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19 June 1997 A4-0214/97

REPORT

on the report from the Commission to the Council on the common organization in the market in raw tobacco (COM(96)0554 - C4-0057/97)

Committee on Agriculture and Rural Development

Rapporteur: Mr Raul Miguel Rosado Fernandes

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By letter of 9 January 1997 the Commission forwarded to Parliament its report on the common organization in the market in raw tobacco.

At the sitting of 17 February 1979 the President of Parliament announced that he had forwarded this report to the Committee on Agriculture and Rural Development as the committee responsible, and to the Committee on Budgets and the Committee on Budgetary Control for their opinions. The Committee on Regional Policy and the Committee on the Environment, Public Health and Consumer Protection were asked for their opinions on 11 April and 16 May 1997.

At its meeting of 28 January 1997, the Committee on Agriculture and Rural Development appointed Mr Raul Miguel Rosado Fernandes rapporteur.

At its meetings of 3/4 February, 26/27 May and 17/18 June 1997 it considered the Commission report and the draft report.

During the last meeting, it adopted the motion for a resolution by 39 votes to 6, with 1 abstention.

The following took part in the vote: Colino Salamanca, chairman; Cunha and Graefe zu Baringdorf, vice-chairmen; Rosado Fernandes, rapporteur; Antilla, Baldarelli (for Laignel), Barthet-Mayer, Botz (for Görlach), Cabezón Alonso (for Happart), Dimitrakopoulos, Ephremidis (for Jové Peres), Fantuzzi, Farassino, Filippi, Fraga Estévez, Funk, Gillis, Goepel, Guinebertière (for Jacob), Hallam, Hardstaff, Iversen, Izquierdo Rojo (for Campos), Keppelhoff-Wiechert, Kindermann, Klauf (for Ebner), Klironomos (for Lambraki, pursuant to Rule 138(2)), Kofoed, Martin Ph., Martinez, Mayer, Nicholson, Parigi, Poisson (for Hyland), Querbes, Redondo Jiménez, Santini, Schierhuber, Schlechter (for Rehder), Souchet (for des Places), Sturdy, Vallvé (for Mulder), Virgin (for Sonneveld), Watts, Wibe (for Thomas) and Wilson.

The opinions of the Committee on Budgets, the Committee on Regional Policy, the Committee on the Environment, Public Health and Consumer Protection and the Committee on Budgetary Control are attached.

The report was tabled on 19 June 1997.

The deadline for tabling amendments is 12 noon on 10 July 1997.

A
MOTION FOR A RESOLUTION

Resolution on the report from the Commission to the Council on the common organization in the market in raw tobacco (COM(96)0554 - C4-0057/97)

The European Parliament,

- having regard to the report from the Commission to the Council COM(96)0554 - C4-0057/97,
- having regard to the report of the Committee on Agriculture and Rural Development and the opinions of the Committee on Budgets, the Committee on Regional Policy, the Committee on the Environment, Public Health and Consumer Protection and the Committee on Budgetary Control (A4-0214/97),
- A. whereas tobacco is grown on small family farms and in extremely disadvantaged Objective 1 regions with large pockets of unemployment which are dependent on this crop in a one-crop system and have no alternatives, and thus contributes to economic and social cohesion, environmental conservation and the fight against desertification and depopulation,
- B. whereas a new common organization of the market in raw tobacco must seek to improve the present situation of this sector and whereas policies to create jobs and combat the destruction of jobs are nowadays the main priority of the European Union,
- C. whereas tobacco growing is one of the most labour-intensive industries in the Community, since one hectare of tobacco requires a thousand hours of labour on average and over two thousand in the case of the eastern varieties (compared to 147 hours on average for general crops, except cereals, which require even less) and whereas the employment aspects are thus of crucial importance,
- D. whereas tobacco is not a subsidiary source but the primary source of revenue for those who grow it,
- E. whereas tobacco growing directly employs 284 000 workers, 170 000 of them being farmers, 30 000 being involved in the first processing and 84 000 in the second; whereas the disappearance of the crop would leave virtually all of them jobless if alternative agricultural and industrial activities are not established to minimize the political, financial and social costs,
- F. whereas the disappearance of, or a reduction in, tobacco growing will have a detrimental effect on regional economies, and whereas the social and financial costs thereof have not been adequately assessed by the Commission, for which reason it is impossible to judge how appropriate the accompanying measures proposed by the Commission will be, particularly in view of the fact that it is not at the moment known what form these measures will take after 1999, following the reform of the Structural Funds,
- G. whereas the gradual disappearance of the crop, which is one of the crops which employs most labour per hectare, should the Commission encourage its abandonment, will also

cause the relocation and closure of primary manufacturing companies, and the loss of many years' worth of accumulated agro-industrial knowledge and know-how and structural fund assistance will be required to assist diversification into other crops and economic activities in areas where there are currently no practical alternatives to tobacco growing.

- H. whereas the Commission proposal to abandon tobacco growing is particularly worrying as, although this type of proposal is not new in the CAP, what is new is the proposal to abandon production, for the first time in the case of a non-surplus sector, in order to bury the quotas, thereby eliminating not only the crop but also the labour force employed in the sector,
- I. whereas cutting production, by buying individual quotas and not transferring them to other, preferably young farmers in least-favoured regions would not cut tobacco consumption at all, but would certainly contribute to transnationals importing the 30% accounted for by European production, without the agricultural sector's enjoying any social or financial compensation, despite the Commission's promises that it could compensate for the vacuum left by the disappearance of the tobacco-growing sector,
- J. whereas reducing the Community premium significantly would have the drawback of immediately wiping out a large proportion of Community growers without giving them the option of moving in the direction of better quality tobacco, in commercial, health or environmental terms,
- K. whereas the basic premise of the Commission's report is that the price of tobacco in the Community is extremely low due to its poor quality, and whereas this premise is unfounded and false,
- L. whereas the argument that European tobacco is of 'poor quality' is given the lie by the fact that this same tobacco has been bought in recent marketing years at a much higher price than heretofore due to a fall in supplies and an increase in demand, despite the fact that serious measures have been taken towards protecting quality and human health,
- M. whereas, as already pointed out, the low market prices in recent years have been due to the level of world tobacco stocks and whereas this is the reason why tobacco of very similar quality has fetched double the price one year that it fetched the previous year simply because there was greater demand,
- N. whereas the marketing of tobacco has not been open to free competition because of the commercial inflexibility caused by the domination of the market by a few multinational companies, which has led to low prices, a situation which should in no way be seen as a reflection of poor tobacco quality,
- O. whereas, since the introduction of direct payment of the premium to producers, the EU manufacturing industry has been under no obligation to pay growers a minimum price, which has led to a widespread understanding that the premium constitutes a reasonable income in itself,

