of EU tobacco production. See Table 5 for the respective shares of the 8 tobacco-producing Member States of the EU. Harvested volumes of tobacco, for the 8 groups of tobacco varieties in 1998 and 1999 are listed in Table 6.

Table 5: Tobacco production in the EU during 1999

Country	Area (HA)	Yield (MT/HA)	Production (MT)
Belgium	359	3.71	1,333
Germany	4,546	2.49	11,334
Greece	59,850	2.07	123,851
Spain	13,214	3.02	39,893
France	9,479	3.18	30,136
Italy	40,603	3.11	126,356
Austria	110	2.22	244
Portugal	2,192	2.70	5,925
TOTAL EU-15	130,353	2.60	339,072

Table 6: EU raw tobacco production, per variety groups, 1998-1999 *

Variety group	Harvest (1,000 MT)	
	1998	1999
Flue-cured	126,358	123,528
Light air-cured	73,087	76,047
Dark air-cured	43,656	39,590
Fire-cured	6,921	6,783

Sun-cured	27,331	26,434
Sun-cured/Basmas	24,589	25,243
Sun-cured/Katerini	22,093	22,045
Sun-cured/Kaba Koulak	17,986	19,402
Total EU-15	342,021	339,072

* Due to administrative delays, Italian data on contracts for 2000 not yet available; therefore EU-15 data for 2000 cannot be compiled

Source: European Commission

Crop area

A comparison between harvested tobacco areas in 1998 and 1999 is given in Table 7. 1999 was the first year in which producer premiums were made partially dependent on the quality of the tobacco output. The data in Table 7 do, however, not show an increasing share of better quality varieties. Reportedly, the average quality of the 1999 did improve, the result of better production methods and care taking (fertilizers, crop protection etc.). In spite of this, 1999 producer prices (see below) remained unchanged from the previous year, owing to the impact of decreasing international prices on EU price setting.

Table 7: Tobacco area in the EU, harvest year 1999 versus 1998

Variety group	1998 (Hectares)	1999 (Hectares)
Flue-cured	45,634	42,138
Light air-cured	20,146	20,016
Dark air-cured	16,871	13,932
Fire-cured	3,066	2,684
Sun-cured	11,384	10,125
Sun-cured/Basmas	20,956	20,636
Sun-cured/Katerini	11,902	11,721
Sun-cured/Kaba Koulak	9,141	9,101
TOTAL	139,100	130,353

Source: European Commission

Inputs

Tobacco farming is a small scale activity in the EU. The mean acreage per producer under tobacco cultivation is estimated at 1.16 hectares for the 2000 harvest. Acreage varies, however, greatly according to variety and country. Without taking into account the missing data for Italy, the number of farmers has decreased by on average 3.6 percent compared to 1999. It is estimated that about 4,000 EU tobacco growers have stopped production of tobacco during the year 2000, leaving between 108,000 and 109,000 farmers currently growing tobacco in the EU. See Table 8.

Tobacco is also one of the most labor intensive crops in the EU. On average, one hectare of tobacco calls for 2,200 hours of labor per farmer. For most varieties, labor accounts for 50-70 percent of the production cost, although this too varies by country and variety (labor accounts for 85 percent of the production cost of the Basmas variety in Greece whereas it is only 45 percent of the production cost of flue-cured tobacco in Italy). More than 80 percent of the labor requirement is met by the family workforce. As tobacco is generally grown on small plots, the possibilities for mechanizing transplanting and harvesting operations are limited. See Table 9 for a development of yield levels per tobacco variety in the EU during the period 1994-1999.

