

THE WHITE PAPER
ON TOBACCO GROWING IN EUROPE

APRIL 2003

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INTRODUCTION

A WHITE PAPER, THE RESULT OF SEVERAL MONTHS OF DIALOGUE WITH ALL PLAYERS CONCERNED BY THE FUTURE OF EUROPEAN TOBACCO GROWING

From the summer of 2003, **reflections on the system of control of tobacco growing in Europe and its future beyond 2005 will be included in the agenda of the European organizations**. Preceded by polemics connected with the hypothesis of an incompatibility between the system of subsidies for tobacco growers and public health policy, the reflexions are also at the heart of important dates for European agriculture: reform of the Common Agricultural Policy and enlargement of the European Union.

Wishing to take action beforehand, **European tobacco growers, members of UNITAB**, on the basis of the **Green Paper published in the autumn of 2002**, took part in a dialogue with all interested parties in order to contribute positively in the discussions surrounding European tobacco growing and its future.

The Green Paper thus played **a part during the numerous contacts undertaken within Community and national organizations, as well as among representative circles in Brussels**. Overall, more than 460 personal letters were addressed to the Commission in Brussels, to members of the European Parliament, members of the Economic & Social Committee, the Committee of the Regions, representative associations, all leading to the organization of a great number of formal discussions or by telephone, and written or oral replies. In certain cases, however, interlocutors contacted refused to enter into that form of exchange, considering themselves neither concerned nor competent. Several thousand copies of the Green Paper were also distributed to member States, resulting in a great many contributions.

The present White Paper constitutes a synthesis of all the exchanges, a finely-balanced summary considering the diversity of the remarks formulated, but which seemed to us capable of being structured around three principal subjects:

- a reformulation **of the issues affecting the sector at the present time**: these issues are the ones originally stated in the Green Paper, with however, on the one hand, an inversion in their order, since according to the almost unanimous opinion of the people consulted, the main issue in tobacco growing is not public health but its integration in a coherent group of Community policies, and on the other hand the integration of the question of alternative production as one of the major issues for the sector;
- an evaluation **of various scenarios that can be proposed for the future of European tobacco growing** and their feasibility, from the point of view of people contacted, as well as the point of view of tobacco growers;
- **a statistical presentation of the sector**. Everybody encountered expressed their appreciation of it in the Green Paper, and so it has been decided to maintain it as an annexe to the White Paper.

However, after considering the whole of the contributions, European tobacco growers, who hope that the undertaking contributes usefully to the reflections under way, remarked that there is no other credible or lasting replacement scenario for the current system that is likely to maintain levels of employment and activity in the production regions. **The current tobacco Common Market Organisation, which can probably be improved, thus remains the best and probably the only option to this day that is politically acceptable, economically viable and socially conceivable.**

THE ISSUES IN EUROPEAN TOBACCO GROWING

1.1 – COHERENCE IN COMMUNITY POLICIES

Among the issues suggested by the *Green Paper* figured, lastly, statutory dates, with notably the *mid-term review* of the CAP, the enlargement of the European Union, and of course the evaluation and reform of the tobacco CMO itself.

The principal contribution of people encountered focussed on this point, on the one hand by giving it a more important place and on the other by reformulating the title, to express the notion of the *coherence of Community policies*.

→ LEGITIMACY AND HISTORY OF THE COMMON AGRICULTURAL POLICY

Everyone agrees on recognizing the predominance of the Union's foundation Treaties. They stipulate that "the aim of the Common Agricultural Policy is **to ensure an equitable quality of life to the rural population while taking into consideration the particular character of rural activity**" (art. 33), a framework supposed to preserve the continuity of European tobacco growing.

The framework of the Common Agricultural Policy is, however, subject to powerful constraints: adjustments in terms of **the Community budget, the international environment** (discussions within the framework of the World Trade Organization, notably), **enlargement of the Union** to take in countries of Central and Eastern Europe, but also **new social expectations regarding agriculture**, in particular the upkeep of the countryside and sites.

Thus, the legitimacy of agricultural policy and the collective responsibility undertaken by Community organizations on behalf of farmers over 30 years **are recognized by all, including the most vigorous opponents of the system**. Change can not occur except in an overall and progressive way, integrating all the diversity within agriculture and the various market organizations, to which the tobacco CMO is not an exception.

→ COHERENCE WITH OTHER POLICIES, NOTABLY PUBLIC HEALTH

For numerous observers, the existence of a public health policy, designed to protect and dissuade consumers from tobacco consumption, poses **the moral problem** of the coherence of Community policies, caught between support for production and protecting consumption.

At bottom, answers exist and are dealt with in the following chapter, regarding the issue of consumer protection and public health. It should however be underlined that **the moral question is quickly evaded** when it is a question of member States receiving **63 billion Euros in taxes annually** on finished tobacco products, or to take an interest **in working and production conditions** in developing countries that count among the main exporters of raw tobacco.

In reality, numerous interlocutors indicate that a correct approach of Community policy would consist in not amalgamating the various aspects of the policy, considering in particular that agricultural policy, one of the rare and real common policies, now operating for 30 years, cannot be placed in parallel with **a vague public health policy, still in theory under the responsibility of the member States**.

The European Commission itself, represented by the DG SANCO, has recognized the situation **by defending before the World Health Organization the principle of tobacco growing** subsidies, refusing, in the name of the preservation of Community acquired rights, that they be denounced by the International Convention on Tobacco Control. In the same way, the European Commission, that recently negotiated the treaties of adhesion of Central and Eastern European countries, granted Poland a quota of 37,500 tonnes in the perspective of its joining the European Union, while its annual production of leaf tobacco stands at only 25,000 tonnes.

Verbatim

“Even without being in favor of the system, I can only agree that it would be totally irresponsible today to dismantle the CAP, for farmers certainly, for industrial subsidiaries, but also for consumers.”

“The debate on the future of tobacco production needs time to produce constructive reflection.”

“At a time when the European Union is asking questions about the future of tobacco growing, it is paradoxical to note that the same Union has just granted Poland a tobacco production quota 50% higher than its current annual production.”

“It is not a question, even for those countries most opposed to tobacco growing like mine, to take a definitive decision on the future of the sector before decisions on the future of the CAP and subsidies in general have not been taken.”

“The debate on the future of the tobacco growing sector must be settled before enlargement.”

1.2 – CONSUMER PROTECTION AND PUBLIC HEALTH

The people consulted admitted that the issue of consumer protection was one for growers, however only relative compared to other players such as cigarette manufacturers, member States and the medical and scientific community.

