

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

MTN/3E/W/27

14 November 1974

Special Distribution

Multilateral Trade Negotiations

Original: English

GROUP 3(e) - WORK ON TASK 4

Statement Made by the Delegation of India on 11 October 1974

There are mainly three types of tobacco that India produces. These are flue cured Virginia, sun cured Virginia and country tobacco. We have some twenty grades and six varieties of the cured Virginia tobacco alone. Most of our export trade is in Virginia flue cured and Virginia sun cured varieties.

From among the countries participating in the Multilateral Trade Negotiations, the bulk of our tobacco trade is with Western Europe and Japan. We know that the United States is a large exporter of tobacco, but also believe that the United States is a large potential market as well. We would wish to have at least a modest share in the United States market and to this end we would like to explore all possibilities during the multilateral trade negotiations.

We export a small quantity of tobacco to Japan. The Japan Monopoly Corporation establishes each year an import plan, which specifies the quantity, types and grades of tobacco required, etc. The Corporation decides on purchases and sources which are subsequently carried out by private importers on a commission basis. Japan meets almost 50 per cent of its import requirements from the United States. The United States produces the best quality tobacco and Japan is a rich country and can afford to purchase the best quality. But, as stated in the beginning, India produces a variety of grades of tobacco. It seems to us that while we may not be able to produce grades comparable to the very best produced by the United States, in the medium high quality variety, we do produce comparable grades. These grades are technically called grades 1, 2, 3, 4, KBY, A, S, F, T, etc. These medium high quality grades, it seems to us, are comparable to many qualities of United States tobacco. Thus, there is a possibility for Japan to purchase larger quantities of comparable Indian tobacco than the present small level of purchases. The existence of a monopoly is a non-tariff barrier. However, while it is not for us to interfere with their internal arrangements, we would like to have an explanation, whether private or public, and not necessarily immediately, as to why it appears that even for these medium grades, the Japan

Monopoly Corporation prefers to import from the United States. Is it because we are wrong when we say that the qualities are comparable? Is it because India's prices are higher? Or are there some other reasons which we may not be aware of? We would also be interested to know the current average c.i.f. price of United States and Indian tobacco in the Japanese market.

The EEC, if I am not mistaken, is the world's largest import market. And it is here that we are faced with a peculiar situation. Until the end of 1973, the situation in the enlarged EEC was different from the situation prevailing today.

Until the end of 1973, the CET did not apply to the United Kingdom. The United Kingdom was operating Commonwealth Preferences. The tariff structure in the United Kingdom was such that they did not have any ad valorem duty. They had only a specific duty. Specific duties were operated in such a way that for imports from Commonwealth countries the duty was 0.8 pence per lb. and for imports from non-Commonwealth countries the duty was 2.5 pence per lb. This in effect meant that the Indian tobacco enjoyed a very considerable margin of preference over United States tobacco.

The situation in the rest of the Community was that for tobacco imported under tariff No. 24.01 B i.e. tobacco of a value less than 280 units of account per 100 kgs., there was an ad valorem duty of 23 per cent, combined with a minimum specific duty of twenty-eight units of account per 100 kgs. and a maximum specific duty of thirty-three units of account per 100 kgs. The UNCTAD Secretariat had appointed a consultant to prepare a paper for use in the ad hoc intensive consultation on tobacco which took place in June 1974. According to the findings, which were based on 1971 prices, the effective ad valorem incidence of the Community's tariff structure was such that the duty on United States tobacco was 15.9 per cent whereas on Indian tobacco it was as much as 63.6 per cent. This table is incorporated in UNCTAD document No. TD/B/C.1/CONS./L.4. Since then there have been changes in prices. We would like the GATT secretariat to examine, in terms of 1974 prices, what is the effective ad valorem rate of incidence on imports of tobacco into the EEC from different countries. We would be interested in this study all the more because during consultations the Community delegation had expressed some doubts about the validity of these figures.

Thus the situation until 1973 was that whereas we enjoyed substantial preferences in the United Kingdom market under the Commonwealth Preference Scheme, the United States enjoyed substantial preferences over us in the manner of the Community of Six.

The position being faced now in the United Kingdom is that preferences in favour of India are being phased out and replaced by what is in effect a system of preferences in favour of the United States. And in any case we continue to face discrimination in the markets of the Six original members of the Community.

The Community has, of course, recognized that this would adversely affect our trade and has declared its readiness to seek solutions through the GSP. With effect from 1 January this year, unmanufactured tobacco has been included in the GSP at a 50 per cent suspension of duty. We deeply appreciate this consideration shown by the Community and sincerely hope that the Community will continue to be guided by the same sense of understanding. However, there have been two drawbacks in computing the size of the tariff quota in the GSP.