Table 8: Average size of tobacco farms in the EU, 2000

Country	No. of tobacco farmers	Total tobacco area (HA)	Average size of tobacco area (HA/farm)
Germany	1,059	4,577	4.32
France	6,735	9,039	1.34
Belgium	251	369	1.47
Italy	1/	1/	1/
Greece	61,665	56,918	0.92
Spain	6,873	13,209	1.92
Austria	82	111	1.35
Portugal	523	2,122	4.06
TOTAL EU	1/	1/	1/

Source: European Commission

1/ Data could not be compiled due to administrative delays in Italy

Table 9: Yield levels (MT/HA) for EU leaf tobacco, 1994-1999 1/

Tobacco variety	1994	1995	1996	1997	1998	1999
Flue-cured	2.37	2.64	2.65	2.76	2.77	2.93
Light air-cured	2.85	3.01	3.34	3.46	3.63	3.80

Dark air-cured	2.07	2.11	2.53	2.50	2.59	2.84
Fire-cured	1.97	2.34	2.22	2.29	2.26	2.53
Sun-cured	1.81	1.97	2.11	2.24	2.40	2.61
Special sun-cured 2/	1.40	1.48	1.53	1.65	1.54	1.61

1/ Austria included from 1995 onwards.

2/ Special sun-cured tobacco varieties grown in Greece: Basmás, Katerini, Kaba Koulak.

Source: European Commission

Producer prices

Tobacco grown in the EU remains a highly subsidized product. While, on average, the aggregate subsidy paid has been more than 5 times the market value of the product, large variations exist. In Table 10, the average prices (excluding taxes and other levies) paid by first processors to tobacco farmers, are listed together with the highest and lowest member state average per variety. Between 1995 and 1997, the mean tobacco price paid by processors rose from EUR 0.6/kg to EUR 0.94/kg. In 1998 and 1999, the average price fell back again to EUR 0.79/kg and EUR 0.77/kg, respectively.

Table 10: Average price paid by first processors for 1999 tobacco crop

Tobacco variety	Average EU price (EUR/kg)	Price range among EU countries	
		Lowest average (EUR/kg)	Highest average (EUR/kg)
Flue-cured	0.584	0.363	0.884
Light air-cured	0.373	0.234	1.085
Dark air-cured	0.497	0.118	1.251
Fire-cured	1.561	0.733	1.564
Sun-cured	0.353	0.173	0.500
Basmás	2.843	1/	1/
Katerini	1.570	1/	1/
Kaba Koulak	0.802	1/	1/

Source: European Commission

1/ not applicable since this tobacco variety is only grown in Greece

Consumption

Consumption - General

EU smokers consumed 595.4 billion cigarettes in 1998, a decrease of 2.7 percent or 16.6 billion cigarettes when compared to data for 1994. The number of smokers in the EU decreased by 4 million persons between 1994 and 1998. Large variations exist, however, among EU member states. See Table 11 for details.

Although the incidence of smoking in the EU has declined for a number of decades, the rate of fall has slowed during the latter part of the nineties. Studies from the World Health Organisation and the International Centre for Cancer research have shown that smoking remains the largest single form of avoidable death in the EU. EU health policy with regard to reducing the incidence of smoking comprises several elements such as improved consumer information, restrictions on the advertizing and marketing of tobacco products, health education measures, and a taxation policy aimed at discouraging consumption.

Table 11: Cigarette consumption in the EU, 1994-1998

	Total cigarette consumption (billions)		Number of smokers (millions)		Per smoker (cigarettes per day)	
	1994	1998	1994	1998	1994	1998
Austria	14.1	15.0	1.6	1.8	24.1	22.5
Belg./Lux.	16.2	17.3	2.6	2.6	17.1	18.2
Denmark	8.7	8.2	1.6	1.5	14.9	15.0
Finland	5.7	4.8	0.9	0.8	18.4	16.4
France	90.1	83.8	15.0	14.0	16.5	16.3
Germany	136.5	138.3	24.0	19.9	15.6	19.0
Greece	28.2	30.6	3.7	3.8	21.2	22.0
Ireland	6.0	6.4	0.7	0.8	22.1	21.9
Italy	90.6	91.1	12.8	14.1	19.4	17.7
Netherlands	16.5	16.6	4.5	4.6	10.1	9.9
Portugal	15.8	16.3	2.0	1.4	21.6	31.9
Spain	87.6	91.0	9.6	11.1	25.0	22.4
Sweden	8.7	5.7	2.0	1.2	11.9	13.1
U.K.	87.3	70.0	15.8	15.0	15.1	12.7
TOTAL EU-15	612.0	595.4	96.7	92.6	17.3	17.6