→ THE RECOGNIZED NOXIOUSNESS OF A LEGAL PRODUCT

Today nobody denies the damaging effects of tobacco on the health of the consumer and numerous measures have been taken in Europe, over a long period, to try to limit its effects.

The sale and consumption of cigarettes and other tobacco products remain, despite everything, perfectly legal in Europe. They even constitute a significant source of revenue, since, by way of a **75% tax level**, they raise **over 63 billion Euros** per year to member States.

Thus, most of the people consulted agree in recognizing that the debate on tobacco and public health must, in order to be pertinent and offer real perspectives, include the whole of the tobacco file, and not be limited solely to the agricultural framework. **All reflection on the harmfulness of the product should include reflection on the legality of its sale, the consumption of tobacco in the European Union, and on the coherence for member States to develop anti-smoking policies while at the same time obtaining from the same consumption enormous revenue.**

→ A SHARED OBJECTIVE: TO OBTAIN THE LEAST HARMFUL RAW MATERIAL POSSIBLE

The banning of tobacco products is not on the agenda. A limitation on its consumption constitutes, on the other hand, the objective generally accepted. And as the Green Paper indicated, for today's consumers and those, most likely less numerous, of tomorrow, collective responsibility demands, however, **that one strives to see that the products on the market have the least impact possible on public health.**

For growers, the sole social, health and environmental statutory framework that exists in Europe, as well as **procedures for quality certification currently put in place at the initiative of producers themselves** for the whole of the production process (seeds to transformation), **constitute obvious paths of progress.** They thus find themselves in a position to offer a much better controlled and supervised tobacco leaf production, in particular on health grounds, than most other countries.

Beside, as it has been stressed by numerous interlocutors, **European growers are today exercising one of the only activities on the European scale to finance, via an obligatory levy on their revenue, research and information campaigns on the finished product and its harmfulness.** The levy, established in 1992, represents today 3% of the total of subsidies paid.

→ RESPONSE OF EUROPEAN TOBACCO GROWERS

Trying to predict market expectations and the specifications of the authorities is a constant preoccupation of tobacco growers, particularly on health grounds.

For example, they were encouraged to participate in the creation and **development of varieties of tobacco more resistant to disease** and alert networks. The result was a notable drop in pesticide use and a response to worries regarding residues in finished product. Anyway, the most dangerous pesticides have been banned by European legislation.

In the same way, **varieties of tobacco corresponding to new legislation, with a lower alkaloid (nicotine) level and lower tar potential**, have been developed through close collaboration between growers and agronomists.

As regards growing techniques, a continual effort and permanent exchanges between growers, technical control organizations, researchers and specialized institutes have also helped in achieving improvements.

The elimination of chloride fertilizers and the consequent lessening of additives in all fertilizers produce certainly lower yields and thus revenues for growers, but enable the production of tobacco with improved physico-chemical qualities. **Investment in appropriate drying sheds also** contributes to the marketing of more homogeneous tobacco varieties.

Europe is thus able to serve as a “test lab” for the whole world to push forward in a significant way research into the improvement, both in terms of varieties and growth, in the raw tobacco sector, an improvement whose initial beneficiaries could well be consumers and public health.

Verbatim

“The problem of health is a major one: the reduction of tar and nicotine levels does not resolve the problem of tobacco dependence, no more than it resolves the question on the international level, the European Union thresholds not applying in the rest of the world.”

“There is no link between European production and public health.”

“The consumer benefits from the maintenance of European tobacco production when quality and prices are coherent with social and market expectations.”

“If industrialists and member States, like growers, contributed 3% of their revenue from tobacco to fight against its noxiousness, the problem would have been resolved long ago.”

“Research must continue to be helped by public funding, as well as by a deduction on tobacco growers’ subsidies. It is essential for the improvement of tobacco, both for its own sake and in terms of the utilization of pesticides, fertilizers and water resources.”

“Quality is a key aspect, because it can bring about a reduction in the consequences of the finished product on consumer health.”

1.3 – PRESERVATION OF THE RURAL ECONOMIC FABRIC

The socio-economic importance of tobacco growing for a great many European regions is recognized by all. The reasons for that importance are not always clearly identified. That is why, as a complement to the arguments recalled below, the principal statistics and data on tobacco growing in Europe are presented in an annex to this White Paper.

→ TOBACCO, A FACTOR IN SOCIO-ECONOMIC & ENVIRONMENTAL EQUILIBRIUM

The growing of tobacco is generally carried out in disadvantaged regions, sometimes threatened by desertification or experiencing problems of occupation of rural space and most often beneficiaries, at least until enlargement, of structural funds allocated by the European Union.

The only source of viable agronomic and economic revenue is tobacco, because of the stability of its market and revenues. **In regions essentially agricultural it constitutes, the keystone of a network of small family farms.** Such farms also require the presence of small-scale activity, significant agricultural equipment, and above all a workforce for the initial transformation of the tobacco. In a context where more and more uncertainties weigh on the agricultural world, **such a source of economic stability is essential to those regions,** whether it be in the mountains of northern Greece, southern Italy or in Estramadura, but also in regions where it constitutes only one of the agricultural activities, such as in Alsace, Rhine-Palatinat, the Dordogne or even Beira Interior, where it complements a service activity, namely tourism.

Moreover, alongside families of farmers who work all year round in tobacco, the sizable and seasonal workforce necessary for the crop, in particular for harvesting and sorting, finds a complementary activity and retribution in the upstream and downstream processes of the industry that is quite likely, to correspond to a full-time job in numerous regions. As a result, tobacco farming contributes strongly to **maintaining an active rural population, whose presence justifies the perpetuity of local businesses, service activities and even public services.**

Finally, **from an environmental point of view,** it should be stressed that tobacco is in itself a plant particularly sensitive to various forms of pollution, making it, for example, a valuable marker sought by authorities and scientists to detect ozone pollution. **The mastery of farming techniques and contributions to input are thus doubly justified,** by their own characteristics and by the health-risk imperatives of the finished product.

On the other hand, **its cultivation in small areas, the number of hours and the care required, make tobacco growers and their seasonal workers a real presence in rural areas,** and so a living contribution to land protection.

Finally, **the quality of technical infrastructure that exists in the tobacco cultivation facilitates the testing of new environmental practices,** such as the recourse to catch cultures that enables limitation of small amounts of nitrogen in the ground, and avoids leaving the soil uncovered in winter. The modification of irrigation techniques and the use of tensiometers to measure water level in the soil, have also enabled substantial reductions in irrigation.

