ECMA

ECMA point of view on the reform of the Tobacco CMO

Introduction

In the staff working document "Tobacco regime – extended impact assessment" the European Commission has recently presented its proposals for the future of the Tobacco Common Market Organization. In short, the Commission proposes "the gradual transformation of the current tobacco premium into a decoupled payment that would be integrated in the Single Farm Payment. As the new payment is not crop-specific, the farmer is not obliged to continue producing tobacco, but can switch to another agricultural activity, or even completely cease production"[1]. According to the Commission, the result of this proposal would be "a sharp drop in production. The only regions where tobacco would continue to be grown on a significant scale would be in Greece, where varieties for which the market price covers the variable costs would predominate"[2].

The European Cigar Manufacturers Association (ECMA) herewith would like to present its' point of view on the foregoing. ECMA represents cigar manufacturers from Belgium (Bogaert, Tabacofina Vander Elst, ETS Vandermarliere and Verellen), Denmark (Scandinavian Tobacco), France (Altadis), Germany (Arnold André, Dannemann, Tabak-Haus Dingelstädt and Woermann Cigars), Italy (Ente Tabacchi Italiani), The Netherlands (Agio, Swedish Match and Henri Wintermans), Spain (Altadis, Canariense de Tabacos and CITA) and the United Kingdom (Gallaher, Imperial Tobacco). Furthermore the Swiss company Burger Söhne is member of ECMA.
ECMA members together account for over 90% of the cigars produced in and exported from the European Union. With a total number of 6.6 billion cigars being consumed within the European Union in the year 2002, cigar consumption represents barely 1% of the total consumption of tobacco products (cigarettes, smoking tobacco and cigars) in the European Union. This makes the cigar industry the smallest member of the tobacco family.

Tobacco use by the European cigar industry

A European cigar normally consists of three parts, i.e. the filler, the binder and the wrapper. The tobacco leaves destined to become the outer and inner wrappers (= binder) of the cigar are distinctive, both in type as well as in method of cultivation. They are grown in a limited number of countries, such as Indonesia, Brazil, Cuba, Ecuador and the United States of America. Hardly any wrapper or binder tobaccos are grown in Europe. In the following table you will therefore find an overview of the use of European filler tobacco by the ECMA members.

[1] Source: Tobacco regime – extended impact assessment page 27
[2] Source: Tobacco regime – extended impact assessment page 25

		1998	1999	2000	2001
		tonnes	tonnes	tonnes	tonnes
Light air cured	Germany	0	159	270	289
	Greece	0	17	25	28
	France	15	14	17	16
	Italy	44	267	279	202
Total light air cured		59	457	591	535
Dark air cured	Germany	1.443	1.319	1.311	1.408
	Spain	322	329	333	333
	France	1.005	1.069	975	920
	Italy	987	1.035	1.160	1.201
Total dark air cured		3.757	3.752	3.779	3.862
Fire cured	Italy	1.210	1.350	1.450	1.570
Other		27	30	141	343
Total European tobacco		5.053	5.589	5.961	6.310
Total use of tobacco		19.656	20.363	20.758	20.626
Percentage European tobacco		26%	27%	29%	31%

In annexes I , II and III, the above data are compared with the tobacco production volumes in the various EU member States[3]. From these annexes the following can be concluded:

- Although the European cigar consumption and production represents barely 1% of the total consumption and production of tobacco products in the European Union, the use of European dark air cured tobacco by the cigar is relatively high: in the year 2000 some 10,9% of the EU production volume of dark air cured tobacco was bought by the cigar industry!
- Over the years 1998 to 2000, the relative use of European dark air cured tobacco by the cigar industry increased from 8,9% to 10,9%;
- For one of the ECMA members the use of Italian fire cured tobacco represents more than 80% of its total use of raw tobacco. In the year 2000 some 24,2% (1998: 17,6%) of the Italian production volume of fire cured tobacco was bought by the company in question.

Discussion

Due to its product characteristics, the European cigar industry can only use specific types of raw tobacco, i.e. light air cured tobacco (Burley), dark air cured tobacco and fire cured tobacco (for one specific type of cigars). European tobaccos are used by the industry because of their high quality and their taste characteristics, which are well suited for cigars. Furthermore the cigar industry uses these European tobaccos for their generally lower levels of nicotine.

[3] Source: Commission staff working paper SEC(2002) 1183

If the tobacco subsidies would be stopped or tobacco farmers would receive an incentive to switch to other crops, the cultivation of European filler tobaccos for the cigar industry would become unaffordable or even cease to exist. Such a development would have major consequences for the cigar industry, as the industry would have to look for alternative sources.
However, simply replacing European tobaccos by tobaccos from other countries would be impossible, as the consumer would not accept the other taste characteristics for his or her favourite cigar, deriving from such a change. As the cigar generally is a natural product, the taste fully depends on the blend of the cigar, and cannot be influenced by the use of casings. Finally, the industry would have to look for tobaccos with similar levels of nicotine as well.