Source: CECCM (Confederation of European Community Cigarette Manufacturers)

Consumption - Taxation of tobacco products

Tobacco products are subject to high levies, both in the form of value added tax and excise duties. This is justified on public health grounds as it helps discourage consumption. Young people in particular should be discouraged from taking up the habit of smoking. Given that disposable incomes of young people are limited, taxation policy is particularly effective for this segment of the smoking population. Income raised by tobacco taxes in several EU Member States is used to help finance the health care costs arising from tobacco consumption.

Value added tax rates and excise duties vary considerably among EU member states, leading to large discrepancies in retail prices for cigarettes recorded throughout the EU. Furthermore, the incentive to smuggle cigarettes, i.e. avoid taxation, increases in line with the tax level. Studies from OLAF, the EU's Anti-Fraud Office have shown that in 1998, some EUR 4.7 billion in tax revenue was lost owing to cigarette smuggling. Illegal cigarette sales are reportedly most prevalent in Italy, Spain, the U.K., and Germany. It is estimated that about 10 percent of the market in those countries consists of untaxed contraband. Factors of this magnitude may diminish the accuracy of the consumption data shown in Table 11.

During the summer of 2000, the European Commission decided to file a civil suit against two U.S. cigarette manufacturers suspected of complicity in circumventing European customs duties and value-added tax. Early November 2000, the Commission filed a civil action in the U.S. District Court for the Eastern District of New York, seeking compensation for financial losses the EU has suffered and injunctive relief in order to prevent further smuggling. Both companies vigorously contest the suit, referring to the willingness of the private tobacco sector to cooperate with regard to the implementation of measures to fight contraband. For example, there is an EU directive in preparation that will force tobacco companies to print lot numbers on cigarette packets to help trace where they are manufactured.

Consumption - Health policy

Mid-November 1999 the European Commission finalized a proposal for an EU directive on the manufacture, presentation, and sale of tobacco products. On the basis of the Commission's proposal and the opinion of the European Parliament, on July 31, 2000 the EU Council adopted Common Position (EC) No 46/2000, which contains the following elements:

- from January 1, 2004, the yield of cigarettes released for free circulation, marketed or manufactured in the EU, shall not be greater than 10 mg per cigarette for tar, 1 mg per cigarette for nicotine, 10 mg per cigarette for carbon monoxide;
- the obligation for all manufacturers and importers of tobacco products to submit a list of non-tobacco ingredients, including additives, used in the manufacture of their tobacco products by brand;
- amendments to format and contents of health warnings put on tobacco products. The attention of consumers will be drawn to the links between smoking and certain diseases, and the particular danger of tobacco use by pregnant women;
- the prohibition of the use of terms such as "low tar", "light", "mild", unless authorized by EU member states. These terms have in the past led to misapprehensions on the part of consumers, in that they were erroneously assuming that these terms referred to products less harmful to human health.

To date the EU Directive has not been adopted. Given that the "co-decision procedure" is being used, the European Council cannot adopt its common position unless agreement with the European Parliament has been reached. On December 13, 2000, the European Parliament adopted 32 amendments, which the Council could not entirely agree with. Consequently, the adoption procedure is currently at the stage of "conciliation". Discussion continues on a number of issues such as misleading product descriptions, a list of additives, warning labels, a transitional period for exports, and the legal basis. It is expected that the final adoption of the EU Directive will take place around March/April 2001.