→ RESPONSE TO THE EXPECTATIONS OF SOCIETY

Public opinion has clearly formulated its expectations as regards agriculture, demanding a **less productivist, more responsible agriculture**, likely to preserve nature, the countryside and the rural economic fabric all the while being at the service of mankind.

In the context of reform of the CAP, these expectations must be heeded. For the authorities and all interested parties, the challenge is to have a global approach to the problems, taking into account as much the economic as the social and environmental aspects, **thus acting within the perspective of sustainable development.**

European tobacco cultivation fits perfectly into this plan: an element of economic stability in the numerous regions where it is practised, without a recognised alternative up till now, it provides a living for over a hundred thousand family farmers, while several hundreds of thousands of seasonal workers participate in the improvement of the product furnished to consumers. It constitutes an agricultural model, having integrated environmental concerns and agricultural practices that maintain the upkeep of sites and countryside.

Verbatim

“Opposition to the principle of subsidies must not let be forgotten their incontestable benefits in terms of employment as part of tobacco growing – direct and indirect.”

“Tobacco growing is essential to certain regions of the European Union.”

“Tobacco in principle fits into the notion of small-scale agriculture respectful of the countryside.”

“The social tissue must be taken into account in reflexions under way into the future of production.”

“Tobacco is a crop that assists the environment. Producers must remain full-time players and not merely guardians reimbursed by Europe.”

“The banning of tobacco growing would be synonymous with the loss of stable revenue for growers, who would have serious difficulties in finding new sources of employment. Besides, seasonal workers do not usually have sufficient skills to be able to take up other activities.”

1.4 – THE QUESTION OF ALTERNATIVE PRODUCTION

The question of alternative production to tobacco growing, although evoked in the *Green Paper*, did not form part of the major considerations. However, considering the interest that the question has raised on the part of most people encountered, it has seemed necessary to include a specific section in which to consider it.

It is true that for over 20 years, European bodies evoke the setting up of conversion plans and alternative crops. All the same, no concrete suggestion has come up till now to support economically and agronomically viable alternatives for producers and their families. On the contrary, studies carried out up till the present underline the impossibility of undertaking a real conversion, including those initiated by the Commission (*Tobacco, Employment in Disadvantaged Areas*, in French, Claude Vidal & Pol Marquer, Eurostat, “Statistics in Brief”, July 2001).

→ A CONVERSION AGRONOMICALLY IMPOSSIBLE FOR MOST REGIONS OF PRODUCTION

In most regions of production, considering their climatic and agronomical conditions, **no substitute crop is technically conceivable**. It is particularly the case for **Greece, that groups half the producers in Europe and represents 25% of European production**, but also for production areas of other producer regions (Abruzzia, Campania and Pouilles in Italy, Andalucia in Spain, etc.). Tobacco is in effect one of the rare plants that adapts to all conditions found in those areas: a hot, dry climate and poor soil.

As well, **the areas of production are often faced with large-scale depopulation and high unemployment**, making viable economic conversion impossible for producers at **the same time hardly or not at all capable of other activities**.

→ AN IMPERATIVE: TO SUBMIT AGRONOMICAL CONVERSION, WHENEVER POSSIBLE, TO AN “ECONOMIC FEASIBILITY” STUDY

In certain regions, the conversion of growers is technically possible, considering the favorable agro-climatic conditions. Nevertheless, as the Commission points out, **“conversion would not allow producers to obtain the same level of revenue from their land, and would increase the production of crops already in surplus or subject to quotas.”** (Eurostat study, July 2001.)

Consequently, **conversion plans must be submitted imperatively to economic impact studies**, with consideration given to the size of properties and the likely revenue of producers who would switch to other crops. Now, studies carried out up till now indicate that alternative solutions filling those **conditions are very few in number**: fruit and vegetables, battery breeding, strawberries, etc.

Also, the massive arrival of tobacco growers into such crops would risk **causing over-supply in already choked markets**, and would threaten the stability of whole sectors of agriculture. In the end, there would be a great risk of creating a real economic and social problem far from the actual objectives of the European Union in terms of employment preservation, as expressed by a number of our interlocutors.

Finally, the conversions **would be likely to pose environmental problems** (notably in the case of battery breeding) and would not resolve the problem posed by the labor force, which finds in tobacco a reliable and profitable activity **but would not benefit from real possibilities of conversion and would become tributary to new support plans more costly than the actual CMO.**

➔ INDIVIDUAL CONVERSIONS ARE POSSIBLE, BUT ALREADY MADE

Tobacco is grown in 8 countries of the European Union, most often in disadvantaged regions. Nevertheless, a certain number of producers have been able, due to their specific situation, to leave tobacco production, in particular **thanks to an increase in farming areas or marketing opportunities** close to big cities. Others, a very small number, managed **it thanks to the system of quota repurchase set up by the tobacco CMO.** This has been notably the case in Portugal and Italy.

All the same, **this “niche” conversion now seems to have been fully exhausted**, as proved by the small number of quotas bought back by the Commission since the setting up of the system. People consulted have also often stressed the limits to buy-back in terms of effectiveness.

Verbatim

“We are in favor of abandoning tobacco growing, but we first have to find substitute activities for tobacco growers.”

“Subsidies are not the question. What matters is preserving the jobs connected to agriculture.”

“Conversion of the whole sector seems unrealizable to me, apart from putting tens of thousands of agricultural workers into situations of great precarity.”

“Economic solutions must be found before launching programs of crop abandonment. It is a matter of common sense.”

“If only one grower out of four, in Italy, Spain and France, switched to tomato cultivation, we would find ourselves in a catastrophic situation, with a 60% increase in tomato production in the European Union!”

1.5 – THE PLACE OF EUROPEAN TOBACCO GROWING IN THE WORLD

The issue of the place of European tobacco growing in the world put forward by the Green Paper produced less support on the part of those consulted. Some of them, however, showed deep interest in the question, consistent with what Europe should be today.

→ A SPECULATIVE CROP IN DEVELOPING COUNTRIES

Europe is the world's leading net importer of leaf tobacco. Intended to cover around 70-80% of its consumption, the imports mainly come from - besides a small part from the USA and Canada - **developing countries: Zimbabwe, Malawi, Brazil, Argentina, Indonesia, India and China.**

For these countries, tobacco constitutes a speculative monoculture, often undertaken on a very large scale, and governed by the simple law of the market, where volumes produced result from an assessment of economic opportunity, and bids decide, the product furnished based solely on an offer/demand ratio. Thus, production conditions are generally not at all or poorly controlled, either in terms of health considerations or the organization of the workforce.