1. Demands that an inter-professional institution be set up, directly encouraged by the Commission, to provide an independent defence of objective quality classification criteria, so as to put an end to the current variations in classification scales, which give rise to unfair competition and prejudice the serious work done by producers' organizations, since such a measure would in no way overburden the Commission's budget;
2. Declares that the preservation of jobs must be regarded as the basic premise and requirement for any measures envisaged under the new rules;
3. Calls for effective support for producers' groups and for funding to be provided for part of their running costs;
4. Demands that the proposed modulation of aid pursuant to product quality should be determined, in each producing country, at a rate which is to reach 30% within a period of no more than five years, since however inevitable this step may be, it will, since it is not funded by the European budget, considerably cut the income of tobacco producers and thus force certain producers to give up tobacco growing;
5. Is opposed to a reduction in premiums, since this would have a highly adverse impact on growers' incomes, leading to the abandonment of many holdings, principally small holdings, which, as the Commission's own report acknowledges, have no alternative crops or economic activities, in particular in regions in the south of the Community, the majority of which are Objective 1 regions with high unemployment rates;
6. Demands that the premiums for northern European producing countries be restored to their pre-1993 reform levels;
7. Maintains that the Commission should apply the reform gradually, with the aim of continuing to improve quality and promote varieties of tobacco which are less harmful to health, and also in order to improve environmental protection;
8. Demands that it be made easier to acquire the quotas of farmers who wish to give up production so that they may be taken up by producers' organizations and distributed to other, preferably young farmers in less-favoured regions on an equitable basis within the same Member State; this distribution should be carried out by independent bodies with the aim of ensuring transparency, maintaining a territorial balance and ensuring that quotas do not acquire a speculative value;
9. Demands that the quotas of farmers in the various producer Member States who wish to give up production, instead of being acquired by the Commission with a view to cutting European production, should in fact be distributed to traditional regions and producers and to a national reserve which would be set up consisting of 5-6% of the MGQ of each Member State to enable production rights to be granted to young farmers;
10. Calls for provision to be made for production rights to be transferred from one group of varieties to another within the same marketing period, using appropriate adjustment coefficients to ensure that such transfers are financially neutral;

11. Considers it necessary, likewise, for provision to be made for production rights to be transferred from one producers' group to another within the same marketing period provided there is no change as regards the group of varieties; and also for the existing right to transfer production quotas from one marketing period to another to operate both backwards and forwards in time;
12. Believes that the scheme whereby the Commission buys back production quotas from farmers who intend to abandon production must be applied only with the approval of the Member State concerned, which may apply the scheme selectively in various regions;
13. Demands that 2% of aid be held back for research into raw tobacco with the aim of countering its harmful effects and improving its quality and environmental compatibility, following an assessment of how efficiently the funds paid out by the producers have been used to date;
14. Proposes that incentives and financial assistance be provided for research and experiments with a view to obtaining tobacco varieties which are low in nicotine, heavy metals and tar and calls for these features to be taken into account for the purposes of 'quality' in the modulation of the premium;
15. Proposes that studies be carried out to quantify the socio-economic impact and the impact on employment of the new COM in raw tobacco;
16. Instructs its President to forward this resolution to the Commission and Council.

B

EXPLANATORY STATEMENT

TOBACCO FARMING IN EUROPE

Tobacco production in Europe has, on the one hand, been a success with regard to the major effort made by producers, their involvement in the market and their close collaboration with the manufacturing sector and the fight against the desertification of the poorer regions of Europe. On the other hand, it has been a target of the anti-smoking lobby, despite the fact that the latter is well aware that the destruction of European producers would be of no tactical advantage to their cause. In fact, the large trans-nationals in the processed tobacco sector would remain quite unaffected as far as volume of production and profits are concerned, unless, thanks to legally compulsory anti-smoking propaganda, smokers were to abandon a pleasurable habit rooted in centuries of tradition. In this longstanding argument, one of the difficulties faced by those who defend the freedom to smoke is how to justify the production of something intended to provide pleasure which can, in extreme cases, damage health, as can other inessential pleasures such as good eating, good wine and aromatic alcoholic beverages, to which we can add, mutatis mutandis, aesthetic activities which are neither technical nor indispensable, connected with the cult of art for art's sake, whose sole purpose is to provide human beings with pleasurable sensations sometimes at great expense. Austere thinkers in the world of public opinion, morals and economics have tried in the past to abolish all of these habits, traditions and products, thereby making society harder, less free and very frequently even anti-human, thanks to the intolerance generated.

Amongst the arguments used against the sector, we should not overlook that of the costs necessarily represented by an industry consisting of hundreds and hundreds of small and even tiny farms, growing tobacco in the European Old World under conditions which hardly favour competitiveness, compared with areas of Africa, the New World or even Asia, which, for various reasons known to all of us, ranging from climate to human factors, are less costly. We do not believe that this is, however, a reason not to maintain a sector which in its turn has maintained a level of well-being in the poor areas in which tobacco farming is generally to be found, benefitting not only the producers (accounting for 50% of farm income), but the entire micro-economy of which it forms part. Generally speaking, there are no alternative crops for tobacco farmers which would not involve dangerous social costs in the future. When, in the few richer regions where tobacco is grown, alternative crops do exist, the change-over would mean that well-organized and technically experienced former tobacco farmers would constitute a threat to existing farmers, e.g. in the fruit and vegetables sector, which itself is already limited by a market increasingly open to globalization.