1. The tariff quota was based on prices and actual exports to the Nine in 1971 and did not take into consideration the subsequent rise in prices or actual exports effected in 1973. Nor did it allow for any increase in our rate of growth nor for any increase in our share in total Community consumption.

2. Deriving from the above, the Community fixed a tariff quota in value terms of 30 million units of account which at the present prices translates into about 16,000 tons. Since our exports to the Nine in 1973 were in the region of 28,000 tons and in 1974 we have a potential for exporting 35,000 tons, this in effect means that the GSP covered merely half of our exports to the Community. Thus, we have a situation in which for half of our exports the inequity of the m.f.n. tariff has been removed, while, for the remaining half, this inequity continues to be inflicted on us.

Although the Community is considering the question of revising the quota in mid-year in order to accommodate our exports (and we again thank them for this consideration), the indications are that the prospects of a favourable outcome are somewhat doubtful.

The inclusion of tobacco in the GSP has been on an exceptional basis. We are happy to note that the Commission's proposal for the 1975 GSP constitutes improvement over the 1974 scheme in that the tariff quota is expressed in quantity and not in value. However, it still is inadequate because the proposed quota of 22,000 tons will cover less than two thirds of our exports in 1975.

It is therefore our earnest hope that as a part of the comprehensive MTN, satisfactory solutions will be found for our difficulties, including, if necessary, through the medium of improvements in the GSP.

Apart from the problem of the CET, there is an additional complication. We have observed that prices of United States tobacco are rising so fast that they have gone beyond 280 units of account per 100 kgs. The consequence is that most United States tobacco is being imported under tariff position 24.01 A. Until the end of this year tariff structure for 24.01 A is at 15 per cent ad valorem duty with the maximum specific duty fixed at seventy units of account per 100 kgs. But as a result of the GATT Article XXIV negotiations, with effect from

1 January 1975 the maximum specific duty is being reduced from 70 UA to 45 UA. This means that a similar kind of advantage which the United States has enjoyed for 24.01 B is now going to be obtained by them under 24.01 A also. Therefore, the entire tariff structure for all points in 24.01 is made unfavourable to India.

It is likely that those countries which are associated with the Community will be getting an exceptional preferential entry for their tobacco. In this regard I have an additional point to make. When the Community of Six negotiated an Association Agreement with Greece in 1961, Protocol No. 10 of the Agreement provided that during the transitional period no more than 22,000 tons of tobacco could be imported from non-associated countries into the Community on a preferential basis. This transitional period comes to an end on 31 October this year. The Council of Association, which is likely to meet towards the end of this year, will be considering the question of whether or not to renew this Protocol, and, if it is renewed, in what form it should be renewed. We hope that in the Council of Association the said Protocol will be so revised as to take account of the following factors:

- (i) The Community has now been enlarged to include nine countries;
- (ii) The three new member States import a much larger quantity of tobacco proportionate to their total consumption;
- (iii) That whereas almost all Greek tobacco is Oriental tobacco, tobacco from India is Virginia-flue cured and sun cured;
- (iv) Since almost all Indian tobacco is sent to the United Kingdom to which Protocol 10 has not hitherto applied, the particular position of India needs to be safeguarded in whatever new arrangements may be made with Greece.

It is therefore the intention of the Indian delegation in the multilateral trade negotiations to conduct a serious and detailed negotiation with the Community. To enable this detailed negotiation to take place the following statistical information and other details will be required.

1. The area under Virginia tobacco production in the Community.
2. Total production of Virginia tobacco in the Community.
3. Productivity per hectare in the Community of Virginia tobacco.
4. Productivity per hectare in other Virginia tobacco producing countries.

5. Total import of tobacco into the Nine up to 1973 inclusive, with distinction between Virginia flue cured and other types.
6. Prices on c.i.f. basis in the Community for different grades of Virginia tobacco, imported from different sources.
7. How the prices of Virginia tobacco have changed in the last three to four years and projections for the future, if any.
8. The intervention price for Community tobacco and how much the Community has paid out by way of deficiency payments.
9. Figures regarding the amounts of tobacco that have been held in bonded warehouses in the revised member States at the end of the year.
10. Statistical information on production of Virginia flue cured tobacco in the countries associated with the Community.

Some of the information has perhaps already been provided in the present documentations. For the rest, we shall be grateful if the GATT secretariat could provide assistance.

I am sorry I might have given an impression that I am singling out the EEC. In fact it is not only in the EEC that there are difficulties but in other markets as well and that is why the delegation of Turkey yesterday made the proposal for a study on NTBs in this field. The only reason why I concentrated on our specific problems with the EEC is the fact that the bulk of our exports goes to this market and the loss of preferential arrangement in the United Kingdom has created a peculiar situation which needs to be rectified.