Such a situation stands in contrast to all the efforts at development of a food-producing polyculture, indispensable to the agricultural and dietary equilibrium of these countries, all the same demanded by the international community, in the first row of which stands the European Union.

→ EXPECTATIONS CONCERNING EUROPE'S ROLE ON THE INTERNATIONAL SCENE

Sustainable development encapsulates the expectations of Europe in terms of positioning on the international scale: for several interlocutors, the European Union must both serve as model and prime mover in terms of good practice and norms to be respected, endeavouring to promote ethical economic models with correct remuneration for work, and providing subsidies for targeted and proportional development.

Beyond specific programmes of cooperation and development aid set in place by the European Union and the member States, **all European policies owe it to themselves to be an example of that global and responsible approach.**

In the agricultural sector, Europe plays here and now, on the world scale, a very important exemplary role in terms of hygiene, security, public health and labor regulation,... and tobacco cultivation fits fully into that framework, and more perhaps than other production, considering the particular health constraints that apply to it.

The European Union's place as the world's largest importer of tobacco also gives it a particular responsibility towards its customers. Any notable modification in leaf tobacco production volumes in Europe could, for example, have immediate consequences for the agricultural economies of entire regions in Africa and Latin America, encouraging them to launch themselves into tobacco growing speculation.

Verbatim

“The situation of developing countries must be considered in current reflection on tobacco, as is the case for bananas and sugar.”

“Europe cannot ignore tobacco growing conditions in developing countries.”

“Economic development engendered by tobacco growing must benefit all the links in the chain, helping to improve the well-being of growers and workers in developing countries.”

“Europe must export its model of sustainable development, imposing its norms of hygiene and security, but also its social norms.”

VARIOUS SCENARIOS OF A POSSIBLE FUTURE

2.1 – SCENARIOS OUTSIDE THE CAP FRAMEWORK

When evoking the scenarios of a possible future for tobacco production, numerous interlocutors have raised completely theoretical scenarios, standing outside the CAP framework and the European treaties. These scenarios are not necessarily fanciful, finding concrete applications in certain other countries (Argentina, USA, Switzerland). If their application seems impractical at this stage in the European Union, they constitute interesting food for thought all the same.

→ THE ESTABLISHMENT OF CUSTOMS BARRIERS

The principle of this scenario

It is a matter of installing **barriers limiting imports of leaf tobacco into the European Union**. The absence of customs barriers since the 1970's was compensated by the system of deficiency payments and the installation of the tobacco CMO, in order to preserve E.U. tobacco production. The hypothesis of a questioning of the CMO cannot, according to some, be envisaged, without consideration of this scenario.

Feasibility and perspectives

For the majority of our interlocutors, this system is not conceivable, because **it would put into question the economic and trade rules that prevail currently within the WTO**. It would also be synonymous with taking a step backwards, **the closing in of the European Union on itself** at a time when trade exchanges are imposing openness on a planetary scale.

It should however be underlined that at a time when globalization is being questioned in various cases, many voices are calling for the introduction **of large-scale agricultural markets whose contours would be clearly defined in order to guarantee the stability of prices and trade exchange**. The scenario of a setting up of customs barriers to protect tobacco production in Europe cannot be totally rejected, at least in theory.

It is moreover interesting to underline that in the USA, regulations impose quotas on cigarette manufacturers for the incorporation of raw tobacco according to its geographic origin. Thus, above a certain level of incorporation of tobacco cultivated outside the USA, taxes on the finished product are increased. **There are then, already, barriers limiting imports on the tobacco market.**

Verbatim

“The installation of customs barriers would mean turning the clock back, and not be in the spirit of the E.U.”

“Customs barriers would be a sign of a complete turnaround in the trade policy of the E.U. and would condemn it over the long term in the eyes of its partners.”

“The United States is today the only country on the world stage to have put in place a system of national preference for its tobacco, a form of disguised customs barrier.”

→ INCREASING TRADE PRICES

The principle of this scenario

The principle is **an increase by the industry of the trade price of leaf tobacco produced in the European Union.**

This scenario has never been raised as a future solution applicable by the European authorities, since it falls within the competence of the manufacturers only and depends on independent trade choices of Community politicians. However, considering that in certain cases European tobacco is less well paid for than tobacco of the same quality produced elsewhere, **there lies, for a great many interlocutors, a means to resolve at least a part of the problem of assistance to the tobacco industry.**

Verbatim

“Ideally, industrialists should increase purchase prices in order to, ultimately, regulate and balance the market.”

“One solution among others would be to increase trade prices but on that point, the European authorities have no margin for manoeuvre.”

Constraints and limits of the scenario

If an increase in trade prices could figure in theory among the solutions for the future of European tobacco production, it runs up against several hurdles:

- The tobacco market is **dominated by an overall logic** that does not encompass the social realities of the production areas;
- **Production and labor costs are much lower in developing countries** compared to those of member States of the E.U.;
- The world market is characterized by **a significant imbalance** between the offer of raw product and the demand, **which is often far from the realities of the agricultural world.**

The tobacco producers and the industrialists have been considering an increase in trade prices for many years that take into account various realities – social (labor costs), agricultural (quality efforts) and regulatory (control without equivalent in the world) – of European production. Till now, no significant advance allows one to envisage this scenario providing an answer for the future of European growers.

Verbatim

“It seems difficult to me to envisage such a scenario, considering the trade realities of the market.”

“It is up to the manufacturers to judge the pertinence of an increase in prices. Nevertheless, in regard to the social considerations, it seems indispensable.”

→ TAX REBATES ON FINISHED PRODUCTS

The principle of this scenario

The principle would be that part of taxes received by the member States on finished products **be affected to the support of European tobacco production.**

Although very rarely raised by the interlocutors encountered as a conceivable solution for the future of production, this scenario, practised by certain countries (Argentina, Switzerland) is interesting: it would release **the means to develop a European production of quality. It would also make the consumer pay and no longer the taxpayer,** and would in consequence be readily acceptable by society.

Verbatim

“Tax rebates would be an answer to the problem of subsidies, but setting it up remains far too complex to be envisaged.”

“To consider making the consumer alone pay would be most logical.”

Constraints and limits of this scenario

The principal difficulty is that up till now taxation remains in the province of member States. It would seem then difficult to envisage mixing this system with a Community agricultural policy and the CMO, **except by considering a “renationalization” of subsidies to agriculture. In principle, the system could only be national.** All the same, it would not be illogical for cigarette consumers in European countries that do not produce tobacco **to participate nevertheless in the support of the European crop,** even if it takes place in other member States.

