

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/995
13 July 1959

Limited Distribution

ROME TREATY

JOINT CONSULTATIONS UNDER ARTICLE XXII

Consultation with the Member States of the European Economic Community on Tobacco

Agreed minute submitted by the participating contracting parties

1. The consultations on tobacco under Article XXII of the General Agreement with the Member States of the European Economic Community which were held at the request of the Government of the Federation of Rhodesia and Nyasaland and which opened in Geneva on 23 October and 4 and 17 November 1958 were resumed in Geneva on 17, 19 and 25 February 1959. This minute relates to the February consultations only.
2. In addition to the Member States of the EEC the following other contracting parties participated in the consultation: Brazil, Canada, Cuba, Dominican Republic, India, Indonesia, Federation of Rhodesia and Nyasaland, Turkey and the United States of America. The Chair was taken alternately by a representative of participating countries other than the Six and by a representative of the Six.
3. The discussion was carried out in the light of data and discussion to be found in the Working Party Report on tobacco (Add.6 to document L/805), the statistics furnished by the GATT secretariat (attached as Annex I), the discussions which had taken place in the previous consultation under Article XXII, and various memoranda (i.e., memoranda submitted by the Governments of the Federation of Rhodesia and Nyasaland, Turkey and the United States, which are annexed to this document and the reply of the Six which will be supplied as soon as possible and will also be annexed to this document).
4. In order not to burden the minutes and since the views expressed individually by the representatives of each third country were generally shared by the others, these views are recorded as the views of "representatives of participating countries other than the Six".

COMMON EXTERNAL TARIFF

(a) Implementation of the Common Tariff

5. The representatives of the Six stated in reply to questions about the present level of duties on tobacco that the position so far as France and Italy were concerned remained unaltered, i.e., State monopolies would continue

to operate as before and no duty had yet been imposed; in the case of the Federal Republic of Germany and Benelux the position was:

(a) Federal Republic of Germany

Unmanufactured Tobacco - The duty of DM.180 per 100 net kgs. remained unaltered for third countries as the decision of 3 December 1958 taken by Member States of the EEC (L/954) did not apply to agricultural products, imports of which have been liberalized, and such is the case of tobacco in the Federal Republic of Germany; the duty, however, had been reduced on 1 January 1959 by 10 per cent to DM.162 per 100 net kgs. for EEC countries and the AOT's. No consumer tax was applied.

Cigarettes - The rate of duty for cigarettes which had been negotiated under GATT with the United States in 1956 remained unaltered at DM.7,500 per 100 net kgs. both for Members of the Community and for other countries.

(b) Benelux

Unmanufactured Tobacco - The rate of duty applied to Members of the Community and the AOT's had been reduced by 10 per cent on 1 January 1959 to Fl.28.71 per 100 net kgs. in the Netherlands and to B.frs.371.30 per 100 net kgs. in the BLEU. The 10 per cent reduction had not been applied to third countries.

Cigarettes - The rate of duty applied to third countries unaltered at 45 per cent but had been reduced by 10 per cent to 40.5 per cent for EEC countries and the AOT's.

(b) Assessment of the Common Tariff

6. In discussion on the assessment of the common tariff, representatives of participating countries other than the Six expressed the opinion that the rate of 30 per cent ad valorem for unmanufactured tobacco which had been agreed upon by the Six was unduly high considering that in France and Italy, where imports were made solely by State monopolies, there had been no tariff on tobacco on 1 January 1957, and in Benelux the duty had been relatively low, i.e., representing an ad valorem incidence of about 8 per cent on 1956 prices. In France and Italy the common tariff would represent an incidence much greater than 30 per cent insofar as these countries may propose to maintain their tobacco monopolies.

7. These representatives recalled that during the previous consultation the spokesman for the Six had stated that the protection afforded by the monopolies was "total, complete or absolute" and that if a tariff equivalent were to be sought it would have to amount to at least 50 per cent ad valorem. They asked why, if the monopolies in France and Italy were to continue to exist, it had been thought necessary to take the protection afforded by

these monopolies into account in establishing the common tariff. In their opinion double protection was afforded by the continued existence of State monopolies in France and Italy together with the overall introduction of a common tariff calculated by reference to these monopolies. There could be only two reasons for the increase of a tariff rate as an act of policy - either to increase revenue or to alter the pattern of trade for protective or other reasons. Since there had been no suggestion that the Six required additional customs revenue from tobacco it could only be assumed that the proposed discriminatory tariff was intended to change the pattern of tobacco imports into the EEC. If the monopoly system were to be extended to the whole common market this would further increase the incidence of the common tariff in the Federal Republic and the Benelux countries. Thus, the effective tariff for the common market would bear no relation to the previous tariffs of the Six.

8. The representatives of the Six recalled their statement during the first consultation, when they had pointed out that the rate of duty had not been fixed by computing the arithmetical average or weighted average of the legal duties or those actually applied, but had been negotiated between the Member States; it would have been very difficult from the technical point of view to apply either of those methods, since in France and Italy protection was not afforded by means of the tariff, but through State monopolies. The representatives of certain third countries had asserted that additional protection was afforded by the juxtaposition of tariff protection on monopolies; in that connexion, the representatives of the Six explained why there could be no question of additional protection, since by virtue of the existence of the monopolies, the protection afforded was already at a maximum level and could not be increased. The representative of the Six stated that the Member States had not yet turned their attention to the problem of adapting the monopolies to the new situation created by the Rome Treaty, and that for the time being no changes were therefore envisaged. He added that France continued to require foreign tobacco, and that the import programmes, which were not at all rigid, depended inter alia on market conditions, prevailing prices, and the qualities available.

9. The representatives of participating countries other than the Six noted that no final decision had yet been taken on the level of the common tariff on cigarettes. They expressed the view that the fiscal element involved in the duties applied on 1 January 1957 should be excluded in the calculation of the common tariff on tobacco as provided for in Article 22 of the Treaty of Rome.

10. The representatives of the Six, while recognizing that negotiations under Article XXIV:6 of the General Agreement would have to be held where rates of duty which had previously been the subject of tariff concessions under GATT were involved, nevertheless, reminded the other participating countries that although it had been agreed that such negotiations with regard to the common tariff should take place before it came into effect, it had not been foreseen that they need take place before the first internal modifications were applied to the individual tariffs of the various Member States.

DEVELOPMENTS IN PRODUCTION AND CONSUMPTION

11. The representatives of participating countries other than the Six noted that since 1 January 1959 tobacco producers in the AOT's had had access to the German and Benelux markets at a rate of duty 10 per cent below that applied to producers in third countries. They considered that the introduction of a 30 per cent margin of preference was bound to act as an incentive to greatly increased new investment and overall production in the overseas territories and was likely to result in a substantial diversion of trade from third countries. They stated that reports had already been received and official statements made that producers in these territories were planning to expand production. While other producing countries recognized that there was likely to be an expansion of production in the AOT's, they objected to this expansion being encouraged by the introduction of a 30 per cent margin of preference. They recalled the views on possible increases in production in the overseas territories which had been expressed in the report of the Working Party on the Association of the Overseas Territories with the European Economic Community (L/805/Add.6) and said that nothing had developed which altered these views.

12. The representatives of the Six stated that while it was possible that tobacco production, like that of other commodities, both in the AOT's and within the Community would increase as a result of economic development such development appeared to be limited by many factors which had been outlined in the answer which the Six had given to the memoranda submitted by third countries. Available statistics for production in the French overseas territories indicated that production was of minor importance and that there had been no overall increase in recent years. In the countries of the Community, it was possible that Italian production would increase but competition from other expanding crops and the lack of available land for cultivation would no doubt tend to keep increases in the quantities produced within moderate limits. They further stated that the increases in consumption which it had been estimated would occur during the next few years, partly as a result of increased standards of living within the Community and overseas, would more than offset normal expansion of production within the area.

DAMAGE

ASSESSMENT OF DAMAGE

13. No agreement was reached during the consultation on the question of how damage to third countries could be assessed at this stage.

14. Representatives of the Six stated that no proof had been offered that the producing countries taking part in the consultation were suffering actual damage already, and while they recognized that third countries had apprehensions about the future position, they did not believe that they would prove to have been justified. Without concrete evidence they did not see how they could accept the argument of the other participating countries that import and production trends within the Community and the associated overseas territories had already changed and that a serious threat to their trade was imminent.