If the usage of European filler tobaccos would have to be stopped, this might have other consequences as well. As the vast majority of the European cigar industry already produces its wrapper and binder cuts in or close to the regions of origin (countries such as Indonesia, Sri Lanka and the Dominican Republic), manufacturers might decide to move to those countries all together. Of course such a move would have serious consequences for the employment in the European cigar industry and related businesses such as growers, packers and transporters.

Request
We hope that we have made clear that specific types of European raw tobacco, originating from specific Member States, are of utmost importance for the European cigar industry. Vice versa, the European cigar industry is of utmost importance for the tobacco farmers in question, as the cigar industry is a large customer of the tobacco varieties in question. If Greece - as the European Commission suggests - would become the only Member State where tobacco would continue to be grown on a significant scale, this would mean the end of the growing of cigar tobaccos in the European Union. We therefore strongly urge the Commission to take the specific situation of the European cigar industry into consideration by means of one of the following alternative solutions:

1) **Exception**
The cigar industry uses very specific types of high quality tobacco. The vast majority of these tobaccos are actually being sold, and not “thrown away”. In our view it would therefore be possible to make an exception for the cigar sector by excluding specific types of tobacco from the proposal presented in the staff working document;

2) **Transition periods**
For farmers producing less than 10 tonnes of tobacco, the option proposed by the European Commission would fully decouple the existing tobacco premium already in the first step. As was stated before, the cigar industry cannot simply replace European tobaccos by tobaccos from other countries, as a cigar generally is a natural product of which the taste fully depends on the blend of the cigar. As the taste of the cigar cannot be influenced by the use of casings, the cigar industry and its farmers need long (certainly 5 to 10 years) transition periods in order to be able to adapt themselves to the new situation;

3) Restructuring envelope

According to the proposal the current Tobacco Fund would be replaced by a financial envelope for restructuring tobacco-producing areas. In our view, part of the restructuring envelope should return to the growers of the specific cigar tobaccos, in order to help them grow these tobaccos as efficiently as possible.

European Cigar Manufacturers Association,
November 2003.

ECMA

Annex I The production of light air cured tobacco per Member State and the use by the European cigar industry (in tonnes).

Germany	Production	Usage	Percentage
1998	2.608	0	0,0 %
1999	2.747	159	5,8 %
2000	2.702	270	10,0 %

Greece	Production	Usage	Percentage
1998	12.364	0	0,0 %
1999	11.987	17	0,1 %
2000	12.290	25	0,2 %

France	Production	Usage	Percentage
1998	7.819	15	0,2 %
1999	7.605	14	0,2 %
2000	8.500	17	0,2 %

Italy	Production	Usage	Percentage
1998	46.571	44	0,1 %
1999	45.672	267	0,6 %
2000	47.300	279	0,6 %

Total	Production	Usage	Percentage
1998	69.362	59	0,1 %
1999	68.011	457	0,7 %
2000	70.792	591	0,8 %

Source: Production: Commission staff working paper SEC(2002) 1183, table AN. 2.1.1.
Usage: European Cigar Manufacturers Association

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Annex II The production of dark air cured tobacco per Member State and the use by the European cigar industry (in tonnes).

Germany	Production	Usage	Percentage
1998	3.848	1.443	37,5 %
1999	4.191	1.319	31,5 %
2000	3.860	1.311	34,0 %

Spain	Production	Usage	Percentage
1998	10.743	322	3,0 %
1999	7.177	329	4,6 %
2000	6.825	333	4,9 %

France	Production	Usage	Percentage
1998	9.597	1.005	10,5 %
1999	8.237	1.069	13,0 %
2000	6.564	975	14,9 %

Italy	Production	Usage	Percentage
1998	18.188	987	5,4 %
1999	17.660	1.035	5,9 %
2000	17.529	1.160	6,6 %

Total	Production	Usage	Percentage
1998	42.376	3.757	8,9 %
1999	37.265	3.752	10,1 %
2000	34.778	3.779	10,9 %

Source: Production: Commission staff working paper SEC(2002) 1183, table AN. 2.1.1.
Usage: European Cigar Manufacturers Association

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Annex III The production of fire cured tobacco in Italy and the use by the European cigar industry (in tonnes).

Italy	Production	Usage	Percentage
1998	6.891	1.210	17,6 %
1999	6.753	1.350	20,0 %
2000	5.989	1.450	24,2 %

Source: Production: Commission staff working paper SEC(2002) 1183, table AN. 2.1.1.
Usage: European Cigar Manufacturers Association