The Commission and its 1996 report to the Council

The analysis of the sector is a positive one, and the figures and data provided on producers, products, quotas, processing and tobacco varieties are correct. We would highlight the fact that this document openly recognizes that tobacco is a non-surplus-producing activity, accounting for one-third of the tobacco required by the European market, and employing 170 000 producers, a workforce of 30 000 at the primary processing stage and a further 84 000 in the tobacco industry - direct employment for 284 000 people.

The 1992 reform, to which the document makes little reference, was a complete success, standardizing the sector and simplifying the funding procedures, rendering them more transparent and leading them to a situation in which tobacco production is 17 000 tonnes below the European quota.

It would be as well not to forget that European production, just as much as imported tobacco, contributes to the fact that the Member States can charge taxes of up to 81% on cigarettes (in Portugal).

What is not said

While the document recognizes the social significance of tobacco production, it makes no reference to stability, in either political and production terms (strategic reserves), although stability is demonstrated by the more stable price of the product, in sharp contrast to the prices on the savage free-trade market where variations can be as high as one in four, a fact which has also provided equally 'savage' profits for the transnational producers, who are, of course, at the root of all this speculation. Nor does the document refer to the drastic reduction in costs in the sector since the 1992 reform, which merely reveals the author's political intention, which is to disguise the realities of the sector and present it in the least favourable light possible. Nor does the document say - and it is important to point this out - that the gradual disappearance of the crop, if it were to be achieved on the pretext of public health, by buying up the quotas of those farmers who give up, and not transferring them to other, preferably young farmers, will, in the end, lead to the disappearance of this crop from Europe for good, with the following negative consequences:

1. Technical, agricultural and industrial knowledge and knowhow built up over centuries will be lost; this is obviously the case for Greece and all the Union's Mediterranean countries, and even non-Mediterranean countries where this crop is grown in objective 1 and 5 regions (Germany, Belgium, France and Austria).
2. First-processing factory units would be relocated, since raw production would be unlikely to return. The political and financial costs of the loss of these tens of thousands of jobs can easily be imagined.

What is said erroneously

The Commission's argument is based on two erroneous premises:

1. Without directly saying so, it gives, between the lines, the erroneous idea that cutting European production would have beneficial implications for public health. All of us know that this reduction would not reduce consumption, since smoking can be cut back only by freely-accepted educational and cultural action. Active persecution of smokers, treating them like children, has had precisely the opposite effect.

Cutting European production would benefit only the transnational manufacturers of cigarettes, cigars and pipe tobacco, because they would now rule the world market, manipulate it and import at least the equivalent of 30% which Europe produces.

2. The report bases the changes to be introduced in the future COM on the assumption that European tobacco is of poor quality, although it does to some extent acknowledge the

standing of the aromatic tobaccos produced in Greece, which are sought after on the world market. However, it ignores, undoubtedly intentionally, the fact that quality criteria had never been established in the first place, and have been left up to the major manufacturing companies. It also ignores the fact that in many cases, the price of our so-called 'poor quality' tobacco quintupled in recent marketing years, which proves that the argument linking price and quality is fallacious.

Measures to be taken

Beginning with the problem of quality, which has not recently weighed heavily with regard to the price of European tobacco, we must, as of now, support all measures seeking to promote it. Without accepting a high percentual modulation of aid with regard to quality, we can accept that it should be as much as 20% or 25% at the outside.

With regard to the need to protect quality and fight the undisputed negative effects on health, we should support a rebate of 2% on aid, with a view to funding research into improving the quality of known varieties and reducing harmful effects on human health.

With regard to quality, more serious measures need to be taken, as we have already said, towards defining quality in such a way as to prevent infighting amongst producers' organizations seeking to increase their numbers by using different classification scales, to the detriment of efficient product choice, while at the same time encouraging - in the interests of competition - an individualism which ultimately weakens them. An independent body, involving producers and supervising quality or arbitrating on doubts with regard to classification, would prevent the current phenomenon of producers' organizations tearing each other to pieces. The latter will have to seek to enhance their own effectiveness, linking it with the quality of tobacco both in terms of varieties and of human health, in order to beat the competition and to justify the future existence of the tobacco industry in Europe.

We must reject any attempt to induce tobacco farmers to stop farming. There is no need for it, since production is not even meeting the European quota. We need to make the transfer of individual quotas to young farmers more flexible, while maintaining the links between the quotas and the least-favoured regions. However, we cannot accept the idea that the Commission should acquire these quotas; such a step would mark the beginning of the death of a centuries-old activity, and lead to the relocation of first-processing companies, the loss of a crop in the cultivation of which Europeans have proved outstanding, and soaring unemployment, the costs whereof must be objectively established and calculated, so as to hammer home the fact that 'well-intentioned' measures can, without achieving their intended effects, cause huge and irreparable social, political and economic damage, flatly contradicting the Commission's good intentions as regards rural development.

9 June 1997

OPINION
(Article 147 of the Rules of Procedure)

for the Committee on Agriculture and Rural Development

on the report from the Commission to the Council on the common organization of the market in raw tobacco (COM(96)0554 - C4-0057/97) (Rosado Fernandes report)

Committee on Budgets

Draftsman : Terence Wynn

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At its meeting of 26 February 1997, the Committee on Budgets appointed Mr Terence Wynn as draftsman.

It considered the draft opinion at its meeting of 9 June 1997.

At this meeting it adopted the following conclusions as a whole by 17 votes in favour with 1 abstention.

The following were present for the vote : Samland, Chairman; Tillich, Willockx, Giansily, Vice-Chairmen; Wynn, Draftsman; Brinkhorst, Desama (for Dankert), Fabre-Aubrespy, Hallam (for Dührkop Dührkop), Haug, Kaklamanis, McCartin, Mulder (for Kjer Hansen), Müller, Seppänen, Tappin, Tomlinson and Waidelich.

1. Introduction

At the end of last year, the Commission published a frank and very informative report to the Council on the Common Organisation of the Market in raw tobacco. The huge subsidies to the tobacco sector are coming increasingly under fire for a number of reasons.

