

## **Minutes of the Advisory Group on Tobacco held on 1<sup>st</sup> June 2012**

### **1. Adoption of the agenda and approval of the minutes from the previous meeting**

The agenda and minutes were approved.

### **2. Elections for the positions of Chairman and Vice-Chairman**

The mandate for the Chairman of the Advisory Group (AG), Mr Moreno, had expired and he had decided to stand for a second mandate. Mr Moreno's candidacy was unanimously accepted. He would present a strategic agenda setting a working programme for the duration of this 2012-2014 mandate. It would be circulated among the other stakeholders for contributions and approval.

The candidate for the position of Vice-Chairman was Mr Simon Green *and* he was elected unanimously.

### **3. Information and discussion on the European and global market situation (production, prices, trade, stocks)**

A Commission representative presented the 2011 figures provided by Member States for EU tobacco production, the average price, the area and the number of operators. In 2011, the total surface area of tobacco crops in the EU was estimated to be 120,381 ha – i.e. a 9% fall on 2010. Bulgaria was the largest producer country in terms of surface area, followed closely by Poland. The continual decrease in surface area had been particularly marked in Italy (-20%) and France (-15%). Among the newer Member States, Hungary also saw its surface area fall by 29% in 2011 compared to 2010. Total EU production in 2011 was estimated to be 236,000 tonnes – i.e. a 5% fall on 2010 and a 16% fall on 2009.

Regarding the situation on the tobacco market, raw tobacco imports (inward/outward processing) rose by 6% in 2011 compared to 2010 and exports fell by 7%. Over the last four years, import trends had slowly increased.

Farmers' estimates for 2012 indicated stable or declining surface area due to unprofitable prices.

In Italy, the 2012 harvest was forecast to be lower than 2011 for varieties in groups I, II and III. Production was estimated to be 50,000 tonnes (-25%) compared to 2011. 2011 prices for Virginia had fallen by 16% compared to 2010 to €2.06; within one production region there were approximate price differences of €1 for the same quantities. As for Burley, prices had slightly increased in 2011 from €1.87 to €1.91. Group IV prices had increased the most (+15%) in 2011 compared to 2010. The price decrease would be particularly marked for Virginia (-30%) mainly due to the fall in surface area (-34%), which corresponded to more than 5,000 ha less land.

Portugal ceased tobacco production in 2012.

In Greece, it was estimated that surface area and production would remain constant in 2012. Prices remained low. Currently, there were on average 14,000 farmers producing tobacco crops. Because of the economic crisis, it was estimated that more people would return to tobacco production. If EU policy was not beneficial to tobacco production, they would not be able to survive.

The situation in Germany was the same as in Italy, with serious uncertainties. Surface area had been stable for 3-4 years at approximately 2,000 ha. Prices had to cover labour costs because no support was possible politically.

In Poland, the situation was complex and production was not profitable. In 2011, 39,000 tonnes had been contracted, however because of poor weather conditions only 28,000 tonnes had been produced. Some of the tobacco had been sold to anonymous buyers. In 2011, prices had decreased compared to 2010 for groups I and II and this tendency was also observed in 2012. For the first time, Poland could benefit from aid from Article 68 for 2012 and 2013, for the production of quality tobacco. This would cover between 40 and 60% of raw tobacco production and help farmers to cope with the situation.

In France, production had significantly fallen in 2011, after a decrease in surface area and dreadful weather conditions. For the first time, Article 68 would be applied, which would help to slightly improve the situation.

In Spain, a slight reduction in surface area was expected for 2012, but with a rise in production (+12%). The situation was difficult due to low prices and poor forecasts for 2012. The delegate informed members about developments following the unilateral decision taken by one business to not purchase 6,000 tonnes of contracted tobacco.

#### **4. CAP post 2013: Impact of legal proposals on EU tobacco production and prospects for EU tobacco production under the first and second pillar**

A Commission representative presented the legal proposals for the CAP post 2013 and focused on the new framework for direct payments, the simplified scheme for small farmers, greening measures, the young farmer scheme, coupled support, areas with natural constraints, the redistribution of direct payments envelopes and convergence, degressivity and capping.

A producers' representative highlighted that there was still no alternative to tobacco production and asked the Commission what impact this reform would have on this particular sector, given the very difficult situation for farmers. He also asked if the Commission knew what would happen at farm level and if they had considered solutions such as an early retirement system.

Another farmers' representative stressed that tobacco is produced in accordance with market demand and it was difficult to understand why this crop was not listed under Article 68, as it was a legal crop that also helped to maintain jobs, provided that it could receive support. In addition, in many regions in Europe, tobacco was grown with integrated production management that required minimum support. Furthermore, the current policy would only favour and increase imports from third countries.