Tobacco advertizing

Early October 2000, the European Court of Justice decided that the EU Directive on tobacco advertizing and sponsorship, adopted in July 1998, should be annulled for reasons connected with its legal base. More particularly, the Court stated that the Directive should have had greater focus on facilitating trade and competition in the internal market. The Directive was scheduled to be imposed on tobacco advertizing in all 15 EU member states by July 1, 2001, with an extension to October 2006 for sponsorship of international events such as Formula One Grand Prix motor racing. The Commission is currently in the process of drafting a revised proposal, which should be finalized by May 2001.

Trade

The EU relies on significant quantities of raw tobacco imports to compensate for the relatively low quality of EU-grown tobacco and to cater to strong demand for American-style cigarettes. The EU remains the world's largest importer of tobacco leaves, in 1999 accounting for 29 percent of the world's imports. Imports from third countries equalled 528,782 MT during 1999, 47 percent of which was flue-cured tobacco. Compared to 1998, EU imports of unmanufactured tobacco fell by less than 1 percent in 1999. The U.S. regained its position of leading supplier of unmanufactured tobacco to the EU, exporting 5 percent more than in 1998. As expected, Brazilian exports to the EU decreased in 1999, partly because of the withdrawal of Brazil's GSP benefits for tobacco. The lower imports from Brazil were almost entirely offset by increased imports from Zimbabwe and Malawi, enabling those countries to regain the market shares lost during the previous year. Notwithstanding the withdrawal of Brazil's GSP benefits, it is generally expected that Brazil will continue to be a major supplier for Virginia tobacco, a quality variety for which the EU will remain dependent on imports. Furthermore, the political climate in Zimbabwe makes supplies from this origin rather uncertain.

In volume, EU unmanufactured tobacco imports are three times higher than exports to third countries. The value of tobacco imported into the EU is, however, five times higher than the value of tobacco exports. The fact that import values are expressed as CIF values while export values are on an FOB basis, accounts partly for this discrepancy. Furthermore, the average quality of imported tobacco is far higher than that of EU tobacco exported to low-income countries, where price is more important than quality. Compared to 1998, the average value (EUR/MT) of unmanufactured tobacco imported and exported by the EU in 1999 increased by 3 percent and 7 percent, respectively.

During 1999, 172,176 MT of raw tobacco (over 50 percent of EU production) was exported to third countries, representing a 4-percent decrease from 1998, when 178,582 MT were exported. The decrease was primarily

recorded in the segment of light air-cured tobacco, while exports of dark air-cured and sun-cured tobacco gained in volume. EU exports of unmanufactured tobacco are primarily destined for the former Soviet Union, Central and Eastern Europe, and North Africa. See Table 12 for a summary of EU tobacco trade during 1999. Trade matrices for the main tobacco categories, and total unmanufactured tobacco are annexed.

Trade matrices for cigarettes and cigars are also included in the annex. Transparency provided by these statistics is low given the large proportion of trade data included under categories such as "secret extra-EU countries, stores and provisions, countries and territories not determined extra-EU". Another far more important, factor playing a role in cigarette trade is smuggling. According to OLAF, the EU's Anti-Fraud Office, a large part of cigarette smuggling operates through southern Italy - via Albania and Montenegro - and through Spain.

Table 12: EU raw tobacco trade during 1999 (Metric Tons)

	IMPORTS Intra-EU	IMPORTS Extra-EU	TOTAL IMPORTS
Total unmanufactured tobacco	187,707	528,782	716,489
of which dark air and sun-cured	29,934	65,894	95,828
of which light air-cured	32,386	98,155	130,541
of which flue-cured	72,981	247,531	320,512
of which fire-cured	3,609	18,016	21,625
	EXPORTS Intra-EU	EXPORTS Extra-EU	TOTAL EXPORTS
Total unmanufactured tobacco	195,725	172,176	367,901
of which dark air and sun-cured	33,688	64,579	98,267
of which light air-cured	26,433	23,972	50,405
of which flue-cured	63,360	40,124	103,484
of which fire-cured	4,048	3,513	7,561

Source: EUROSTAT

Tobacco trade with the U.S.