15. Representatives of participating countries other than the Six indicated the damage which threatened their countries and urged the representatives of the Six to reconsider their decision regarding mitigation of damage. In their view damage to the trade of third countries would inevitably result from the proposed arrangements of the Six. They pointed out that they could not afford to wait until concrete evidence of damage became available (e.g. in statistical form) because by that time consumer tastes would have been altered and it would be very difficult to prevent lasting damage to the producers. It was added that the amount of duty borne by imports at a 30 per cent ad valorem rate would be progressively heavier by comparison with the tariff burden represented by a continuation of present specific tariffs since costs and prices of tobacco were likely to rise.

POTENTIAL DAMAGE TO NON-SIX PRODUCERS

(a) Diversion of Trade

16. In the view of participating countries other than the Six the introduction under the common tariff of a 30 per cent preference on manufactured tobacco would, because of the effect on prices and of the stimulus to production which it would provide in the associated overseas territories, result in the gradual loss to producers in third countries of their markets within the Community. It was noted that such diversion was especially to be expected in Benelux and Germany where the new preferential effects would be the greatest. This diversion of trade would also cause damage to the trade in manufactured tobacco products where it was necessary for manufacturers to plan their blends well in advance, as the types of tobacco which they required might suddenly cease to be available to them at competitive prices. In this connexion, producing countries pointed out that the arrangements proposed concerning manufacture and sale of cigarettes by the French tobacco monopoly might lead to still further special advantage for the French AOT producers at the expense of other suppliers. Specifically, it was noted that the French monopoly can and does manufacture and distribute cigarettes made to its own specification with tobaccos of its own choosing in Benelux while Benelux manufacturers have no comparable privilege in France. Hence, as tobaccos used heavily by the French monopoly began to enjoy tariff advantage in Benelux one could expect raw tobacco imports for the account of the monopoly to displace other tobaccos which Benelux countries might otherwise continue to buy from overseas sources. Similar non-reciprocal arrangements giving the French monopoly special advantages in manufacture and sale of cigarettes in other countries of the Community might also be established. Participating countries other than the Six shared the hope that the implementation of the EEC would result in a general increase in income and consumption in the area. It was nevertheless feared that because of the creation of a preferential barrier to trade third countries would not be permitted to share any increase in demand. Furthermore, if a substantial increase in demand was expected within the area, it was all the more difficult to understand why increased tariff protection and preferential treatment of the overseas territories was considered necessary. With respect to the consumption increases that the Six had forecast, the producing countries considered these to be higher than the levels likely to be attained especially as no per capita increase was to be expected in the Netherlands where there had been relatively free trade in tobacco.

17. The representative of the Six replied that the assumption made by the representatives of the countries which feared a diversion of trade was based on a number of special premises, such as a considerable increase in production in the AOT's, stagnation in consumption, change in consumer taste, etc. etc., but he himself found great difficulty in believing that those premises would prove correct. What was known of the conditions of tobacco production in the overseas countries did not make it very likely that any really substantial increase in production would occur in coming years; as to consumption, authoritative studies had been made which showed, on the contrary, that it would rise by 75,000 tons by 1965, so that more would have to be bought from foreign suppliers. Furthermore, those studies had been made without making special allowance for the improvement in standards of living which should ensue when the Treaty came into force, and it was not unreasonable to believe that the prosperity thus expected would produce tangible effects.

(b) Substitution

18. Representatives of participating countries other than the Six stated that in the case of tobacco there was danger of substitution as manufacturers within the Community would turn more and more towards the type of tobacco produced within the preferential area, and, as consumer demand tended to be affected by price, the wide price difference permitted by a 30 per cent margin of preference would reflect heavily on all types of tobacco but more immediately on the more expensive types, and would thus cause a decrease in demand for tobacco imported from third countries. There was also, in their opinion, the additional possibility that production of the more expensive types of tobacco - cigar-wrapper, oriental, Burley, Maryland and flue-cured - would expand within the preferential area and thus replace even the amounts of such tobacco which might have continued to be imported from third countries for blending purposes.

19. The representative of the Six pointed out in reply that substitution trends were, in general, slowly evolving processes in which prices were not necessarily the decisive factor, as was proved by the example of the changes noted during the last war cited a year previously by third countries. It was well known that, especially with tobacco, which was not an article of necessity and, although widely consumed, still fell into the category of what might be termed the "superfluous" consumption on the whole was hardly affected by changes in price. Although the 30 per cent duty would obviously fall most heavily on the more expensive tobaccos, the Six doubted whether consumption could be seriously affected, especially if allowance was made for the broad prospects of a rise in standards of living, which was the basic assumption of the Treaty.

20. The representatives of the Six also stated that, according to authoritative estimates, the consumption of tobacco in the EEC countries and in the AOT's would increase by 75,000 tons by 1965, which implied increased imports.

CONCLUSIONS

(a) Views of the Non-Six

21. Representatives of participating countries other than the Six stated that they were greatly concerned about the height of the tariff and the effects which the imposition of a preferential 30 per cent preference would have from now on upon trade in tobacco which was of great importance to their economies. In their opinion the imposition of a 30 per cent tariff calculated by reference to the French and Italian monopolies, insofar as, however, they would continue to operate, would constitute a substantial barrier to exports, particularly in the case of the Benelux countries and the Federal Republic of Germany, and would stimulate production in the AOT's; would lead to manufacturers in the metropolitan territories of the Six substituting types of tobacco grown in the AOT's for the various types of imported tobacco, with a resulting substantial diversion of the trade of the third countries. Since the Six anticipated a substantial increase in demand in the territories of the Six and the ACT's, the reasons for such a high level of preferential tariff protection were hard to understand. They urged the representatives of the Six to reconsider their decision to impose such a high tariff and to consider whether it should not be replaced by internal taxes. They further expressed their apprehensions about the possible application of Articles 39 to 46 of the Treaty of Rome which might involve the use of long-term contracts and minimum prices, either of which could place third country products at a further disadvantage.

22. They expressed their disappointment that they must report to their governments that no progress had been made during the consultations and that there was no sign of any practical action being taken by the Six to mitigate the effects of the damage to their tobacco exports which they felt must result. It was also disappointing in their opinion that the representative of the Six had not been able to agree, despite the arguments which had been presented to them, that there was cause for concern about the future amongst other producing countries.

(b) Views of the Six

23. The representative of the Six expressed their conviction that future prospects were far from being as gloomy as the other participating countries seemed to fear. Thus the incidence of the tariffs applied by the Federal Republic of Germany would be reduced from 32 per cent to 30 per cent and the adaptation of the French and Italian monopolies in accordance with the provisions of the Treaty of Rome would improve the position of non-six products. It was true that the Benelux tariff would be raised and that it was not expected that there would be any substantial rise in consumption per capita in Benelux during the next few years, but increases in population and in standards of living in the Community countries as a whole, as well as in the overseas countries, should bring about an appreciable rise in total consumption and this in turn would lead to increased tobacco imports.

24. While recognizing that the other participating countries experienced apprehension about future damage to their trade as a result of the Treaty of Rome the representatives of the Six observed that any discussion on the future was necessarily subject to considerable uncertainty and that, in any case, the fact that discussion had centred on possible future damage clearly showed that no actual damage was being suffered by third countries. They undertook to report the views expressed by other participating countries to the competent authorities and, on the request of the Federation of Rhodesia and Nyasaland, the United States and Turkey, to reply in writing to the memoranda submitted by those countries.