First is the fact that most tobacco produced in the EU is of such low quality that it has no market value. It is subsidised to such an extent that in some cases, the subsidy forms more than 80% of the farmer's revenue; market prices account for no more than 20%. Secondly, subsidising a sector which produces a product harmful to public health is less and less publicly acceptable.

The question to the Budgets Committee is whether the EU should spend almost 1 billion ECU per year to produce a product (which is harmful to human health, and which has little market value) in order to keep 135,000 tobacco farmers in business. If it is agreed that income aids in these areas is vital in order to maintain Europe's heritage and to preserve the rural fabric of society, then these should be made in the form of direct income aids and progressively phased out. Flanking measures should be labelled clearly as such and come from categories other than Category I.

2. Premiums or direct income support

From a budgetary and economic view, the most logical solution for the tobacco regime remains that put forward by the Court of Auditors in its special report on tobacco in 1994. The report made an in-depth analysis of the tobacco regime and concluded that if a direct income aid were paid to all farmers equivalent to their annual net revenue based on the 1988-90 average then approximately half the EU tobacco budget could be saved. '...after deduction of this cost (rent of land), average income was 2.655 ECU. If any farmer not growing tobacco in the years 1988-90 had received Community compensation in line with the net average income forgone per hectare... the Community could thus have saved 520 million ECU per year in this scheme'.()

The Commission has always contested the Court's analysis, and does so again in its December 1996 report(

) by saying that the Court used an unweighted average of producers' net income. The Court has replied clearly that it used objective Eurostat figures, not

The UK House of Lords Select committee on the European Communities has also just completed a study of the EC tobacco regime in which it concludes that 'The tobacco sector is a hole in the ground into which money is being poured with no thought for the long term prospects of those involved in it'.

3. The Commission's report - The tobacco sector

This opinion will aim to assess the financial aspects of the tobacco regime. It does not aim to cover the anomalies in the regime. However, it is difficult not to focus on the grotesque contradiction in EU policies: we spend almost 1 billion ECU for the production of a harmful product, with little or no market value; we then spend approx. 11.2 million ECU (Budget line B3 4301) on anti-cancer measures. Should we be subsidising a product with known harmful effects on human health? Every year around 500,000 people die in the EU due to smoking related diseases. The credibility of the EU is at stake as we spend 90 times more money for the production of a product than to reduce its consumption.

The Commission's report, following a lengthy debate within the Commission and in spite of an excellent series of arguments put forward by Commissioner Flynn, unfortunately rejected the option of total disengagement of the EU from the tobacco sector. Total but gradual elimination of tobacco subsidies would free up funds for job creation in rural areas, re-conversion to other crops and health protection.

The Commission's report therefore makes an honest assessment of the situation. It notes that tobacco production since the 1992 reform is limited to 350,000 tonnes. Italy (40%), Greece (36%), Spain (13%) and France (8%) are the main tobacco producing countries in the EU. 3% is produced in Portugal, Germany and Austria.

(¹) Special report of the Court of Auditors No 8/93, OJ C 65, 2.3.1994, p. 47, point 4.93.

() by saying that the Court used an unweighted average of producers' net income. The Court has replied clearly that it used objective Eurostat figures, not the uncertain production figures collected by DG VI, and that th

) Pages 31 and 32 of the English version.

Of the eight categories of tobacco grown in the EU, only the sun cured tobacco, especially that produced in Greece, has any real market value. The rest is exported or sold within the EU at give-away prices. The tobacco sector employs 135,000 farmers, 52% of them in Greece and 31% in Italy. Another 25,000 jobs are provided in the tobacco processing industry.

The quality of EU produced tobacco is so poor that only one third of EU production is actually sold for domestic consumption. The rest is exported. The value of tobacco imported into the EU is twice that of the tobacco exported. The Commission's report therefore concludes 'The production of some very specific varieties such as Greek oriental tobaccos aside, we can say that the medium term survival of Community tobacco is contingent on an improvement in quality'.

In its report, the Commission looks at the different options for the future of the EU's tobacco policy:

- a) The Commission rejects the option of total disengagement.
- b) It accepts that the status quo is not tenable, despite the overall positive effects of the 1992 reform, official funds are still not used very effectively if one considers the mean value of Community tobacco..!.
- c) The Commission rejects the option of gradual disengagement as 'it would have no effect on the tobacco consumption, as the economic and social consequences would be likely to be very serious in regions already experiencing major economic problems, and as the Community market organisation might be replaced by national ones'.
- d) Alternatives to the current support sector (such as a system of aid per hectare or the use of direct income aids or 'bonds') are also rejected as viable options.

4. Appraisal of the Commission's report

Your draftsman is of the opinion that for a number of reasons, the production of tobacco cannot in the long run still be subsidised by the EU. First, it is economic nonsense to stimulate the production of a good for which there is little market value. Second, subsidising a product up to 80% or more to give the producers a minimal income has nothing to do with the agricultural policy of the EU and is clearly a social policy. It should therefore ultimately be classed as non-compulsory expenditure. Third, 1 billion ECU per year for such a crop produced by 135,000 producers is expensive when calculated per capita. Fourth, future enlargement of the EU will make the regime even more costly: Poland alone produces more than 10,000 tonnes annually. Finally, even if a case can be made for supporting tobacco farmers in Greece and Italy what is the justification for supporting farmers in richer areas?

5. The role of Member States

There is also good reason to believe that certain Member States are not interested in a reform of the tobacco sector for narrow budgetary reasons. Tobacco policy is 100% paid for by the EU budget. A national social policy with contribution from the EU budget through one of the structural funds would imply a national payment up to 10-50% of the amount of aid. In addition, neither Italy nor Greece have set up the national supervising agencies they were supposed to set up as a follow-up to the 1992 reform in the tobacco sector.

6. The way forward

In the long run (10-15 years) the EU should no longer subsidise tobacco production. In the short term, the EU should convert all tobacco subsidies into direct income aids to tobacco farmers. If

Member States wish to set up national aid schemes they should be permitted to do so, within the EU's competition rules. However, they would be better advised in the interests of tobacco farmers long term, to engage in strategic local development plans together with overall flanking measures. The Commission notes in its report that re-conversion to other forms of employment of 200,000 jobs is not feasible without an extremely high cost. It refers to the Tobacco Research and Information Fund in this context, however the Fund is solely used to convert to 'less harmful' varieties of tobacco, and not to other crops altogether. This is something the Commission must address.