In 1999, EU imports of unmanufactured tobacco from the United States accounted for 22 percent of total EU imports from third countries (21 percent in 1998). Virginia (flue-cured tobacco) and burley varieties (light air-cured tobacco) represent the main part of EU tobacco imports from the U.S.

EU exports of unmanufactured tobacco to the United States, representing 13 percent of EU exports to all third countries in 1999 (idem 1998), consist primarily of dark air and sun-cured tobacco varieties. See Table 13.

Table 13: 1999 tobacco trade between the U.S. and the EU

	Imports from	the U.S.	Exports to	the U.S.
	MT	\$ 1,000	MT	\$ 1,000
Total unmanufactured tobacco	116,620	839,631	21,571	68,596
of which dark air and sun-cured	366	9,103	14,061	52,095
of which light air-cured	29,499	243,215	2,573	6,799
of which flue-cured	65,328	486,146	2,518	5,621
of which fire-cured	3,358	23,601	354	715
	Imports from	the U.S.	Exports to	the U.S.
	mill. pieces	\$ 1,000	mill. pieces	\$ 1,000
Cigarettes	350	2,606	42,368	37,182
Cigars, cheroots and cigarillos	2,612	3,644	291	9,160

Source: EUROSTAT

Trade - Trade Policy

There is a large discrepancy between EU import duties for raw tobacco and finished products. As of July 1, 2000, certain types of tobacco (flue-cured Virginia type, light air-cured Burley type, light air-cured Maryland type and fire-cured Kentucky type) imported on a non-preferential basis are subject to an ad valorem duty of 18.4 percent. Other types of raw tobacco, imported on a non-preferential basis, are subject to a duty of 11.2 percent. For cigars, cheroots and cigarillos, an ad valorem duty of 26 percent applies. Cigarettes are charged an ad valorem duty of 57.6 percent, making non-preferential imports expensive. In order to protect its internal tobacco processing industry, the EU is not likely to change this tariff discrimination.

Developing countries, ranging from the beneficiaries of Lome Convention duty-free access to beneficiaries of the Generalized System of Preferences (GSP) such as Brazil, are generally the major suppliers to the EU market. Brazil, one of the U.S.' major competitors for EU market share, was, however, graduated from GSP benefits for tobacco as of January 1, 1999.

Export refunds are currently not used for raw tobacco or tobacco products exported from the EU.

Annex: Tobacco trade

Exports for CY 1999 - Quantity (MT) & Value (1,000 EUR)

Average exchange rate CY 1999: EUR 1=\$1.066

Type: DARK AIR AND SUN-CURED TOBACCO (total)

Destination	MT	1,000 EUR
U.S.	14,061	48,870
Other:		
Russia	11,506	19,921
Algeria	4,973	7,521
Egypt	3,774	7,302
Switzerland	3,715	13,414
Indonesia	3,666	15,709
Poland	3,066	9,376
Tunisia	2,258	3,541
South Korea	2,078	12,031
Japan	1,975	9,356
Mexico	1,625	5,362
Total extra-EU	64,579	187,257
Total intra-EU	33,688	153,257

Exports for CY 1999 - Quantity (MT) & Value (1,000 EUR)

Average exchange rate CY 1999: EUR 1=\$1.066

Type: SUN-CURED, variety: Oriental

Destination	MT	1,000 EUR
U.S.	9,988	42,099
Other:		
Russia	11,506	19,921

Indonesia	3,661	15,687
Switzerland	3,284	12,606
Poland	3,038	9,354
Algeria	2,198	3,843
Egypt	2,145	5,235
South Korea	2,078	12,031
Japan	1,975	9,356
Romania	1,490	2,895
Mexico	1,231	4,924
Total extra-EU	53,261	170,032
Total intra-EU	28,857	140,921