ANNEX I

Imports of Unmanufactured Tobacco (SITC 121)

in 1956 and 1957

(metric tons and per cent of total imports)

ANNEX I

Importations de Tabac Brut (CTCI 121)

en 1956 et 1957

(en tonnes métriques et en pourcentage des importations totales)

Imports from Provenance	Imports into Destination	Belgium-Luxemburg Union Economique Belgo-Luxembourgeoise		France		Germany, Fed. Rep. Allemagne, Rep. Féd.		Italy Italie		Netherlands Pays-Bas		Total		United Kingdom Royaume-Uni		United States Etats-Unis	
		1956	1957	1956	1957	1956	1957	1956	1957	1956	1957	1956	1957	1956	1957	1956	1957
Total	%	22,690 100.0	25,354 100.0	34,691 100.0	30,432 100.0	70,415 100.0	76,513 100.0	7,106 100.0	6,945 100.0	32,252 100.0	32,547 100.0	167,160 100.0	171,991 100.0	144,424 100.0	144,692 100.0	54,815 100.0	57,157 100.0
Associated Territories	%	39 0.4	80 0.3	5,257 15.1	5,416 17.3	2 -	1 -	- -	- -	3 -	4 -	5,351 3.2	5,503 3.2	- -	- -	- -	- -
Belgian - belges	%	69 0.4	65 0.3	- -	- -	2 -	1 -	- -	- -	1 -	2 -	92 0.1	98 -	- -	- -	- -	- -
French - français	%	- 0.1	15 0.1	5,257 15.1	5,416 17.3	- -	- -	- -	- -	2 -	2 -	5,259 3.1	5,435 3.2	- -	- -	- -	- -
Algeria - Algérie	%	- -	- -	8,683 25.6	2,797 9.2	- -	- -	- -	- -	- -	- -	8,863 5.3	2,797 1.5	- -	- -	- -	- -
Other countries - Autres pays :																	
Greece - Grèce	%	833 3.7	1,428 5.6	5,530 15.9	5,233 17.2	15,172 21.5	16,967 22.2	1,828 25.7	3,505 50.5	1,249 3.9	189 2.4	24,612 14.7	27,922 16.2	650 0.4	484 0.3	8,565 15.6	10,557 18.5
Turkey - Turquie	%	1,052 4.6	959 3.8	1,500 4.3	3,167 10.4	7,251 10.3	6,977 9.1	1,127 15.9	1,794 25.8	2,908 9.0	2,399 7.3	13,838 8.3	15,296 8.9	1,197 0.8	1,148 0.8	27,875 50.9	27,843 46.7
United States - Etats-Unis . . .	%	9,220 40.6	8,565 34.2	2,784 2.0	3,949 13.0	27,928 39.7	29,189 38.2	66 0.9	- -	11,717 36.3	11,370 34.7	51,715 31.0	53,173 30.9	72,724 50.4	76,319 52.7	- -	- -
Canada	%	200 0.9	245 1.0	- -	- -	300 0.4	890 1.2	- -	- -	390 1.2	214 0.7	890 0.5	1,349 0.6	9,825 6.8	11,632 6.0	- -	- -
Cuba	%	207 0.9	433 1.7	- 0.6	168 1.0	686 1.0	343 1.1	105 1.5	86 1.2	1,073 3.3	1,315 4.0	2,071 1.2	2,345 1.7	132 0.1	163 0.1	11,668 21.3	11,976 21.0
Dominican Republic	%	1,681 7.4	1,941 7.7	710 2.0	- -	2,313 3.3	2,315 3.0	- -	- -	251 0.8	236 0.7	4,955 3.0	4,492 2.6	- -	- -	- -	- -
Brazil - Brésil	%	1,624 7.2	1,931 7.7	908 2.6	2,612 9.6	4,222 6.0	4,522 6.0	462 6.5	- -	2,940 9.1	3,712 11.3	10,156 6.1	12,907 7.5	16 -	64 -	10 -	- -
India - Inde	%	1,331 5.9	1,542 6.1	540 1.6	- -	164 0.2	75 0.1	- -	- -	1,481 4.6	1,002 3.1	2,976 1.8	2,620 1.5	18,137 12.0	16,142 11.2	- -	- -
Indonesia - Indonésie	%	855 3.8	621 2.4	222 0.6	364 1.2	3,270 4.6	3,148 4.1	- -	- -	3,778 11.7	3,997 12.2	8,125 4.9	8,130 4.7	28 -	- -	63 0.1	57 0.1
Rhodesia & Nyasaland, Fed. . .	%	1,123 5.0	1,897 7.5	429 1.2	252 0.8	895 1.3	1,351 1.8	- -	- -	2,781 6.6	3,694 11.3	5,233 3.1	7,194 4.2	38,280 26.5	36,251 25.0	- -	21 -
Rhodésie & Nyassaland, Féd. . .	%																

ANNEX IIStatement made by the Representative of
the Federation of Rhodesia and Nyasaland
during the Tobacco Consultation

In approaching the current round of tobacco consultations we on this side of the table are unanimous in our opinion that the level of duty proposed by the Six is too high, will present a material change in the conditions under which we will be allowed to trade in Europe, will result in the distortion of that trade and in substitution. But just as tobacco is of many types and varieties, so also there are many differences in the particular circumstances of each of the consulting countries and each is making its own points to a common end.

Speaking for the delegation of Rhodesia and Nyasaland, I would like to reiterate for the sake of the record some of the points which have been made previously and also to introduce some new points. These points will not refer in any way to technical questions of types of tobacco nor to legalities or principles but will be concerned solely with the practical position. I do not intend to reiterate our arguments about the factors which were said to constitute the reasons for the decision by the Six to adopt the level of 30 per cent ad valorem. Without accepting those arguments I will base my present submission on the fact that the 30 per cent ad valorem rate has been adopted.

Tobacco is grown in the Federation of Rhodesia and Nyasaland by an estimated number of some 70,000 farmers whose holdings average only 5 acres per family. This is a large figure in a country of this size and it reflects the number of families which are almost wholly dependent upon tobacco as a cash crop and the majority of this number are peasants. They are the main producers of the dark fired types which are grown in the ACT's and in Italy, and they will therefore be the people most likely to suffer initially as entrance to the markets of the Six becomes progressively more difficult in the face of the import duty differential in favour of the ACT's and Italy. The remaining producers, mainly of the flue-cured virginia type will also be affected as substitution of imports by local production takes place under the protection of 30 per cent ad valorem.

All the tobacco which we produce is sold within the Federation under an auction system which appears to be unique as there is no governmental interference, and no assistance or artificial price stimulation of any type. The success of the auctions and the resultant average price of the crops is dependent entirely upon the number and volume of orders held by the individual buyers and the pressures which they create to fulfil those orders. There is no need, I am sure, to demonstrate that under a public auction system in free competition the presence or absence of even one country's

order has a snowballing effect upon prices far in excess of the monetary value of that order. There is also little need to repeat that some 94 per cent of all of our production is exported and the success of the sales therefore is dependent entirely upon our success in entering export markets. Unlike the position in some other countries consulting here today, there is no action which can be taken locally to offset decreases in prices as a result of decreases in export opportunities. It may, however, be news to many of the Six to know that the tobacco auction period of some six-seven months annually is regarded with so much importance by the community as a whole that daily average prices are the subject of quotation on the national radio service. Moreover, and probably more important to exporting countries which regard the Federation as one of their markets, permanent downward trends of the daily average prices during the season cause our merchants to re-examine their indents for imported goods since the movement of a few pence per pound can affect the overall value of the crop by several millions of pounds sterling.

Our market for manufactured goods is, in terms of your trade figures, a small one, but it is a rapidly developing one and a tremendous factor in the rate of this development is the creation of this purchasing power amongst the many families whose livelihood depends upon the cash value of the tobacco produced. Throughout the period of currency shortages the Federation progressively liberalized imports of manufactured goods from Western Europe, including all the countries of the Six, and for some years now has not maintained any restrictions on trade from Europe for currency reasons. At the same time, because tobacco is (after copper) our second largest export item, it is of extreme importance that the maximum realization in foreign currencies be obtained therefrom. For this reason my Government has recently offered opportunities of trade to countries which had not previously purchased our tobacco, in order to attract them to our market. In making these offers, the Government has been extremely careful to ensure that such countries (towards which we had no obligations under the GATT) should not be allowed to trade with us throughout the full range of our imports, nor in a manner which would injure the trade of our traditional suppliers, such as the Six. Our special need to export tobacco has not been allowed to interfere with what we consider to be our reasonable and deliberately assumed obligations towards our traditional suppliers.