Flanking measures:

- Re-conversion to other crops must become a priority through the use of EAGGF Guidance or the afforestation programme. The Commission states that the soil on which tobacco is grown is suitable for other crops in some areas, therefore with the help of irrigation, training and investment, a shift must be possible.
- Voluntary withdrawal from the sector through the use of improved retirement schemes and in particular a one-off, time limited 'bond' scheme. This would provide farmers with an annual income over a certain amount of time (say 10 or 15 years) or would allow the farmer to use it on a one-off basis and reconvert or leave the land. It would give farmers the choice to determine their own futures.
- The setting up of small and medium sized enterprises. There are many programmes within the EU budget by which this could be stimulated (see chapter B5-32 of the 1997 budget totalling more than 46 million ECU).

7. Conclusions

The Committee on Budgets requests the Committee on Agriculture and Rural Development to take the following conclusions into account:

- A. whereas the present tobacco policy costs in excess of 1 billion ECU to maintain farmers on the land and whereas tobacco subsidies in the short term should be converted into direct income aids, within the existing CAP mechanisms;
1. Is of the opinion that direct income aids in the tobacco sector should be progressively eliminated in the middle to long term and replaced with a series of strategic local development plans. These could consist of re-conversion to other crops, plans for afforestation, the possibility of voluntary withdrawal from the sector, the use of the time-limited income 'bond', leaving farmers the choice to determine their own future;
2. Considers that funding for these measures could be found in the Structural Funds, EAGGF guidance, budget lines B1-5010 to B1-5012 and a number of budget lines in chapter B5-32 to stimulate SMEs;
3. Believes that continuing to subsidise the tobacco sector will put a heavier burden on the EU budget after enlargement;

4. Is strongly in favour of the complete dismantling of tobacco subsidies as it would eliminate the inconsistency between our health and agricultural policies and free up funds for job creation, re-conversion, and health protection.

11 June 1997

OPINION
(Rule 147)

for the Committee on Agriculture and Rural Development

on the report from the Commission to the Council on the common organization of the market in raw tobacco (COM(96)0554 - C4-0057/97) (report by Mr Rosado Fernandes)

Committee on Regional Policy

Draftsman: Mr Fernández Martin

PROCEDURE

At its meeting of 8 April 1997 the committee appointed Mr Fernández Martin draftsman.

At its meetings of 27 May and 10 June 1997 it considered the draft opinion.

At the last meeting it adopted the conclusions unanimously.

The following took part in the vote: Arias Cañete, chairman; Howitt and Napoletano, vice-chairmen; Fernández Martin, draftsman; Berend, Botz, Costa Neves, Crampton, D'Andrea (for Kellett-Bowman), Darras, Eisma (for Monfils), Frutos Gama, Hatzidakis, Karamanou, Klauf, Klironomos (for Lage), Langenhagen (for Schröder), McCarthy, Novo, Novo Belenguer, Ojala (for Gutiérrez Díaz), Otila, des Places, Schroedter, Varela Suanzes-Carpegna, Valvé, Viola and Walter.

GENERAL COMMENTS

Tobacco growing is characterized by certain features of social and economic significance, such as the intensive use of labour during the greater part of the year, the need for meticulous care, particularly during the transplantation and harvesting periods, and the economic dependence of the producer regions. Surpluses tend not to be produced since the entire harvest is sold on the market. This meets a third of consumer demand within Europe and directly employs 284 000 people. However, the per capita income of tobacco producers is below the Community average for farmers.

In 1995, European production of raw tobacco amounted to 333 180 tonnes, which accounted for 0.7% of the Community's agricultural production and 2.9% of payments within the EAGGF Guarantee Section (1.5% of the overall payments) and covers approximately a quarter of Community consumption. The main tobacco producers within the Community are Italy, Greece and Spain (which accounted for 39%, 36% and 13% of Community production in 1995), followed by France, Germany, Portugal, Belgium and Austria.

Currently in force is the COM which was adopted in 1992 for a five-year period. In 1995 the cost of this COM to the EU, in terms of support for farmers, was ECU 993 million. Aid has been reduced by 30% since 1992. Each farmer has a production quota and the EU provides

compensation in the form of a premium per kilo produced which differs according to variety. In addition there is special aid equivalent to 10% of the premium in cases where contracts are concluded via producers' groups. Lastly, there is the amount which farmers receive on the basis of the market price. It should be pointed out that the total amount of Community aid received by tobacco producers in respect of certain varieties may account for 95% of income, which means that the market price represents a very small part of the total income received by producers.

I. Commission report

In principle we welcome the Commission's reflection document since the budgetary status quo is maintained and no basic changes are made to the sector other than in quality-support policy. The Commission appears to take as a starting point the premise that the price of tobacco in Europe is very low because its quality is very poor. We do not consider this assumption to be justified since we believe there to be other variables which have a much greater influence on prices than quality. Hence the low market prices in recent years have been the result of the high level of stocks in the world, and this accounts for the fact that a given tobacco may command a higher price in one year than in the next. In Spain, for example, the trade price doubled between two marketing years (1995/96 and 1996/97) of very similar quality, merely on account of strong demand, which proves that quality was only of limited importance. Caution is also called for here since the poor-quality theory may provide an excellent pretext for certain Community manufacturers to give preference to imported tobacco from third countries on the basis of commercial and even political agreements. We welcome the fact that the Commission has decided to continue helping producers, which means that the future of the COM in tobacco should be determined on the basis of past experience and the likely trends in the development of the Community market.