In addition this “Community” incompatibility would be doubled by an international one. **The rules of the WTO are against tax rebates at national level,** even if Argentina and Switzerland have chosen that route.

And if the national echelon were applied, it would pose **financial problems for the two main producing countries, Italy and Greece,** which do not seem in a position to absorb such a reform.

Verbatim

“With more than 60 billion Euros in taxes, one should be capable of putting aside 900 million for tobacco growing.”

“To finance European tobacco growing by tax rebates cannot be considered except at the level of member States. It would destroy the CAP.”

“It is not conceivable to ask the United Kingdom or Denmark to finance European tobacco production via tax rebates raised in those countries on the finished product.”

2.2 – THE GRADUAL SUPPRESSION OF SUBSIDIES

The possibility of a gradual suppression of subsidies, raised by a communication from the Commission in the spring of 2001 concerning sustainable is a scenario present in everyone's mind. However, very few people long entertain it, judging the social cost too high.

The principle of the scenario

The gradual suppression of subsidies is one of the possibilities. Envisaged by the European Commission itself in a document prepared for the Göteborg Summit on sustainable development in 2001, **it has not been taken up either by the Council or by the Parliament.**

Once again put forward by some interlocutors and raised concretely by the Agriculture Directorate-General, this scenario is considered to be one of the possible reforms to the present system. It could take the form of the following measures:

- Maintenance of the present system of full control, but with a gradual **10% reduction of subsidies in 10 stages**;
- Re-allocation of subsidy deductions to the tobacco fund, in order to **fund conversion programs** intended for producers who have opted for quota buy-backs, and to favorize local economic measures;
- A **Commission report** could be proposed at the half-way mark (after 5 years).

However, for a certain number of interlocutors and in particular those known for their opposition to tobacco, if this scenario is "ideal", it also **constitutes an overly administrative approach, likely to destabilize the equilibrium of the whole sector in the very short term.** They consider it is inconceivable due to the overly heavy socio-economic consequences.

Verbatim

"The Commission is opposed to tobacco growing subsidies but we hope to find a solution to save jobs."

"By principle, the country that I represent is opposed to subsidies but must also adopt a reasonable attitude regarding countries concerned by tobacco growing."

Constraints and limits of this scenario

This scenario rests on three key ideas: **the political necessity to end this system, the progression required for disengagement, and the setting up of conversion systems.** Now, all three are rejected in arguments developed by numerous parties, professional but also corporate.

The political will to be done with this sector, even if the opposite impression was given over several months, **is not so obvious**, in particular since the Parliament and the Council rejected it. Today, most of the leaders questioned, including those within the Commission, admit that there is no political requirement to suppress the tobacco OCM, which anyway would be contrary to the treaties.

As regards **the progress of disengagement**, several observers have remarked that **it is only a deception** because in 3 or 4 years at the most, a drop of 30-40% in subsidies would suffice to eradicate completely the sector. The proclaimed term of 10 years would remain a purely theoretical illusion. The promoters of such a solution would find their responsibility fully engaged by the job losses incurred through the destruction of the sector.

Finally, **the re-allocation of suppressed subsidies in order to fund grower conversion programs** also remains at the announcement stage, the question of alternative production being, from the point of view of the great majority of interlocutors, **far from being resolved**. Concretely, the principle of the financing of conversion programs does not correspond to the effective and immediate needs of thousands of growers. They are in effect desirous of sustainable solutions to meet their needs, those of their families and their employees and not simply ideas, principles or experimental programs.

Verbatim

“We have been thinking about pertinent conversion solutions for growers without success for 20 years. So long as we have not concluded that reflection, it is inconceivable that direct subsidies to production be envisaged.”

“I am not convinced that ending subsidies and subsequently be confronted with a massive unemployment problem is part of the logic of agricultural policy carried out by the E.U.”

“The problem posed by tobacco production will not be resolved except by a reasoned solution, free of all moral presuppositions.”

2.3 - DECOUPLING & SWITCHING TO THE 2ND PILLAR

Currently the most often raised scenario by the European authorities, decoupling, the current version of the abandonment of direct subsidies in favor of a second pillar of the CAP, produces however a lot of scepticism among member States.

→ DECOUPLING

The principle of the scenario

The principle of decoupling rests on **the payment of subsidies to farmers without an engagement on their part to undertake any other agricultural activity except countryside maintenance**. Calculated in terms of the level of direct subsidies perceived up till now by farmers, the system is evoked in two options: **partial decoupling and total decoupling**.

This scenario is the one favored by the Agriculture Commissioner, Franz Fischler. He recommends a partial decoupling for olive oil, cotton, etc. which still require direct encouragement, and **total decoupling for tobacco, for several reasons**:

- Total decoupling enables the **suppression of misunderstanding** in tobacco subsidies and so resolves the political problem.
- Decoupling **fulfills the objectives of CAP reform**: to orient production towards the markets, simplify the existing situation, and draw benefits from the reform within the OMC.
- It **avoids administrative difficulties** inherent in partial decoupling.

Verbatim

“Decoupling does away with the incoherence between tobacco-growing subsidies and public health campaigns. It lets the market decide on the continuity of production.”

“Complete decoupling of subsidies has a market-opening effect. In consequence, the E.U. could dictate its conditions in terms of quality to other countries.”

“If decoupling – total or partial – is proposed, it will be in the interest of producers to go along with it, in order to give hope to the sector.”

Constraints and limits of this scenario

The detractors of decoupling put forward the problem **of the social acceptability of such a system** (to pay people to do nothing). For tobacco, the high levels of subsidies that are justified currently because of the recourse to a large exterior workforce would be even **more contestable** when allocated to the grower alone, who would have no interest in continuing with tobacco growing and calling in seasonal workers.

In addition, the setting up of decoupling would bring about **supplementary costs linked to new difficulties for the workforce and the development of unemployment**. It is in effect admitted that there is practically no solution outside of agriculture for seasonal workers.

Moreover, decoupling would have for effect **to lead growers to either quit agriculture or convert to production that is simpler (e.g. cereals) or better rewarded (battery farming)**. The system would see them turn their backs on all the objectives today assigned to agriculture: diversified production respectful of the environment and linked to recourse to an external workforce, with an integration of market and consumer-interest logic. It would also turn them away, and above all, **from the requirements of product quality**, particularly reclaimed by industrialists for tobacco.