Now to revert to this question of concrete damage. Firstly, and most important of all, there is naturally an inevitable time-lag in statistics. Next, we are dealing with a commodity which has many different grades and types and which is particularly sensitive to price fluctuations within those grades. Moreover, the crop itself varies in the quantities of the different grades which are produced each year. The statistics of our exports are interesting. A single market such as the United Kingdom, will show variations in quantities, between individual years, of as much as 7 or 8 million lbs. of leaf upwards or downwards, which represents some 10 per cent increase

or decrease in their normal requirements. We could not conclude from any such variation that we had lost permanently or gained permanently in our share of the trade of the United Kingdom. We know instead that it has been the result of a greater or lesser proportion of tobacco leaf in our crop of a type suitable to the United Kingdom market or, alternatively, that stocks purchased in the previous season by the United Kingdom manufacturers have been consumed faster or more slowly than was anticipated. A similar pattern is evident over the whole range of our tobacco exports. It would take several years' statistics and a close study of the composition of each year's crop before we could prove either a marked trend upwards or a marked trend downwards. When therefore can we demonstrate concrete damage? Would the Six wish us to wait until we are able to show large numbers of our people driven back to a level of subsistence agriculture? Would the Six then reply to the effect that the artificial stimulus of the 30 per cent ad valorem had resulted in a large development within their own territories which they were then unable to stop? This is a development which has taken place in many countries and has resulted in so many international commodity problems. It is naturally conceded that the Six should not stop development in tobacco growing merely because production is already established elsewhere in other countries. It is also conceded that the Six would wish to increase tobacco production but it is considered that the high level of 30 per cent absolute protection will stimulate production even, possibly, on unsuitable soils and in competition with other essential crops. This 30 per cent is a resounding figure - it is a figure to toy with in the imagination. It is a figure which can bring the Six domestic production troubles. It will inevitably increase the price of tobacco to the consumer. It will ensure that a large proportion of the new found prosperity and purchasing power of the consumers within the Six, resulting from the expected general economic development, is earmarked for the producers of tobacco.

Over and above this 30 per cent ad valorem we were disturbed by the position which was revealed by the representatives of France in regard to the Monopolies. We have been told that the 30 per cent contained an element of the protection previously afforded by the Monopolies. Now, however, it appears the Six will move towards the 30 per cent and retain the Monopolies in the transition period. During this period the French Monopoly at least will have opportunities to sell cigarettes in the markets of the other countries of the Six but those other countries will not enjoy the same facility in France. We have therefore to face not only a progressively increasing barrier of import duty on our tobacco leaf but a favoured position for the French Monopoly which is the largest user of just the type of tobacco which we fear will be substituted for our own. The other countries of the Six, which we have regarded as markets for substantial quantities of our tobacco, will face competition within their own markets from the Monopolies, without enjoying equal opportunity to regain their lost sales by selling cigarettes in the Monopoly countries. The Representative of France said that he could not foresee any change in the position for some years. It might be said now that the present arrangements are only a temporary feature. One may

remind the French that it was a great Frenchman who coined the phrase "Rien ne dure autant que le provisoire". We have heard nothing to suggest that the temporary arrangement will not endure until substitution is complete. The European Economic Community was established to share its strength and its expanding prosperity but this does not apparently apply to the cigarette trade.

We can speak with some authority about the operation of duty differentials. We have had a great deal of experience of production under a differential import duty system but nowhere, and never, have we enjoyed a clear margin of 30 per cent ad valorem. Nor have we ever had any of our advantages reinforced by a monopoly system. Nevertheless the increase in our production and in the quality of our tobacco has been spectacular under precisely similar climatic and ecological conditions as exist in certain of the overseas territories of the Six.

I could perhaps remind the Representative of France more particularly that in our previous trading arrangements with the Union of South Africa sparkling wines from that country enjoyed a margin of difference in import duties of 33.1/3 per cent - still wines enjoyed a lesser advantage and brandy enjoyed only some 10 per cent. I am using, as an illustration, a commodity in which France is renowned for its quality and its international reputation. We are also discussing a market which is not composed of wine-drinkers. When the average Rhodesian drinks wine, it is an occasion and one would expect that in order to enjoy the full quality of French wines or even the snob value if he does not understand quality, the celebrating Rhodesian would have been prepared to pay just the extra few shillings per bottle to obtain the best. This was not so, and in spite of the favoured arrangements given to French imports under an agreement during our currency controls, the French exporters still found this differential system of import duties almost insurmountable. Since 1955 the present agreement with the Union of South Africa has not maintained a differential system of import duties on wines and brandy and the Representative of France will be aware how much the trade of French exporters has increased. I would, in fact, remind the French representative that when at the end of 1955 we reported to GATT that some part of this differential might be restored to South Africa, we received a formal approach from the French Government asking us to maintain the non-discriminatory tariff on the ground that any alteration would be damaging to French trade. These are simple illustrations to show you what can happen under conditions of a high level of differential duties.

Production in Italy is already at a high level and the likelihood of a substantial increase is beyond dispute. While we have little knowledge of conditions within the other AOT's we have a great deal of knowledge of conditions within the Belgian Congo. Our officials have travelled extensively there and our own information was strengthened by a report which we have received of an extract from a speech made on 1 September 1958 by H.E. Governor Joan Paelinck at the opening session of the Provincial Council of the Katanga Province. In the course of the speech the Governor referred to precise plans

of tobacco production in certain areas of the Congo. The following is reported as a free translation of the words of the Governor in the course of his address:

"Realization of the full potentialities of tobacco culture would be part of this second solution. Considering that growing conditions, climate and soil are about the same here as in the Rhodesias and considering how much revenue is derived in the Rhodesias from tobacco, etc., we should look forward to the future with confidence."

We can not prove damage as yet because of the facts stated above, but we submit that these same facts are sufficient grounds for our apprehension that this high level of protection combined with the distortion of trade arising from the Monopoly system will cause an injury to our trade.

The tobacco trade is perhaps different from that in most other commodities. The introduction of new types, varieties and flavours of tobacco to the consumers' palate is a slow process. It has to be carried out over a period of years. But once a type of tobacco is established in blend - once a particular flavour has been accepted by the public, it is extremely difficult to change it again. Our point is that by the time we are in a position to prove concrete damage it will be impossible to redress. Those engaged in the highly competitive business of manufacturing and selling cigarettes are already turning their minds to the possibilities of the increased utilization of the types and qualities of tobacco most likely to be produced either within the Six or their dependencies under the stimulus of the high level of preference which has been indicated up to the present time.

We have listened with attention to the Representative of the Six during the consultations on tea this morning, when in talking about concrete damage he stated that damage cannot be achieved in a moment and that there must be stages in the assessment of damage. We can agree with this statement but must point out that the Six did not announce only the first stage of their progression towards their final objective in the tariff, and so give us an opportunity to assess damage stage by stage. Instead, the Six announced at the outset their final figure for the tariff and left us with the impossible task of proving concrete damage in the initial stages. It was the announcement of the 30 per cent which created so much concern in my country since the farmers are familiar with the expressed intentions of our neighbours in the Belgian Congo, while the fear of increased production in Italy, and in the other overseas territories, have also been apparent.

I must therefore repeat our initial request that this highly discriminatory import duty should be removed and replaced by a non-discriminatory excise or home-consumption tax, bearing in mind that the Monopolies will continue to exist during the transitional period at least and will accordingly provide any protective element which the Six might seem to require.

ANNEX IIIStatement made by the Representative of the United States
during the tobacco consultations

To date the Six have refused to accept any basis in reference to diversion of trade or imminent damage except in terms of damage demonstrated by statistics after there has been a decline in the trade of present supplies. This is not an acceptable framework of reference for these discussions as effects of the duties will mainly be in the future, although there are already indications of shifts in purchases to meet blend changes developed because of the announced high duty of 30 per cent as proposed in the Rome Treaty.

We would like to know whether a change in blends indicated as directly due to the proposed 30 per cent duty would be accepted by the Six as evidence of (1) an increase in barriers to trade of the country adversely affected or (2) evidence of concrete damage or imminent threat of damage to the trade of the third country supplier adversely affected.

We would like to know whether an increase in duty incidence of 80 per cent or more above previous levels would be accepted by the Six as an increase in the barrier to the trade and threat of damage to the trade of the third country suppliers affected.

As Italy, Belgian Congo and certain other AOT's are already increasing exports of tobacco to the EEC Member States without any duty preference this clearly seems to indicate that no external duty on tobacco is required in order to accommodate a further moderate expansion of production in these areas.