II. The COM in tobacco and social and economic cohesion

The proposed reform of the raw tobacco sector will have a negative impact on the achievement of the social and economic cohesion which is established as a fundamental principle in Article 130a of the Treaty, since most Community tobacco production is concentrated in Objective 1 regions, including Thrace, Macedonia and Central Greece, Campania and Puglia in Italy and Extremadura, Andalusia and the Canary Islands in Spain (regions which account for 80% of production). The number of tobacco farmers, full-time employees and people working in the tobacco industry is in excess of 135 000: the size of the labour force required is estimated at 170 000 people working exclusively in the tobacco sector and the number of people employed indirectly is also very high. Furthermore, tobacco growing in these regions often ensures that the socio-economic structure is preserved and counteracts the tendency to depopulation and desertification. The opportunities for conversion and reorientation towards other agricultural activities range from the very limited (e.g. Campania and Puglia) to the non-existent (e.g. the mountainous regions of northern Greece). Any reduction in quotas, premiums and work force also inevitably influences the already disadvantaged social and economic situation of these regions within the EU and would seriously hinder the socio-economic development thereof.

Quality must not be encouraged at the expense of tobacco growers' income, which is already lower than average. For this reason the modulation of Community aid to promote quality should not, from the point of view of the socio-economic development of the regions concerned, exceed one quarter of the premium. However, the Commission does not quantify the negative impact which a policy based solely on quality support may have on the social and economic

fabric. Furthermore, we see no need to facilitate voluntary withdrawal from the sector: production currently falls short of the European quota, a reduction in which by means of the buying-up of individual quotas and incentives to encourage voluntary withdrawal would have a detrimental effect on the regions concerned, and a study of the social and economic impact of such accompanying measures should be carried out.

Maintaining tobacco production has an enormous regional impact. Tobacco indirectly supports the socio-economic infrastructure of the least-favoured regions, counteracts depopulation, preserves the rural environment and encourages rural tourism. Tobacco growing is not just an agro-economic activity to be judged on simple cost-benefit analysis; any assessment thereof should take other variables into account. A reduction in European tobacco production would not have any effect on public health since it would not reduce consumption but would only benefit the multinational companies which make cigarettes, cigars and pipe tobacco and which would come to dominate and manipulate the world market.

III. Conclusions

The Committee on Regional Policy calls on the Committee on Agriculture and Rural Development to include the following amendments in its report:

Amendment 1
Recital A

- A. whereas tobacco is grown on small family farms and in regions which are extremely disadvantaged since they basically depend on this single crop, and whereas the latter contributes to environmental conservation and the fight against desertification and depopulation,

Amendment 2
Recital B

- B. whereas tobacco growing directly employs 284 000 workers, 170 000 of them being farmers, 30 000 being involved in the first processing and 84 000 in the second; whereas the disappearance of the crop would leave virtually all of them jobless, since there are no alternative agricultural and industrial activities available; (rest deleted)

Amendment 3
Recital Ba (new)

- Ba. whereas the disappearance of, or a reduction in, tobacco growing will have a detrimental effect on regional economies, and whereas the social and financial costs thereof have not been adequately assessed by the Commission, for which reason it is impossible to judge how appropriate the accompanying measures proposed by the Commission will be, particularly in view of the fact that it is not at the moment known what form these measures will take after 1999, following the reform of the Structural Funds;

Amendment 4

Paragraph 1

1. Calls for the involvement of producers' organizations, directly encouraged by the Commission, who will independently pursue objective quality classification criteria and prevent tobacco leaf quality assessment from remaining solely in the hands of the processing industry, which would place farmers at a disadvantage vis-à-vis a processing industry which is notoriously arbitrary in its judgments;

Amendment 5

Paragraph 3

3. Calls for the purchase, by other, preferably young farmers in less favoured regions, of the quotas of farmers who wish to give up production to be facilitated, instead of their being acquired by the Commission, with a view to cutting European production, maintaining a territorial link wherever possible, and ensuring that quotas do not acquire a speculative value;

OPINION

(Rule 147 of the Rules of Procedure)

for the Committee on Agriculture and Rural Development

on the report from the Commission to the Council on the common organization of the market in raw tobacco (COM(96)0554 - C4-0057/97) (Rosado Fernandes report)

Committee on the Environment, Public Health and Consumer Protection

Letter from the committee chairman to Mr Colino Salamanca, chairman of the Committee on Agriculture and Rural Development

Brussels, 18 June 1997

Dear Mr Colino Salamanca,

The Committee on the Environment, Public Health and Consumer Protection considered the above subject at its meeting of 18 June 1997.

At the latter/last meeting it adopted the following conclusions():

The Commission report concerns the functioning of the common organization of the market in the tobacco sector, particularly since the 1992 reform, and includes proposals for the future common organization of this market.

According to the Commission, the 1992 reform has had a positive effect. By simplifying financing methods and introducing a production quota system, the reform has made it possible to cut tobacco production, limit fraud and bring budgetary expenditure under control.

The Commission states that the low level of tobacco purchase prices shows that the quality of most of the varieties grown in the Community is very low, and that production does not cover the Community's qualitative consumption needs. In other words, the value of tobacco imported into the Community is twice as high as that of Community production which is exported.

(^b) The following took part in the vote: Collins, chairman; Dybkjær, vice-chairman; Bowe, Cabrol, Flemming, Florenz, Gahrton (for Breyer), Gonzalez Alvarez, Graenitz, Grossetête, Hardstaff (for Needle), Hulthén, Kronberger, Pimenta (for Campoy Zueco), Pollack, Roth-Behrendt, Schnellhardt, Tamino, Virgin and White

The Commission therefore proposes to reform the sector. Given that tobacco is grown in the economically and socially disadvantaged regions of the Community, the Commission discards the scenario of a gradual Community disengagement from the sector, because the cessation of

aid to producers might have very serious economic and social consequences, both for growers and for processors.

Two other scenarios are rejected by the Commission, namely the introduction of a system of aid per hectare and the payment of direct income support to tobacco farmers. Instead, it essentially proposes (a) to continue support for tobacco producers, but to modulate Community aid according to the purchase price of raw tobacco and (b) to make it easier to leave the sector voluntarily, i.e. to assist the conversion of tobacco growers on an individual, voluntary basis, or even to organize the conversion of all producers on a local scale. In order to do so, accompanying measures would be appropriate, such as local development aid and a permanent scheme for buying back quotas. The Commission goes on to propose increasing the budget of the Tobacco Research and Information Fund by raising the percentage withheld from the premium from 1% to 2%. The main task of this Community fund, which was set up in 1993 and is financed by a percentage of the tobacco growers' premiums, is to search for varieties and cultivation methods which are less harmful to health; a secondary activity is to inform the public about the harmful effects of tobacco consumption.