Moreover, the argument according to which decoupling will allow an orientation of production towards the needs of the market remain to be shown. **The Commission itself indicates, behind closed doors, its reservations on this point**. The temptation for farmers would be just the opposite, to move towards the simplest and least labor-intensive production. It would risk causing **over-supply in markets already bursting**, not without consequences for the stability of agriculture in general.

The historic precedence for decoupling, as tried in the USA with the *Farm Bill* of 1996, should also be recalled. **Its consequences were far from the results expected**: a crisis without precedent for agriculture, multiplication of special subsidies to farmers and certain produce, then a turnaround and abandonment of the system with a return to a more classic approach. Nothing affirms today that Europe will do better than the USA in the domain.

Let's underline as well that a partial **decoupling of subsidies**, recommended by certain of our interlocutors, does not seem likely to bring **a revenue level sufficient for tobacco growers** and, going beyond the complexity of having two systems co-exist from an administrative and accounting point of view, **would not resolve at all the problem of "illusions" in subsidies for tobacco**.

Common limits: from decoupling to a 2nd pillar

Beyond the principle of decoupling, it is the logic behind the establishment within the CAP of a 2nd pillar that is at stake. Such a system, although at the embryonic stage, already poses many questions, of which the main one for tobacco is once again **the establishment of employment levels**. This system, by lowering direct subsidies, would indeed weaken the balance in production without the parameters of subsidy attribution in regard to the role played in rural development allowing for substitution.

Another question posed by the switch from subsidies towards a 2nd pillar is the quasi-inescapable recourse to national financing, **which will not avoid ending up by seeing production delocalization**. In the end, the regions and rural development could be penalized even though the objective of this scenario is to favorize their development.

It seems accepted, moreover, by numerous interlocutors that this scenario **would challenge the policy of quality pursued by the E.U.** This is particularly true for tobacco, since producers would no longer have the means to furnish the efforts necessary for the development of a better controlled tobacco.

Verbatim

“Decoupling of subsidies for tobacco would be synonymous with an abandoning of efforts to achieve quality. There would be no benefit in such a situation for the consumer .”

“To believe that decoupling would do away with the illusory effect in tobacco subsidies is a mistake. It will be impossible to justify paying the current level of subsidies with, in certain cases, the complete abandonment of growing in sight.”

“Decoupling would have as a consequence a massive arrival of growers onto already over-populated markets. It is thus incompatible with economic agricultural realities.”

“The switch of subsidies from the 1st to the 2nd pillar risks bringing about a drop in product quality.”

“To switch subsidies over to the 2nd pillar would be to see entire regions fall into poverty, to the advantage of regions benefiting from bigger and better national subsidies.”

2.4 - MAINTENANCE OF THE PRESENT SYSTEM

The last scenario raised is the maintenance of the main aspects of the current CMO. If it does not create real enthusiasm, it is, according to a great many interlocutors, “the least worst” of the options. In fact, the only one able to maintain employment in production areas and the socio-economic balance of most tobacco-growing regions.

The principle of this scenario

This scenario consists in maintaining and prolonging the present system, based on the tobacco CMO already reformed several times to take into account the realities of the market.

It is one of the scenarios envisaged by the Agriculture Directorate-General of the European Commission, which anticipates certain adaptations in order to respond to the economic and political preoccupations which have appeared in regard to the future of the sector.

This scenario encounters opposition from most of the anti-tobacco lobby, which criticizes **the moral incoherency** of subsidies for tobacco production, face by the campaigns against cigarette consumption and other finished products, and **their cost (0.9 billion Euros per year)**.

Verbatim

“The European Union must be coherent in its policies. By subsidizing tobacco production, by maintaining an CMO for this product, it is failing morally.”

Advantages and opportunities of this scenario

The present system results from an evolution that allowed **a real control of tobacco production in Europe**. Based on a subsidy system, it fixes production quotas that control the quantities produced, all the while avoiding speculation, and it suppressed the restitutions to exports.

Consequently, the direct advantages drawn from this system by production are numerous. In the 1970's, the tobacco CMO permitted a conversion from traditional tobaccos to real intrinsic quality. It allows as well the development of specific cultural techniques, in order to improve the varieties produced and develop quality by modulating the subsidy. The latter has moreover had the effect of **obtaining probing results in terms of price and the utilization of European tobaccos** – which the Commission underlined in its factual report on the organization of the tobacco CMO in November 2002.

The current system takes into account, moreover, the concerns about public health. **The tobacco community fund**, set up in 1992, is financed by a 3% deduction on the subsidy paid every year to producers. Its objective is notably to improve consumer information regarding the dangers of tobacco.

This orientation in favor of public health was for a time completed by the financing of **Research & Development Projects**, unfortunately today abandoned. Today remains, a rule, unique in the world, regarding the levels of tar and nicotine, which would certainly not have been introduced without targeted control of European production.

The tobacco CMO has no rival in terms of effectiveness, according to numerous interlocutors. It is responsible for **real development of employment** in disadvantaged areas of the E.U. and participates actively in the fight against desertification and rural exodus. **The economic activity introduced at the local level by tobacco** growing represents a pole of stability for numerous regions, as much in terms of employment as in the maintenance of local services (post office, convenience stores, etc).

Finally, the current system is **perfectly transparent** and **makes producer groups responsible**. They notably have the charge of spreading the variable part of the subsidy according to quality. That responsibility constitutes one of the priorities for certain other productions considered as equivalent, like fruit and vegetables.

The current CMO, which is undoubtedly perfectible, remains **the best option** for the future of European production so far, both politically and socio-economically. **A number of our interlocutors moreover agree, whether it be openly or privately.**

Verbatim

“The preservation of the actual system of control of tobacco growing seems to me to be the most reasonable way to preserve the equilibrium of the sector.”

“The current CMO has to be maintained, but with several improvements.”

“The future of the sector depends on the maintenance of the present system, with subsidies and quotas that prevent speculation and guarantee a stability of revenue and price.”

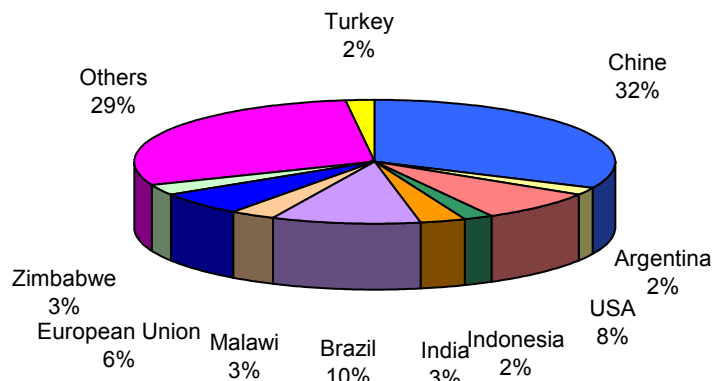
“The consumer will benefit from the maintenance of the current system. It provides a guarantee of less harmful, quality products.”