Change in terms of access to the EEC market

The elimination of duties between the EEC Member States increases the barriers to third country tobaccos even with no external duty as the EEC producing and exporting areas (mainly Italy and Algeria) have free access to the total EEC market. However, elimination of duties between Member States is essential if there is to be an operational customs union. Unlike tropical products tobacco is produced in both the EEC and AOT's so the effect of the proposed duty changes must take into account its influence on production within both the EEC and AOT's. As you know by now the 30 per cent rate proposed is about three times the arithmetic average and 80 per cent above the weighted average of duties charged on total third country imports in 1957. In addition to an increase in duty protection on EEC production there is to be duty-free entry on production from the AOT's. Production could be expected to expand sharply in Italy, Algeria, Madagascar, Belgian Congo, Cameroons and to a lesser extent in certain other areas with the very high duty of 30 per cent (you have the United States paper of 8 November 1958 which outlines this in considerable detail). Some expansion will occur even with no duty and more with even a low duty but the 30 per cent proposed would unnecessarily stimulate production and divert the trade of present third country suppliers.

We have already made statements about blend changes and the proposed shifts that manufacturers will be practically forced to make in response to such an import duty. Purchases by EEC buyers made in 1960 and 1961 will be used after external duty begins to rise in 1962 (which could be changed earlier according to the Rome Treaty). For such purchases, the manufacturer must make plans in advance. These plans must take into account the change in relative cost which they will face in 1961, 1962 and thereafter. This is an important consideration in planning blends and is the major factor in the diversion of trade of present third country suppliers. Because of the advance planning for changes in blends and sources of supply of purchases it is essential that the EEC promptly take steps to eliminate the discrimination to third country suppliers.

There is already a 10 per cent discrimination against third country suppliers in Germany and Benelux. This will increase according to the Rome Treaty until the full elimination of the duties on EEC-AOT tobaccos is completed. The external duty in Benelux, Italy and France will start rising in 1962, and discrimination against third country suppliers will increase throughout the transition period.

Because of the influence of the EEC duty changes on the choice of alternative sources of supplies, it would be helpful if the Commission of the European Economic Community would inform the exporting countries a year in advance of the schedule of import duty changes that will be put into effect (in reference to changes in the schedules of rates of both the external duties as well as the schedules of eliminating duties on trade between Member States including the AOT's).

In the process of adjusting to a common external tariff as proposed there will not be any lowering of duties or barriers to third country trade in a single area in the EEC. The protection of the monopolies (which the French and Italian representatives admitted was equivalent to an import duty of at least 40 to 60 per cent) continues and the discrimination against third country suppliers will be increasingly pronounced in Benelux and Germany in the 1959-62 period prior to 1962 when the external rate begins to rise in Benelux, France and Italy. Even on the basis of the European Economic Community as a customs union without the association of overseas territories, we think as a third country supplier, that there should be no discrimination as to import duties against third country tobacco in the Benelux and Germany while monopoly protection exists in France and Italy. These taken together constitute a significant rise in the barriers to trade of third country suppliers and is in conflict with the concept that the monopoly protection has been incorporated into an import duty as was specified by the Six in the November 1958 consultations as the main reason why the Six proposed the very high common external rate of 30 per cent ad valorem.

Obviously it was intended under Article 37 of the Rome Treaty that monopolies such as those for tobacco in France and Italy should be abolished or their operations brought into line with the framework of operations faced by the private producers, manufacturers and distributors in the other EEC countries.

Without reference to legal issues, on the basis of the association of overseas territories as a free trade area with the EEC, the United States is prepared to continue to make every effort to get the EEC import duty on tobacco eliminated or reduced to a very low rate. Even without the associated overseas territories as a free trade area the proposed 30 per cent rate is much higher than can be justified on any reasonable basis. If tobacco requires this much protection the economic basis for production in the EEC and AOT's would appear to be questionable.

The United States has over 582,000 tobacco producers (who produce small acreages per farm) and many exporters who are greatly concerned about the adverse effects of the proposed 30 per cent ad valorem duty. It might be noted that these groups have been strong proponents of a liberal United States' trade policy. It is the view of the United States Government that prompt action to ameliorate the imminent damage of the unnecessarily high proposed rate of 30 per cent is highly desirable.

ANNEX IV

Effects of the 30 per cent Ad Valorem Duty on Unmanufactured Tobacco on Tobacco Trade of the United States and other Third Country Suppliers

1. This is submitted to the EEC in accordance with the request of the EEC during the current consultations on tobacco. The request which was agreed to by other interested contracting parties indicated that discussions would be facilitated if the case of each interested third country supplier were prepared in a written form so that the EEC could reply in a written form and that the papers developed serve as a basis for further discussion when consultations are resumed in February 1959.

2. Importance of the EEC as a market for the United States unmanufactured tobacco.

- (a) The EEC-AOT area is the second largest export market after the United Kingdom for United States tobaccos and is of great importance to the United States tobacco producers and exporters.
- (b) In 1957 the United States exported 132 million pounds of unmanufactured tobacco with a declared export value of \$80.5 million to the EEC area.

United States exports to the EEC in 1957 were as follows:

Germany	68.9 million pounds
The Netherlands	31.7 million pounds
Belgium-Luxemburg	17.3 million pounds
France ¹	8.4 million pounds
Italy	5.6 million pounds

In addition, approximately 3.0 million pounds are exported to the Associated Overseas Territories.

The United States exports to the EEC-AOT's are high quality higher-priced tobaccos that are used for blending with the lower quality tobaccos produced within the EEC-AOT areas or imported from other areas.

3. Current import duties:

Federal Republic of Germany	180 DM per 100 kilos
Belgium-Luxemburg	413 B.frs. per 100 kilos
The Netherlands	413 B.frs. equivalent per 100 kilos
France	none
Italy	none

¹ Including Algeria.

4. Increased incidence of the 30 per cent ad valorem duty.

The 30 per cent ad valorem on unmanufactured tobacco as is indicated in List F has the following effect on incidence of the duty charges on United States unmanufactured tobaccos (based on 1957 United States exports and price relationships).

- (a) The Netherlands - The incidence is increased to 299.2 per cent above the current level.
- (b) Belgium-Luxemburg - The incidence is increased to 284.7 per cent above the current level.
- (c) Federal Republic of Germany - The incidence is increased to 6.3 per cent above the current level.
- (d) In France, where there presently is no import duty (and the duty is bound at zero), the proposed tariff raises the incidence to the equivalent of 19.2 United States cents per pound.
- (e) In Italy, where there is presently no import duty (and the duty is bound at zero), the proposed tariff raises the incidence to the equivalent of 24.0 United States cents per pound.

5. Changes in terms of access to the EEC market and damage to third country suppliers.

- (a) The 30 per cent ad valorem duty alters greatly the terms of access of third country suppliers to the EEC.
- (b) The 30 per cent ad valorem duty is highly protective rather than fiscal in nature.
- (c) Production of tobacco which has been rising in the EEC and Associated Overseas Territories is certain to be stimulated sharply by the high protective tariff which gives producers the incentive to grow more tobacco and assures that the manufacturer will use the EEC-AOT production available because of the large increase in cost of third country tobaccos to the EEC manufacturers.
- (d) Because of the reasons listed above, the 30 per cent ad valorem duty is certain to result in diversion of trade and damage to trade of the United States and other third country suppliers.
- (e) The effects of the proposed duty are already indicated in a change in source of purchases by some manufacturers. This trend, which will be accentuated as the transition period progresses, results from three major reasons: (1) the manufacturer must shift to greater use of EEC-AOT tobacco so that he will not experience the full rise in cost of imported raw material as the common external tariff is increased; (2) the manufacturer must shift to use of more EEC-AOT tobacco in order to protect his cost structure in relation to that of his competitor who is already using or is shifting to the use of a higher percentage of tobacco from other EEC-AOT areas (which will be free of duty); and (3) the EEC manufacturers must change product blends slowly (normally not more than approximately 2.5 per cent per year) in order to keep consumer dissatisfaction to a minimum so he must begin shifting as soon as possible.

- 12 -

ANNEX V

MEMORANDUM

Consultations under Article XXII

Request by the Turkish Government to participate in
the consultation with the Member States of the
European Economic Community on Tobacco

Situation under the Rome Treaty

1. In List F, the duty on tobacco leaf under the common external tariff is fixed at 30 per cent. The duties currently applied by the Six will be set at that level at the end of the transitional period.