Exports for CY 1999 - Quantity (MT) & Value (1,000 EUR)

Average exchange rate CY 1999: EUR 1=\$1.066

Type: LIGHT AIR-CURED TOBACCO (total)

Destination	MT	1,000 EUR
U.S.	2,573	6,378
Other:		
Russia	5,389	20,968
Egypt	2,332	4,989
Algeria	2,000	3,819
Poland	1,383	4,523
Ukraine	1,244	3,558
Uruguay	1,204	1,871
Turkey	1,016	2,681
Switzerland	867	2,445
Romania	756	1,488
Slovenia	664	1,953

Total extra-EU	23,972	69,606
Total intra-EU	26,433	68,877

Exports for CY 1999 - Quantity (MT) & Value (1,000 EUR)

Average exchange rate CY 1999: EUR 1=\$1.066

Type: LIGHT AIR-CURED, variety: BURLEY

Destination	MT	1,000 EUR
U.S.	2,513	6,261
Other:		
Egypt	2,332	4,989
Algeria	2,000	3,819
Russia	1,583	3,073
Uruguay	1,204	1,871
Poland	1,077	3,410
Turkey	1,016	2,681
Ukraine	839	1,959
Romania	734	1,384
Switzerland	622	1,707
Slovenia	604	1,717
Total extra-EU	18,427	44,802
Total intra-EU	24,673	63,021

Exports for CY 1999 - Quantity (MT) & Value (1,000 EUR)

Average exchange rate CY 1999: EUR 1=\$1.066

Type: FLUE-CURED TOBACCO (total)

Destination	MT	1,000 EUR
U.S.	2,518	5,273

Other:		
Egypt	5,012	8,958
Romania	4,491	8,028
Russia	4,168	8,339
Japan	2,696	7,468
Poland	2,684	8,652
Singapore	1,940	4,471
Uruguay	1,819	2,777
Algeria	1,750	3,459
Ukraine	1,517	4,040
Switzerland	1,235	2,937
Total extra-EU	40,124	86,956
Total intra-EU	63,360	200,763

Exports for CY 1999 - Quantity (MT) & Value (1,000 EUR)

Average exchange rate CY 1999: EUR 1=\$1.066

Type: FIRE-CURED TOBACCO (total)

Destination	MT	1,000 EUR
U.S.	354	671
Other:		
Egypt	806	1,045
Switzerland	723	2,968
Mauritania	470	929
Ivory Coast	231	1,246
Indonesia	209	5,209
Turkey	156	250
Sri Lanka	128	2,138
Poland	109	38

Tunisia	76	101
Guinea	57	173
Total extra-EU	3,513	15,706
Total intra-EU	4,048	23,150

Exports for CY 1999 - Quantity (MT) & Value (1,000 EUR)

Average exchange rate CY 1999: EUR 1=\$1.066

Type: TOTAL UNMANUFACTURED TOBACCO

Destination	MT	1,000 EUR	1,000 U.S.\$
U.S.	21,571	64,349	68,596
Other:			
Russia	34,205	63,296	67,474
Egypt	12,092	22,344	23,819
Poland	10,754	32,443	34,584
Romania	10,668	27,851	29,689
Switzerland	9,456	33,213	35,405
Algeria	8,723	14,799	15,776
Japan	5,621	19,531	20,820
Ukraine	5,471	13,231	14,104
Indonesia	4,112	21,465	22,882
Turkey	3,364	5,232	5,577
Total extra-EU	172,176	440,915	470,015
Total intra-EU	195,725	564,204	601,441

Exports for CY 1999 - Quantity (1,000 Pieces) & Value (1,000 EUR)