ANNEXES :
DATA & STATISTICS ON TOBACCO GROWING IN EUROPE

1 - PLACE OF EUROPEAN TOBACCO ON THE WORLD MARKET

- ✓ 128 producer countries in the world;
- ✓ From China (1,896,000 tonnes) to Liberia (10 tonnes), and including India (186,000 tonnes), USA (444,000 tonnes), Brazil (608,000 tonnes), Zimbabwe (179,000 tonnes);
- ✓ Amount of European production on the world market: 6%;
- ✓ Amount of raw tobacco needs imported by the E.U.: 75%;
- ✓ Overall trade deficit of raw tobacco in Europe: 1,800 million Euros;
- ✓ European Union exports: 510 million Euros;
- ✓ European Union imports: 2,310 million Euros.

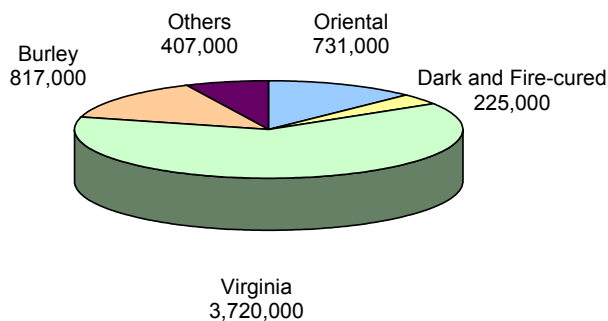
Spread of World production



(data 2002)

World Production of Green Tobacco by Varieties

Global Production: 5,900,000 tonnes



(data 2002)

2 - CONSUMPTION AND ANNUAL BUDGET

→ ANNUAL CONSUMPTION

- ✓ Over 600 billion cigarettes sold in Europe;
- ✓ 720,000 tonnes of raw tobacco used, of which 180,000 tonnes produced in the European Union;
- ✓ The European Union imports 540,000 tonnes of raw tobacco, i.e. 75% of its needs;

→ ANNUAL BUDGET

- ✓ 0.9 billion Euros in subsidies to tobacco growers;
- ✓ 63 billion Euros in taxes on cigarettes in member States.

3 - TOBACCO PRODUCTION IN EUROPE

3-1. Statistics & Characteristics of European Tobacco Growing

→ ANNUAL PRODUCTION

- ✓ 334,064 tonnes of raw tobacco;
- ✓ 180,000 hectares in production;
- ✓ 456,000 direct jobs, i.e. 111,000 producers and 345,000 seasonal workers;
- ✓ Average size of plantations devoted to tobacco growing: 1 to 2 hectares;
- ✓ 1,000 to 2,000 work-hours per hectare depending on variety;
- ✓ 8 producer countries: Greece, Italy, Spain, France, Portugal, Germany, Belgium and Austria.

Spread of guarantee thresholds by variety for 2003-2004

	VIRGINIA	BURLEY	DARK	FIRE CURED	ORIENTAL	TOTAL
ITALY	48 263	47 689	15 682	6 255	9 331	127 220
GREECE	35 242	11 842	-	-	74 762	121 846
SPAIN	29 028	5 545	6 388	30	-	40 991
FRANCE	10 490	9 262	5 170	-	-	24 922
GERMANY	4 728	2 588	3 731	-	-	11 047
PORTUGAL	4 906	1 028	-	-	-	5 934
BELGIUM	-	149	1 404	-	-	1 553
AUSTRIA	29	426	96	-	-	551
TOTAL	132 686	78 529	32 471	6 285	84 093	334 064

Jobs connected to production

	PRODUCTEURS	SAISONNIERS	TOTAL
GREECE	63 586	147 614	211 200
ITALY	32 559	102 441	135 000
FRANCE	5 793	42 714	48 507
SPAIN	7 179	31 321	38 500
GERMANY	1 301	14 699	16 000
PORTUGAL	570	3080	3 650
BELGIUM	263	678	941
AUSTRIA	89	ND	89

→ CHARACTERISTICS OF EUROPEAN TOBACCO PRODUCTION

Europe produces a wide diversity of tobacco varieties that form part of the composition of all types of cigarettes. Meeting the quality requirements of international markets, European tobaccos are the result of efforts undertaken by planters over more than fifteen years to produce **varieties corresponding to the taste and expectations of consumers, and that are less harmful to health.**

Europe produces aromatic varieties among the most sought-after in the world, i.e. **oriental tobaccos**. Very hardy, they adapt to poor soil and are added in small quantities to almost all cigarette blends, both dark and Virginia. These unique tobacco varieties are exclusively grown in the north-east of the Mediterranean Basin.

European growers also cultivate Virginia tobacco, the basis of English and American flavours and in great demand. Virginia, oven-dried, characterised by an orange-yellow color and a sweet taste, and Burley, dried in fresh air. These tobaccos, the most widely grown in the world, are negotiated in exceptionally competitive markets. Europe has succeeded in developing specific production niches that interest international buyers. For example, Virginia qualities called filler that are only slightly aromatic but low in nicotine and with a low tar potential.

Finally, traditional **European varieties of dark tobacco**, dried in fresh air or smoked over aromatic wood, that enter into the composition of cigars, pipe tobacco and dark cigarettes.

3-2. Plantations: structures & locations

→ GEOGRAPHIC IMPLANTATION OF TOBACCO

Tobacco is a plant of tropical origin requiring heat and humidity. The optimal temperature for growth is around 27°C. Though Europe does not dispose of the same climatic advantages as the states of the American south (Virginia, North Carolina, Kentucky, etc.), the tobacco growing regions of the 8 producing countries possess real advantages: **diversity of soil and climate**, which enables production of a large variety of tobacco types, **favourable climatic conditions** during tobacco growth (May to September/October). Also, **the tobacco plant, very hardy**, adapts to the difficult soils of certain producing regions, notably northern Greece, where no other crop could develop.