The duties applicable to imports from the AOT's will be reduced by successive stages and will be entirely eliminated at the end of the transitional period.

Tobacco (item 24.01) is included in Annex II, and the provisions of Articles 39 to 46 of the Treaty may therefore be applied to this product.

Turkish production and exports

2. Turkey's annual production of tobacco is 115,000 tons.

Production statistics for the period 1953-1957 are as follows:

<u>Year</u>	<u>Kg.</u>
1953	117,795,263
1954	102,241,984
1955	120,143,374
1956	116,570,192
1957	119,033,421

On the basis of the average of the above statistics, Turkey comes fourth on the list of tobacco-producing countries in the world. Its production consists almost entirely of oriental tobacco ("Turkish tobacco") which is used mainly for the manufacture of cigarettes and for improving blends.

200,000 families are engaged in tobacco cultivation; in other words, this activity is the livelihood of one million persons, apart from the section of the population which is engaged in other lucrative activities directly connected with tobacco production.

Moreover, there are great possibilities for expanding tobacco cultivation in Turkey, and the Turkish Government has plans for increasing tobacco production.

3. A relatively small proportion of present national production - some 30,000 tons per year - is used for domestic consumption. The remainder - i.e. 80,000 tons - is available for export.

Tobacco is Turkey's principal export product. Since 1924, annual tobacco exports have accounted for between 27 and 30 per cent of total receipts from foreign trade. Turkey's export receipts thus depend to a great extent on tobacco sales, and this product is one of the pillars of the country's external purchasing power.

4. Before the Second World War, three-quarters of Turkey's exports went to the United States and Germany. The latter country was the principal customer for Turkish tobacco. There have been far-reaching changes in this situation since the end of the Second World War. At the present time, the United States alone purchases 43 per cent of the quantity exported. The dominant feature of the Turkish tobacco trade in the post-war period is increased dependence in the United States market, which receives about one-half of total exports.

5. The Six countries of the European Economic Community together form one of the largest import markets for the tobacco trade, and also, after the American outlet, the biggest outlet for Turkish exports. Deliveries from Turkey to the Community countries amount to over 15,000 tons annually. In 1955 and 1956, the Six took up 23 or 24 per cent of total exports. The market of the Six is therefore very important to Turkey, and it holds the second place on the export list, despite the fact that since the end of the Second World War sales to the Federal Republic of Germany have dropped while there has been a considerable deviation of export flows towards the United States. Among the Six, Germany nevertheless continues to be an important traditional market for Turkish exports. 7,000 tons - about half of the total exports to the Six - are delivered to that country each year. Thus Turkey supplies the Common Market countries with one-tenth of their total annual tobacco imports. And although the figure is high, it represents only part of Turkey's present export capacity towards the Six.

The annexed table shows exports of Turkish tobacco to each of the European Economic Community countries from 1953 to 1957.

6. For reasons connected with quality and the specialized man-power required for this variety of tobacco, the cost of Turkish tobacco as compared with other varieties is relatively high. The degree of humidity of Turkish tobacco, and especially Izmir tobacco, is also higher (about 14 or 15 per cent in the case of Izmir tobacco). Because of its perfume and special aroma, it is mainly used for the manufacture of cigarettes and to improve blends. Apart from Turkey, this variety of tobacco is cultivated notably in Greece, Bulgaria, Yugoslavia and the other Middle Eastern countries. Greece and Bulgaria are important producing and exporting countries, and they produce the same types of tobacco.

Probable Effects of the Common External Tariff on Tobacco Trade with the Six.

7. The Turkish Government considers that the principal effect of the 30 per cent ad valorem duty provided in the external tariff and the preferential margin in favour of the associated overseas territories will be to stimulate

tobacco production in coming years in the metropolitan territories of the Six and in the AOT's,

Italy, France, Germany and the AOT's together already produce a considerable amount of tobacco. Although production in the AOT's is at present relatively low, it is not difficult to foresee that in coming years it may easily develop as a consequence of the high 30 per cent duty which will seriously impair the competitive capacity of the traditional suppliers of the Six.

8. Increased production in France, Italy and the AOT's of tobacco for the market of the Six will have harmful effects on the rest of international trade in tobacco. In addition to market losses, prices on the world market will be affected. The 30 per cent duty, with its preferential implications, will therefore constitute a major obstacle to the continuation of trade between the Member States of the Community, on the one hand, and third countries on the other.

9. The protective effects of the common external tariff will inevitably have a constant influence on the market situation within the Community, and, with the 30 per cent ad valorem duty to their advantage, producers in the Six and the AOT's will have access to as much of the market as they desire for their production.

France and Italy are already able to meet their own requirements, either by their own production or by that in the AOT's, and they and Algeria are already suppliers to the Common Market. As production in the Six and the AOT's increases, demand in Germany and the Benelux countries will tend to switch towards domestic tobacco or that produced in the AOT's, because of price considerations. This diversion will be harmful to the interests of exporters outside the Community.

Probable Effects of the 30 per cent Duty on Turkey's Trade in unmanufactured Tobacco

10. Because of the 30 per cent ad valorem duty, half of Turkey's exports towards the Community countries will be dutiable at a rate three or four times higher than at present.

As regards exports to the Federal Republic of Germany, the specific duty of 180 Deutschmarks per 100 kg. will be replaced by an ad valorem duty of 30 per cent under the common external tariff. That specific duty had already been one of the main reasons for the drop in Turkish exports to Germany, and the Turkish Government had expressed the wish to negotiate with the Federal German Government regarding it. The transformation of the present specific duty into a 30 per cent ad valorem duty therefore constitutes a reinforcement of a trade barrier which already exists.

On the other hand, the progressive elimination of the duty of 180 DM. per 100 kg. on imports originating in the AOT's, France and Italy will, as compared with the present situation, open up great possibilities in the German market and serious damage will be caused to suppliers outside the Community, such as Turkey.

11. Imports by the Six consist to a considerable extent of cigarette tobacco, especially oriental-type tobacco. The incidence of an ad valorem duty in place of the present specific duty will be greater on merchandise of good quality which is higher priced, such as the tobacco exported by Turkey. Because of the conditions of production, the production cost of Turkish tobacco is higher. The 30 per cent duty would therefore result in an increase in the retail price of cigarettes containing tobacco of Turkish origin. A further consequence might then be either a drop in the price paid for tobacco imported from third countries, such as Turkish tobacco, or a reduction in consumption of that type of tobacco.

12. Experience shows that over relatively short periods, a given product can be replaced by another product and that the situation as regards supply and price inevitably affects consumer habits as regards various types of tobacco. This occurred during the post-war period in France, the United Kingdom and Germany. In the latter country, the switch in consumer preference towards Virginia tobacco caused a considerable drop in Turkey's exports. It is therefore to be feared that the 30 per cent duty may cause a change in consumer preference which would result in a fall in demand for oriental-type tobaccos, which are more costly, and therefore in a reduction in Turkey's share in the market of the Six.

13. It is recognized that, as regards tobacco, consumer demand refers to quantity rather than quality; in other words, the prime concern of the consumer is to obtain the tobacco he needs. For the consumer, quality considerations only come into the picture once the possibility of regular supply has been established. For this reason, and depending on the supply situation, tobacco of any kind can satisfy the taste and need of the consumer. Over a given period, the various types of tobacco can therefore easily replace one another. According to conditions of supply and price, the types of tobacco produced by the Six could progressively replace tobacco exported by Turkey.

14. Furthermore, demand for tobacco is easily affected by price considerations. In Turkey, tobacco is sold under State monopoly, and our experience shows that the consumer turns away from more expensive cigarettes as soon as he can buy cheaper tobacco or cigarettes which, as regards quality, vary to an equivalent extent. In recent years the Turkish Monopoly Administration has on a number of occasions, because of fluctuations in domestic prices, readjusted the price of various brands of cigarettes. Each time, it was clear from a fall in consumption tax receipts that the choice and preferences of the consumer were governed by price. Furthermore, this accounts to a great extent for the general trend in world tobacco consumption, which is towards cheaper tobacco. The level of prices within the Community can therefore have serious effects on Turkish exports.