Average exchange rate CY 1999: EUR 1=\$1.066

Type: CIGARS, CHERROOTS, AND CIGARILLOS

Destination	1,000 Pieces	1,000 EUR
U.S.	290,939	8,593
Other:		
Hong Kong	86,799	3,416
Switzerland	86,362	8,898
Greenland	79,230	80
Australia	67,229	7,150
"Secret Extra 12"	54,974	3,633
Russia	54,847	1,137
Turkey	49,062	1,430
Canada	44,689	1,764
Iceland	41,894	1,541
Ceuta	41,396	164
Total extra-EU	1,245,901	65,575
Total intra-EU	5,448,416	397,392

Exports for CY 1999 - Quantity (1,000 Pieces) & Value (1,000 EUR)

Average exchange rate CY 1999: EUR 1=\$1.066

Type: CIGARETTES

Destination	1,000 Pieces	1,000 EUR
U.S.	42,368,238	34880
Other:		
Albania	71,117,097	7,034
Bulgaria	55,699,129	13,579
U.A.E.	40,098,801	59,104
Turkey	32,744,118	58,460
Cyprus	23,483,618	58,877
"Secr. Extra	23,185,973	12,375

Mauritania	20,919,387	11,877
Estonia	18,904,951	8,682
Azerbaijan	18,798,655	4,988
Georgia	16,547,600	5,597
Total extra-EU	550,973,875	1,675,406
Total intra-EU	244,597,513	4,151,494

Imports for CY 1999 - Quantity (MT) & Value (1,000 EUR)

Average exchange rate CY 1999: EUR 1=\$1.066

Type: DARK AIR AND SUN-CURED TOBACCO (total)

Origin	MT	1,000 EUR
U.S.	366	8,539
Other:		
Turkey	29,854	135,203
Brazil	6,430	16,317
Cuba	5,788	16,795
Dominican Republic	3,475	11,418
Bulgaria	3,367	12,670
Colombia	2,767	6,396
Former Yug.Rep.Macedonia	2,403	11,754
Philippines	2,380	14,436
Paraguay	1,610	3,889
Argentina	1,459	2,685
Total extra-EU	65,894	289,548
Total intra-EU	29,934	141,048

Imports for CY 1999 - Quantity (MT) & Value (1,000 EUR)

Average exchange rate CY 1999: EUR 1=\$1.066

Type: SUN-CURED, variety: ORIENTAL

Origin	MT	1,000 EUR
U.S.	18	56
Other:		
Turkey	29,854	135,203
Bulgaria	3,367	12,669
Former Yug.Rep. Macedonia	2,403	11,754
Albania	924	3,244
Malawi	213	692
China	132	511
Thailand	81	347
India	46	112
Serbia/Montenegro	28	40
Iran	27	69
Total extra-EU	37,533	165,907
Total intra-EU	24,888	120,901

Imports for CY 1999 - Quantity (MT) & Value (1,000 EUR)

Average exchange rate CY 1999: EUR 1=\$1.066

Type: LIGHT AIR-CURED TOBACCO (total)

Origin	MT	1,000 EUR
U.S.	29,499	228,157
Other:		
Malawi	33,195	119,949
Brazil	11,714	47,941

Thailand	3,155	7,392
Mexico	3,046	14,568
Guatemala	2,875	13,491
Argentina	2,327	9,778
Zimbabwe	2,232	8,546
India	2,080	5,943
Uganda	1,579	6,024
China	1,110	3,721
Total extra-EU	98,155	483,700
Total intra-EU	32,386	91,925

Imports for CY 1999 - Quantity (MT) & Value (1,000 EUR)

Average exchange rate CY 1999: EUR 1=\$1.066

Type: LIGHT AIR-CURED, variety: BURLEY

Origin	MT	1,000 EUR
U.S.	27,472	212,276
Other:		
Malawi	24,837	87,950
Brazil	11,220	45,956
Guatemala	2,512	11,783
Zimbabwe	1,877	6,605
Thailand	1,855	3,779
Uganda	1,499	5,805
Argentina	1,189	4,925
Mexico	994	4,946
India	830	2,835
South Korea	467	1,941