The tobacco-producing regions:

A Insérer : carte de zones de production en Europe

☞ **Italy:** Abruzzi, Basilicata, Campania, Umbria, Apulia, Veneto

☞ **Greece:** Macedonia, Thessaly, Thrace

☞ **Spain:** Andalusia, Castilla, Extremadura, Leon, Navarra

☞ **France:** Alsace, Aquitaine, Dauphiné, Nord, Midi-Pyrénées, Poitou, Loire Valley

☞ **Portugal:** Azores, Beira Interior, Beira Litoral, Norte Alentejo

☞ **Germany:** Bade-Wurtemberg, Basse Saxe, Bavière, Brandebourg, Palatinat, Saxe, Saxe-Anhalt, Schleswig-Holstein

☞ **Austria:** Upper Austria, Lower Austria, Burgenland, Steiermark

☞ **Belgium:** Western Flanders

➔ EUROPEAN TOBACCO PLANTATIONS

European tobacco plantations can be characterised by their diversity, but **small farms are the most common**. The **average size of areas devoted to tobacco growing per farm varies from 1 to 2 hectares**.

Tobacco is grown either in small specialised farms entirely dependent on the crop, or in farms where it complements others activities (cereals, livestock, fruit and vegetables, vineyards, etc.). However, no matter what the type of farm, tobacco represents a pivotal crop, **constituting in general the largest part of farm revenue (60% on average)**.

Specialised or diversified, it amounts in every case to small or large family farms requiring a **significant seasonal workforce** (on average 3 to 4 seasonal employees per farm).

The following examples show, based on existing situations, the various types of tobacco plantation that can be found across Europe.

➔ EXAMPLES OF TOBACCO PLANTATIONS ACROSS EUROPE

In Germany:

Albert Reed, aged 46, married with two children, grows tobacco in Dudenhofen, near Speyer, in Rhineland-Palatinate, on a 38-hectare, multiple crop farm. He produces rye (22.5 ha), wheat (3 ha), asparagus (2.5 ha) and rhubarb (4.5 ha). Tobacco represents:

- **5.5 ha (Burley exclusively);**
- **55 to 60% of farm income.**

Albert Reeb and his wife both work full-time on the farm and employ 10 seasonal workers. Tobacco production represents “a significant part of farm income, without which the break-even point would not be reached,” he explains.

In Belgium:

Jacques Beelprez is aged 38. He is a tobacco planter in Reningelst, on an 18-hectare multiple crop farm. He grows corn (6 ha), beet (3 ha), potatoes (4 ha), cauliflower (1.4 ha), red cabbage (1.2 ha), and maintains grassland (0.8 ha) on which he raises 160 pigs. Tobacco growing represents:

- **1.6 ha;**
- **35% of farm income.**

It requires 1,600 work-hours per hectare. According to Jacques Beelprez, “It provides a financial guarantee that enables investment all over the farm and constitutes a resource without which I could not continue my life as a farmer.”

In Spain:

Pedro Martinez-Cuesta, aged 55, is married and the father of three. He has been growing tobacco at Talayuela, in Extremadura, for 16 years. His farm is entirely devoted to tobacco:

- **5.5 ha;**
- **100% of farm income.**

Pedro Martinez-Cuesta has made numerous investments over the past three years: floating-gates, harvester, automatic selective picker, etc. He grows tobacco because “there is no other crop able to provide the same income level while employing as much seasonal labour, thus maintaining economic activity around my village.”

In France:

Jean-Marie Merchadou is 34. Married with one child, he grows tobacco at Cours-de-Pile in Dordogne (south-west France). For him, tobacco represents:

- **2 ha of Burley, on a 38-ha farm (includes 28 ha of corn);**
- **60% of farm income.**

In 1995, Jean-Marie Merchadou took over the family farm, on which tobacco has been grown for decades. He adapted its production to market demand by switching from brown tobacco to Burley. He employs two people and invests regularly (greenhouses in 1995 and 1998, a harvester in 2000) to grow tobacco, a crop he is attached to because, he explains, “It requires specific know-how and provides a guarantee of regular income.”

In Greece:

Molla Housein Sadik Kiamil, aged 36, is married with three children. He has been growing tobacco for 20 years at Organis, in the region of the same name, on the family farm. For him, tobacco amounts to:

- **1.1 ha, i.e. the totality of the farming area;**
- **100% of farm income.**

Tobacco provides work for all the family, amounting to 1,800 work-hours per hectare. It also guarantees Molla Housein Sadik Kiamil “a small stable income that no other production could offer me in my region.”

Kiazim Housein is 45. Married with two children, he grows tobacco on the family farm at Passos Komontinis, in the region of Philira. His farm is entirely devoted to tobacco:

- **1.5 ha;**
- **100% of farm income.**

Kiazim Housein employs his whole family in tobacco growing. It requires 1,800 hours of work per hectare and constitutes, “the only crop that’s agronomically and economically viable in my region.”

In Italy:

Serafino Tucci is aged 45. Married with two children, he took over the 2-hectare family farm in Campania, on which he has been growing tobacco for 20 years, as well as corn. Tobacco-growing represents:

- **1 ha, i.e. half the farm area;**
- **80% of farm income.**

For Serafino Tucci, tobacco growing is the only source of income that is economically and agronomically viable. He invests regularly in drying equipment and greenhouses for the plantations.

Giuseppe Taborchi is a tobacco producer in the north of Umbria. Aged 39 and married with five children, he took over the 43-hectare family farm, on which tobacco has been grown from generation to generation. He produces cereals (19.5 ha), fodder (1.5 ha) and raises five head of cattle. Tobacco growing represents:

- **22 ha (bright tobacco);**
- **95% of farm income.**

Tobacco employs three of Giuseppe Taborchi’s family members full-time, as well as seasonal workers. “I am fascinated by tobacco growing,” he says, “because it demands immense know-how and a work-force that contributes to the whole farm, and because it guarantees a regular income.”

REFLECTING ON THE FUTURE TOGETHER

Ensuring the coherence of Community policies, taking public health into account, preserving employment, the socio-economic equilibrium of the regions, developing alternative production assessing the place and responsibility in world production, etc.: there are so many questions on the future of European tobacco growing.

In order to find answers, European tobacco growers undertook a vast consultation of Community organizations, member States, and all the players concerned. The White Paper constitutes the synthesis of their reflections, which envisage the various scenarios of a possible future within the framework of the Common Agricultural Policy and beyond.

One conclusion comes through. So long as consumption of tobacco remains legal, there is no reason to sacrifice its cultivation and, above all, the hundreds of thousands of jobs that depend on it. On this basis, the actual system of control of European tobacco growing has until now no equivalent and remains the only reasonable way forward for the sector, because it lays down clear-cut rules, stabilizes the market, produces probing results as regards quality and the utilization of European tobacco, takes into account the concerns of public health, and stabilizes employment and the maintenance of sustainable economic activity on the local level.