15. Although it is difficult at the present juncture to make predictions regarding the possibility of production of Turkish tobacco, in appreciable commercial quantities, by the Six and the AOT's, certain facts nevertheless indicate that this can be achieved in the AOT's and in the territory of the Six.

Italy is already an important producer of tobaccos with the same characteristics as oriental-type tobaccos; this production can easily be

increased, for Italy has the benefit of much experience, qualified manpower and the technical knowledge necessary to develop production of oriental and semi-oriental tobacco.

Because of the advantage guaranteed by the 30 per cent duty, one can therefore expect a considerable increase in Italy's production of oriental and semi-oriental tobacco, and this will inevitably result in a drop in Turkey's exports to the Six.

As regards the AOT's, increased investment, instruction in effective cultivation techniques and the conditions of indigenous manpower can easily encourage production of various types of tobacco in those territories where for historical reasons it had in the past never reached a significant level. The vast area and the various ecological and climatic conditions of the AOT's would permit many varieties of tobacco, including Turkish tobacco, to be produced in considerable quantities. The Union of South Africa and the Federation of Rhodesia and Nyasaland already cultivate and produce types of tobacco which present the same characteristics as Turkish tobacco. The same varieties are also produced, in small quantities, as part of the indigenous economy, in various areas of French Equatorial Africa, Madagascar, the Cameroons, the Belgian Congo and even Algeria. Apart from the possibilities of production in the Six, those territories therefore constitute an important production potential. The exploitation of that potential in future years will undoubtedly cause a marked drop in imports of various types of tobacco from third countries, and will reduce the latters' export receipts.

16. At the present time, Turkey depends on the American market for half of its-exports. There is no need to emphasize the disadvantages of such dependence for the principal export product of a country. In the event of a recession, Turkey might be placed in an extremely delicate situation, all the more so if the market of the Six were to become less accessible because of the 30 per cent duty and other possible restrictions.

17. Moreover, Turkish tobacco is faced with considerable competition on the European market. Because of advantageous prices and the special structure of trade in certain Balkan States, exporters in those countries can easily take advantage of the conditions resulting from the Rome Treaty. The diversion of trade which would result could cause serious damage to Turkey's exports to the Community.

18. On the market of the Six, Turkish tobacco is used for the manufacture of cigarettes, and in particular for improving blends. In recent years, the proportion of Turkish tobacco used in such blends has been reduced in a number of European countries. In future years, that reduction may be even greater because of the restrictive effects of the 30 per cent ad valorem duty.

Immediate Effects of the 30 per cent Duty

19. The reduction in taxes on domestic production which will commence on 1 January 1959 and the tariff margin, varying between 6 and 9 per cent, which will be introduced at the end of the first stage as regards imports of tobacco

from the AOT's, will already have certain effects on trade with the Six. Having regard to the application of Treaty provisions at the end of the first stage, various factors will come into play, such as the need to modify blends progressively; the establishment of trade relations, which will require some time in order to ensure regular supplies of products of domestic origin; the means of facing the new conditions of competition which will cause manufacturers to use a greater proportion of tobacco originating in the Community and the AOT's. In the immediate future, such a trend will cause a marked decrease in imports from third countries, while at the same time encouraging domestic production.

Conclusions

20. In view of the above-mentioned considerations and taking into account the possibility that the agricultural provisions of the Treaty might be applied to tobacco, the Turkish Government considers that the preferential duty of 30 per cent ad valorem will greatly stimulate production of many varieties of tobacco in the Six and the AOT's, to the detriment of production and exports by other countries, such as Turkey, which are traditional suppliers of the Six, and that very serious damage will result for world tobacco trade as a whole.

In view of the very limited number of primary products exported by Turkey, of which tobacco is the most important, the general incidence of duties under the common external tariff, as at present known, will be higher than the duties at present applied by the Six, because of the 30 per cent ad valorem duty on tobacco. This duty has been fixed at the highest level of the import duties at present applied by the Member States of the Community, and moreover it offers no possibility of compensation in the sense of Article XXIV:6 of the General Agreement.

In view of the foregoing, the Turkish Government considers that the establishment of a 30 per cent ad valorem duty on tobacco imports is contrary to the provisions of Article XXIV, paragraphs 5(a) and 6 of the General Agreement and that it constitutes a barrier to the trade of other contracting parties with the Six, in the sense of paragraph 4 of that Article.

Consequently, and having regard to the fact that serious damage will undoubtedly result from the application of the 30 per cent ad valorem duty, it is essential to remedy the situation caused by the modification in the above-mentioned duty.

Prior to the conclusion of the Rome Treaty, imports of tobacco by the Six were mainly subject to fiscal duties for revenue purposes. The Turkish Government therefore requests the Six to agree to make unmanufactured tobacco liable only to internal fiscal taxes, in accordance with Article 95 to 99 of the Treaty, in order to prevent any diversion or discrimination in trade in this product which would be fatal to exports by the traditional suppliers of the Six.

<u>Country</u>	<u>1953</u> kg	<u>1954</u> kg	<u>1955</u> kg	<u>1956</u> kg	<u>1957</u> kg
France	1,563,249	2,102,468	1,624,887	3,491,962	3,478,875
Italy	2,656,260	2,427,347	1,779,451	4,016,116	1,196,712
Western Germany	11,367,428	12,771,696	11,033,227	12,516,810	8,534,239
Belgium	2,102,908	2,099,691	928,298	861,258	625,619
Netherlands	1,607,728	634,186	440,847	322,018	482,491
Luxemburg	-	-	-	-	-
TOTAL	19,297,573	20,035,368	15,806,710	21,208,164	14,317,936

ANNEX VI

MEMORANDUM

Article XXII Consultations

1. Letters in identical terms with those of this letter have been addressed simultaneously to the five other Leaders of delegations to this session of the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade who represent countries who are signatories to the Rome Treaty. A copy has also been sent to the Council of Ministers of the European Economic Community in Brussels and to the Executive Secretary to the General Agreement on Tariffs and Trade.
2. This procedure has been adopted first by way of conforming to the understandings, reached at our latest discussion of 4 November 1958 (with representatives of the Members of the Community on the effects of the declaration of a duty of 30 per cent ad valorem in List F of the Rome Treaty) that the Rhodesia and Nyasaland delegation would reply in writing both to the letter delivered by the Six at the meeting, in which explanations were given of the factors which entered into the fixing of the duty at 30 per cent ad valorem, and also to the observations which were read out at the meeting by a representative of France with regard to the Rhodesia and Nyasaland memorandum of 15 August 1958. Secondly, the Rhodesia and Nyasaland delegation has in mind the possibility that consultations may have to be resumed after the present session of the CONTRACTING PARTIES has closed and that it is, therefore, desirable that the views of Rhodesia and Nyasaland, in the light of the consultations so far, should be expressed fully in writing in the hope that Community countries will be able to meet, in the near future, the request for the mitigation of the damage which has been put to them by Rhodesia and Nyasaland.
3. To that end it is felt that such views should be available in written form to the Members of the Community if they will have been unable to meet the request before the end of the session.
4. Accordingly, this letter will cover the various points which are still outstanding at this stage of the consultation.
5. The first consideration is that of damage flowing from the promulgation of the new duty, as a result of which trade conditions have been created which, on the one hand, constitute an encouragement of the production of tobacco within the area of the Community and within the Associated Overseas Territories and, on the other hand, constitute at the same time a discouragement of increased sales by the Federation of Rhodesia and Nyasaland to those countries. Consequently, in the future trade of the Community and its Associated Overseas Territories, whether or not expanded, and for whatever reason it may or may not be so expanded, a diversion has been encouraged to the detriment of Rhodesia and Nyasaland. This, it will be appreciated, is not a matter of establishing a change in fixed terms, whether of absolute quantities or values of tobacco exports, or of fixed ratios of the future market (both of which can be affected by commercial considerations which exist continuously as changing influences on trade) but of the change in the terms of access to the Common Market, resulting from the declaration of the duty, and the steps that will be taken by importers and producers to meet that change in the terms of access. This is not a mere apprehension: it is a fact, the fact that the duty has been promulgated. The principles just stated are, moreover, the normal principles applied in any understandings between contracting parties; they are the basis of the mutual tariff concessions now embodied in the GATT Schedules and must be the basis of the tariff negotiations proposed for 1960 by contracting parties.