The Committee on the Environment, Public Health and Consumer Protection stresses, at the outset, that Article 129 of the EC Treaty provides that health protection requirements shall form a constituent part of the Community's other policies. It therefore regrets the fact that the Commission has rejected the option of a gradual cessation of Community aid to tobacco production in future. It points out that the damage to health caused by tobacco is considerable and that tobacco causes the deaths of half a million people in the Community every year.

Financial support for the tobacco sector is diametrically opposed both to the promotion of measures to combat smoking and to the international anti-drugs policy pursued by the Community. The Commission's DG V and DG VI appear to be pursuing different policies with regard to tobacco. The committee once again stresses the need to implement a consistent policy in this area which would reconcile measures to protect human health with the search for the means to facilitate the establishment of programmes enabling tobacco growers to switch to other crops or economic activities.

The committee therefore considers that, as was suggested by the Court of Auditors in its 1994 report, the approach adopted should be the possibility of making compensatory payments to growers leaving tobacco farming, in the form of direct income support to growers equivalent to their mean net income; this would help to cut tobacco production, while at the same time safeguarding jobs. In addition, steps should be taken gradually to reduce premiums, with the aim of reducing output.

The Commission proposal to make it easier to leave the sector voluntarily, particularly by means of a scheme for buying back individual quotas, is obviously welcome, but like all other proposals in this area it highlights the need for a detailed study of the possibilities for tobacco growers and processors to switch to other crops or activities which would guarantee equivalent earnings. This being the case, the committee calls for the budget of the Tobacco Research and Information Fund to be increased by raising the percentage withheld from the premium to 5%, and for research programmes designed to encourage conversion from tobacco to other crops to be included among the fund's activities.

The Committee on the Environment, Public Health and Consumer Protection also welcomes the Commission's intention to make environmental protection one of the areas of research by the

fund, since tobacco growing causes substantial damage to the environment through the excessive use of fertilizers, over-irrigation and the disproportionate use of pesticides. It therefore calls on the Commission to give particular consideration to protection of the environment in its future proposals, by making provision, for example, for appropriate technical assistance and the payment of compensatory aid to growers who help to safeguard the environment.

Yours sincerely,

(sgd) Ken Collins

16 June 1997

OPINION
(Rule 147 of the Rules of Procedure)

for the Committee on Agriculture and Rural Development

on the report from the Commission to the Council on the common organisation of the market in raw tobacco (COM(96)0554 - C4-0057/97) (Rosado Fernandes report)

Committee on Budgetary Control

Draftsman: Mr S. Garriga Polledo

RULES OF PROCEDURE

At its meeting of 18 May 1997 the Committee on Budgetary Control appointed Mr S. Garriga Polledo draftsman.

At its meetings of 21 May and 16 June 1997 it considered the draft opinion.

At the last meeting it adopted the conclusions as a whole by 13 votes with 1 abstention.

The following took part in the vote: Theato, chairman; Tomlinson, vice-chairman; Garriga Polledo, draftsman; Colom i Naval, Fabra Vallés (for Bardong), Fabre-Aubrespy (for Jean-Pierre), Holm, Kellett-Bowman, Mulder, Sarlis, Virrankoski (for Kjer Hansen), Waidelich, Wemheuer and Wynn.

Introduction

1. The Commission's report to the Council on the common organisation of the market (COM) in raw tobacco deals with a number of aspects such as the economic and social importance of tobacco production in Europe, an analysis of the quality of European tobacco, the COM's functioning after the 1992 reform and, most importantly, puts forward two alternative proposals for the future of the COM.

2. Article 26 of Council Regulation (EEC) No. 2075/96 'on the common organisation of the market in raw tobacco' stipulates that before 1 April 1996 the Commission shall submit a proposal to the Council concerning the arrangements on the premium and production limitation systems to be implemented from the 1998 harvest onwards.

3. In this respect your draftsman welcomes the presentation of the Commission's report which, albeit delayed, can provide useful food for thought in view of the submission of a formal proposal. His consideration of the report will be made exclusively from the angle of the Committee on Budgetary Control. In other words, the present opinion will focus on subjects such as the most efficient utilisation of Community appropriations earmarked for the tobacco sector, the development of devices and mechanisms designed to make the system fraud-proof etc.

The fundamental choice for the future

4. The Commission presents two basic options for the future of the COM on tobacco:
- gradual disengagement and
 - (further) fundamental reform of the sector.

Along these two basic options the Commission has addressed - and rejected -two more alternatives: a) replacement of the production quota and aid system with a system of aid per hectare and b) paying tobacco farmers direct income support equivalent to their mean net income, as suggested by the Court of Auditors in its Special Report No 8/93 .

5. Your draftsman will comment on all those proposals and will substantiate the course of action which, in his view, seems to be the most appropriate, i.e. the fundamental reform of the COM.

The Community's Gradual Disengagement

6. The Commission presents a number of arguments (social and economic impact of such a policy, difficulties in switching to alternative crops etc) which militate against disengagement. Cutting off Community financial support to tobacco growers would convict most of the Community's tobacco production to extinction while the processing industry would also be negatively affected. Your draftsman shares the view, according to which, eliminating the Community tobacco production will have little impact, if any, on consumption, as the vacuum will simply be filled by third countries' products.

7. With regard to alternatives to tobacco farming, the problems to be resolved are linked to the highly labour-intensive nature of the crop which is difficult to ignore in a period of high unemployment. Furthermore, it is claimed, massive switch to other crops (field crops) or livestock is likely to disturb market equilibria or face quantitative restrictions on Community support. It is also claimed that afforestation also seems to be impractical due to the very small size of the average tobacco farm (1.1 ha on average per holding, with much smaller plots).