Another farmers' representative mentioned that many farmers had been investing in their farms to improve quality, and that they were still paying back these investments.

A trade representative stated that he endorsed what had been said by the farmers' representatives and highlighted that the only result of the Commission's proposals would be fewer jobs and the loss of millions of investments over the years. This opinion was also shared by a European workers' representative.

The Commission representative said that the proposed CAP reform did not aim to destroy tobacco production. He acknowledged that production was decreasing but this could change in the future. They would pass on the views of members in the Advisory Group to their seniors.

## **5. Update on the revision of the Tobacco Products Directive and the time scale;**

A DG SANCO representative gave a presentation on this issue. The process of the TPD revision was ongoing, and they were in the middle of the impact assessment. The legislative proposal was part of the Commission's work plan for 2012 and the Commission planned to adopt the proposal in the second half of the year. Two areas of the Directive were under scrutiny, the first related to new products that contained nicotine with various types of smokeless tobacco that were not subjected to the same regulation and the second area under scrutiny related to labelling. They were also working on the issue of ingredients and towards harmonising obligatory reporting from Member States. There was also a need to improve the traceability of tobacco products.

A trade representative mentioned a study on the risks associated with uniform packaging and also the fact that European consumers would not be able to distinguish between legal and illegal products. For example, in Poland, the amount of cigarettes smoked had not decreased, but the consumption of legal cigarettes had fallen. The study showed that 15% of marketed produce was legal. This also showed that people would not give up smoking overnight.

A farmers' representative pointed out that the Commission should pay more attention to the real impacts given that this could have a significant economic and social impact on tobacco farming. European tobacco production represents an important source of income and employment and there is no real alternative to tobacco cultivation to date.

The DG SANCO representative replied that they were continuing to communicate with civil society. They had published a new Euro barometer that showed there was strong support within the population for tobacco control measures. It was also a legal and highly regulated product. As regards the study mentioned by the trade representative, they were aware of it but it was not endorsed by the Commission and they were examining the source.

A Commission representative replied that the health risk was associated with the use of tobacco, and as regards public health, illegal cigarettes were no worse than any others. He was aware of the concept of "reduced risk", however there was no reason to authorise products with a reduced risk. As far as public health was concerned, there was no difference between these products.

## **6. Update on the WHO Framework Convention on Tobacco Control: Articles 17 and 18**

A Commission representative informed members of the Advisory Group that the Commission was analysing the report from the working group of the Framework Convention on Tobacco Control (FCTC) in relation to Articles 17 and 18. They were at the beginning of

assessing this document with the other Directorate Generals at the Commission. However, it could be said that the document had confusing elements that could not be accepted (such as questioning contracting policies and making the reduction of tobacco surface area compulsory).

This document should better identify the alternatives to tobacco production and focus more on identifying health risks. A discussion on this was already scheduled with Member States for 14<sup>th</sup> June and the Commission would adopt a clear position at the end of the month.

A producers' representative congratulated the Commission for sending a Commission official from DG AGRI to the latest meeting of the FCTC working group and hoped that the Commission would continue in this direction. In addition, the EU had a lot of data from Greece and Portugal that could be useful for the debate. The proposals made by the FCTC working group did not make much sense, such as cancelling loans to tobacco growers, cancelling contracts, etc. Research had to be carried out on alternative crops.

A trade representative pointed out the many scientific mistakes in the draft document and highlighted that the guidelines did not identify alternatives but just tended to criminalise tobacco production.

## **7. Update on current FTA negotiations (rule of origin and tariff lines for Chapter 24)**

A Commission representative introduced this point. He explained the changes regarding the tariff line accorded to raw tobacco in all negotiations and to all other tobacco products as well.

An industry representative asked a question about India and the specific rules for that area, to which the Commission representative replied.

## **8. WTO, technical barriers to trade: Brazil, Australia**

As regards Brazil, the draft resolution was adopted at the beginning of March. The Brazilian government had submitted an addendum. This issue was now being discussed with the Brazilian authorities in the TBT Committee. Eleven delegations, including countries from South America, Africa and Asia raised concerns about the Brazilian ban on Burley and oriental cigarettes.

As regards the Australian case, it had moved on to the next level and continued to be discussed in the TBT Committee. It was also being challenged at the WTO by Honduras and Ukraine.

An industry representative asked a question about the position of the Commission on the consultation.

An industry representative asked the Commission if ingredients would also be banned in beer.

Regarding the first question, the Commission was taking cautious steps, and carrying out all kinds of studies, because the Commission aimed to adopt its position based on solid studies. For the second question, the Commission representative replied that beer is a matter for DG enterprise.

## *Disclaimer*

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