Total extra-EU	77,515	397,882
Total intra-EU	24,845	70,202

Imports for CY 1999 - Quantity (MT) & Value (1,000 EUR)

Average exchange rate CY 1999: EUR 1=\$1.066

Type: FLUE-CURED TOBACCO (total)

Origin	MT	1,000 EUR
U.S.	65,328	456,047
Other:		
Zimbabwe	60,104	226,517
Brazil	57,469	234,290
India	10,869	32,035
Tanzania	9,793	33,626
Canada	8,654	39,837
Argentina	7,431	23,538
China	5,970	16,614
Malawi	5,404	22,084
Thailand	2,484	6,762
Kenya	1,967	5,005
Total extra-EU	247,531	1,140,472
Total intra-EU	72,981	243,417

Imports for CY 1999 - Quantity (MT) & Value (1,000 EUR)

Average exchange rate CY 1999: EUR 1=\$1.066

Type: FIRE-CURED TOBACCO (total)

Origin	MT	1,000 EUR
U.S.	3,358	22,140

Other:		
Indonesia	6,801	46,802
Tanzania	2,029	5,437
Malawi	1,434	4,647
Uganda	1,236	3,976
Brazil	965	4,235
Kenya	652	1,752
Canada	435	1,847
Congo	212	832
Mozambique	186	580
Sri Lanka	184	1,818
Total extra-EU	18,016	97,338
Total intra-EU	3,609	25,797

Imports for CY 1999 - Quantity (MT) & Value (1,000 EUR)

Average exchange rate CY 1999: EUR 1=\$1.066

Type: TOTAL UNMANUFACTURED TOBACCO

Origin	MT	1,000 EUR	1,000 U.S.\$
U.S.	116,620	787,646	839,631
Other:			
Brazil	91,286	314,442	335,195
Zimbabwe	85,617	247,201	263,516
Malawi	46,986	152,867	162,956
Turkey	30,916	135,836	144,801
India	18,037	42,460	45,262
Tanzania	16,511	42,573	45,383
Argentina	14,701	38,955	41,526
Canada	12,846	44,472	47,407

China	10,538	23,150	24,678
Indonesia	9,977	77,530	82,647
Total extra-EU	528,782	2,166,495	2,309,484
Total intra-EU	187,707	601,937	641,665

Imports for CY 1999 - Quantity (1,000 Pieces) & Value (1,000 EUR)

Average exchange rate CY 1999: EUR 1=\$1.066

Type: CIGARS, CHERROOTS, AND CIGARILLOS

Origin	1,000 Pieces	1,000 EUR
U.S.	2,612,070	3,418
Other:		
Dominican Republ.	246,625	18,842
Cuba	172,356	54,102
Honduras	25,890	3,377
Switzerland	17,445	677
Philippines	6,740	244
Nicaragua	6,069	1,373
Dominica	6,018	15
Slovakia	5,528	543
Costa Rica	5,167	101
Panama	4,694	5
Total extra-EU	3,131,513	84,063
Total intra-EU	22,894,425	392,114

Imports for CY 1999 - Quantity (1,000 Pieces) & Value (1,000 EUR)

Average exchange rate CY 1999: EUR 1=\$1.066

Type: CIGARETTES

Origin	1,000 Pieces	1,000 EUR
U.S.	350,692	2,445
Other:		
Zimbabwe	650,659	5,377
China	120,270	5
South Korea	97,128	1
South Africa	92,900	87
Russia	78,264	544
Japan	49,780	592
Turkey	35,344	236
Hungary	32,294	16
Ukraine	23,387	0
Ceuta	18,806	180
Total extra-EU	1,619,538	10,629
Total intra-EU	361,830,966	4,172,683