Reconversion

8. Nevertheless, your draftsman takes the view that on the basis of the experience so far, reconversion programmes present a potential not to be disregarded. This applies in particular to reconversion of certain varieties (Mavra and Tsebelia varieties in Greece and Forcheimer Havana Ilc variety and Geudertheimer hybrids in Italy) to other crops, based on Regulation (EEC) No 3616/92, offering an aid of 2Ecu/kg.

9. Information provided by the Commission suggests that these programmes have been quite successful especially in Greece. However, the two above-mentioned beneficiary countries have not respected their legal obligations, to the extent that they failed to declare the quantities involved (over 17,000 tonnes) within the fixed deadline.()

(¹) Commission's working document on the implementation of the EAGGF-Guarantee budget for 1996.

A system based on aid per hectare

10. The Commission rightly points out that such a system would be difficult to monitor and would encourage farmers to grow tobacco just to get the premium. Moreover, it is highly questionable whether from the economic and social point of view it would be acceptable to pay farmers in order not to grow their crop indefinitely.

11. The proposal put forward by the Court of Auditors, ie to pay tobacco farmers direct income support equivalent to their mean net income has been put into question by the Commission which suggests that the basis of the Court's calculations have been erroneous. In this respect, it would be useful to have a sort of "cross-examination" between the Commission and the Court.

Reforming the present system

12. Your draftsman supports the idea of improving the system established in 1992 taking account of the corrections indicated in the Commission's proposal. In this respect, he believes that a number of aspects should draw particular attention, such as the Tobacco Research and Information Fund and the supervisory agencies.

13. As regards the above-mentioned Fund, it is not clear on what grounds the Commission proposes to double the resources available to it. It has to be taken into consideration that in reality the first payments based on contracts awarded by that Fund were made in 1996, which makes it rather premature to make an assessment.

The supervisory agencies (Article 20 of Council Regulation (EEC) No. 2075/92)

14. One of the key elements of the 1992 reform was the obligation placed upon each major producer Member State to set up an independent supervisory agency. The relevant recital in the preamble of the above-mentioned Regulation explains clearly the *raison d'être* of those agencies:

"Whereas experience shows that more stringent controls in the tobacco sector are essential, whereas in appropriate cases certain powers of control could be assigned to an independent supervisory agency to deal with the specific requirements of the tobacco market"

15. According to paragraph 2 of the article in question, the agency should "...carry out certain checks in connection with the Community arrangements for tobacco ..." and "...shall be given full powers by the Member States concerned to carry out the tasks assigned to it" (paragraph 3).

16. As regards the specific tasks entrusted to the agencies, paragraph 4 states that "before the beginning of each marketing year, the Member State concerned shall, acting on a proposal from the agency, draw up and send to the Commission a budget estimate and work schedule to ensure correct application of the premium system (...) The agency shall submit to the Member State and the Commission regular reports on the work which it has carried out. Such reports must mention any problems encountered and, where appropriate, suggestions as to how to improve the checking arrangements".

17. Furthermore paragraph 7 stipulates that "Member States shall take the necessary measures to ensure that the inspection officers (...)

- have access to the premises of production, processing and marketing,

- can examine accounting data and other documents relevant to the checking procedure, and make copies or take extracts from them,
- can ask for any relevant information

18. Your draftsman deemed it necessary to make that extensive and detailed reference to the role of the supervisory agencies in order to underline the importance of their absence in the two most important producer Member States, i.e. Italy and Greece. This lack casts doubt on the Commission's statement according to which the level of fraud after the 1992 reform has "fallen sharply".

19. The Commission does not seem to attach great importance to that major shortcoming, implying that the vacuum has been filled by other bodies in Italy and Greece ("... the monitoring has been done by the already existing bodies, AIMA and EOK", p.42 of the Commission's report). Such an approach would undermine the mere existence of the supervisory agencies. It is to be underlined that the Member States which failed to set up these bodies are precisely those where very serious fraud cases were detected in the not-so-distant past. In this respect the Commission itself should come out for criticism as well for not having exerted sufficient pressure on the national authorities concerned to abide by article 20 of Regulation 2075/92. Instead Community funds have been flown with no interruption giving the impression that the above-mentioned Regulation is a "menu à la carte" from which some customers can pick up only what they fancy.

20. In a report "on the functioning of the new Common Organisation of the Market in Tobacco established in 1992" transmitted to the Committee on Budgetary Control on 5 October 1995, the Commission described the progress - or, rather, the lack of it - made to that date by Italy and Greece in setting up the respective supervisory agencies, which ought to have been established by 30 April 1993: administrative and - in the case of Italy - legislative complications which rather point to a distinct lack of political will of the national authorities concerned to act, have made that four years after the fixed deadline the prospects of setting up the agencies remain bleak. As regards the Commission's reaction, it has been rather lukewarm. As indicated in its 1995 report, apart from commenting on the various drafts forwarded by Italy and Greece, "numerous reminders were addressed to the Member States concerned." In these circumstances, the deletion by the supplementary and amending budget No 1/96 of the 15 mEcu entered against article B1-174 (Control agencies) in the initial 1996 budget came as no surprise. As regards the 1997 budget, the article in question has disappeared altogether, a fact which speaks for itself as regards the short-term prospects for the setting up of the agencies.

21. The Commission should be urged to provide full details on the reasons for its own virtual inaction for four years and the measures it intends to take to ensure that these Member States comply with their legal obligations in the nearest possible future.

Recommendations

22. It is hereby suggested that the Committee on Budgetary Control supports proposals for reforming the common organisation of the market on tobacco. However, this support should be conditional on:

- firm guarantees provided by the Commission to the effect that the main tobacco-producing Member States will be constrained to set up the supervisory agencies within a fixed short timetable, failing which, payments to these Member States could be affected immediately,

- information to be supplied by the Commission on the activity of the Tobacco Research and Information Fund so far, before any increase in the resources available to it can be agreed,
- pursuing the reconversion programmes both from tobacco to other crops and to organically grown tobacco which might provide new competitive advantage,
- the outcome of the "cross examination" between the Court of Auditors and the Commission.