6. It should not be necessary to proceed further to establish the fact of damage than to point to the fact itself of the declaration of the new tariff, and it is with a degree of protest that we proceed beyond that point in dealing with particular points in connexion with the duty.

7. This letter will accordingly deal point by point with the observations read to the meeting of 6 November 1958, on the Rhodesia and Nyasaland memorandum of 15 August 1958.

8. Oriental Tobacco

(a) "This is a difficult, if not impossible, variety to develop in the Associated Overseas Territories essentially because of ecological factors well known to the experts."

While ecological factors are clearly of importance in the growing of any kind of tobacco, the above statement is contested. Ecological factors do not prevent the production of Oriental tobaccos in the Federation of Rhodesia and Nyasaland, where production has been:

1949-1951	yearly average	1,836,000 lbs.
1956		710,000 lbs.
1957		1,300,000 lbs.

Difficulties experienced have been mainly the need to increase labour forces for the harvesting of Oriental tobaccos (which mature later than flue-cured) at the same time as the flue-cured crop is being graded. In recent years Oriental tobaccos have proved to be especially suitable for production by the indigenous peasant in the two Rhodesias and a pilot scheme was introduced two years ago in Nyasaland where production has now been successfully started.

(b) "At the present time there is no production of this type in the AOT's and it would appear that its production there is not envisaged."

"The future prospects as it concerns consumption of this particular variety will depend a lot on the evolution of consumer tastes, and it seems that traditional producers should harbour no particular fears as to the possibilities of introducing this variety into the AOT's."

It is noted that production in the AOT's is not envisaged and that the view is expressed that traditional producers need harbour no fears as to the possibilities of production in these territories.

That statement is in conflict with our own experience of conditions in Africa, both ecological and economic. The statement further ignores the stimulus to the creation of new private enterprise in tobacco production in

the AOT's brought about by the duty-free entry of Associated Overseas Territories' tobacco in the Common Market behind a tariff wall of 30 per cent ad valorem, and the stimulus to governmental activity in encouraging production schemes offered by factors other than the duty, namely the monopolies of France and Italy, and the proposed new Development Fund of the Community as a whole provided for in Article I of the Implementing Convention relating to the Association with the Community of the Overseas Countries and Territories.

(c) The references in the statement to the evolution of consumer tastes are apparently offered as a conjectural remark. They certainly add nothing to the argument in this particular case.

9. Flue-cured ("warm-air" dried) Tobacco

(a) "These tobaccos are chiefly produced in the United States, but also in many other countries, particularly Rhodesia. Although more widely grown, this variety requires special care and, besides a certain amount of costly and special installations, constant supervision in the cultivation and handling of the product. This type of tobacco is not produced in the AOT's."

Flue-cured tobacco is being grown in Portuguese East Africa, Morocco, Kenya, Uganda, Nigeria, Tanganyika, the Union of South Africa and Mauritius. We note the statement that it is not now grown in the Associated Overseas Territories of the Community.

(b) "It is not impossible that it may be (grown) in the years to come, but it is hard to say whether the duty of 30 per cent, which may come fully into force at the earliest in twelve years, represents a sufficient incentive to producers (should there be any) to find the necessary investment capital."

"It will be noted that in the framework of the Monopoly, that is to say in conditions of absolute protection, this production has not been developed. One may be permitted to recall, however, despite their self-evident importance, the following factors: available land and labour."

We note that the Community considers that the possibility that flue-cured tobacco will be grown in the AOT's is not excluded. The reference to the intention to bring the duty fully into force only after twelve years is irrelevant as the prospect or assurance of such a duty is in itself an inducement to investment in new production now.

The reference to the French Monopoly is unconvincing. Such protection as is now afforded by the French Monopoly is only on imports into France from French territories. In the Common Market, on the admission of the Six themselves, a substantial part of the protection afforded by the French Monopoly will, as a result of the 30 per cent duty, be extended to all AOT's, and to the whole of the Community, including Germany, Benelux and Italy - a new area which, in total, provides a very much larger market than France alone.

Land and labour are factors of production which are not likely to be decisive obstacles to investment in flue-cured tobacco production on the conditions which prevail in the AOT's.

The fact is that the duty and development aims of the Community, as expressed in the Treaty, constitute an encouragement to investment by governmental and private agencies.

10. Dark Tobacco

(a) "One can list here Maryland tobacco, produced in Madagascar where it has been produced for many years, and at all events well before the last war. It is interesting to note that since before the war, production in Madagascar of this variety reached the amount of 5,000 tons and that figure has never been exceeded."

The comparison made and quoted of Madagascar Maryland with dark-fired tobacco is misleading. The United States has already pointed out in the consultations that Maryland tobacco grown in Madagascar is really a light tobacco and, to meet a particular demand, is made dark or black by fermentation. Therefore a diversion from Rhodesia dark tobacco in favour of Madagascar Maryland would be a diversion to light tobaccos. Any such diversion would, of course, be accelerated by a change in consumption taste in favour of light tobaccos.

In relation to Madagascar Maryland tobacco, therefore, there is, firstly, the probability of substitution as just stated; and secondly, there is the fact of diversion from Rhodesian dark-fired tobaccos to dark-fired tobacco produced in the AOT's (and within the area of the Community, especially Italy) where production is encouraged by the duty.

In regard to the fact that production has not exceeded 5,000 tons it will be readily understood that under a monopoly system production can be controlled - i.e. reduced, expanded or maintained at an even level.

(b) "These tobaccos have a lower nicotine content than those grown in the Federation of Rhodesia and Nyasaland, and if substitution of tobaccos originating in the AOT's for that grown in Rhodesia were to be feared, it would be because of the particular characteristics of these tobaccos, as consumer taste is slowly but surely veering towards light tobaccos.""

First, taking this observation as referring to Maryland tobacco, the point that fermented Maryland (dark or black) tobacco has a lower nicotine content when compared to dark fire-cured and dark sun-cured tobacco produced in Rhodesia and Nyasaland is only relevant in that, if consumer taste is veering towards light tobacco, Madagascar Maryland is in a strong position vis-à-vis both dark and light tobaccos outside the protected market, because in its unfermented original form it is a light tobacco, and the production is steady and the potential great.

Secondly, taking the observation as referring to dark tobaccos as such, in respect of which the observation contends that changes in taste will result in a reduction in the demand for Rhodesia and Nyasaland varieties of dark tobacco, we comment that if the total demand by the Six for dark tobaccos contracts, proportionately or absolutely, because of a change in taste, such a contraction does not exclude the substitution at any stage, for dark tobaccos grown in Rhodesia and Nyasaland, of dark tobaccos grown within the area of the Six, particularly Italy, and in the AOT's. Having regard to the existing pattern of purchases by the Six as well as the new pattern which the duty will encourage, clearly the substitution of a Common Market or Associated Overseas Territories' source for the Rhodesia and Nyasaland source is the crucial factor in relation to our interests, rather than the change in taste.

II. Cigar Tobaccos

(a) "These tobaccos are at present produced overseas only in plantations of minor importance. Production figures have been quoted in the report of the Working Party on the AOT's. It is certain that the duty of 30 per cent will create for producers of this type an advantage more noticeable than in the case of other categories, but the cultivation of this type needs many conditions, notably financial (important investments) which make the production of these tobaccos risky and even a gamble.""

The observation admits our case but treats it as a matter of degree. The effect of the duty is to remove the element of risk or gambling in investment, because a preferential market becomes assured. Information received of increased production starting in the Belgian Congo and other AOT's does not tally with the observation now commented on.

(b) "Among other conditions, it will be enough without going into them any more, to mention the factors such as soil, climate and labour. There again it is significant that monopoly protection was not sufficient to allow for noticeable development of these tobaccos.""

As we have already commented, the obstacles presented by soil, climate and labour are overstated: equally the extent to which the duty will assist in overcoming them is understated.

12. General

(a) "Finally, one cannot try to assess the effects, in the long term, of the new situation created by the Treaty of Rome, without taking into account prospects of consumption. In this regard, increased consumption in the course of future years appears to be certain and appreciable."

"Reasonable estimates have put the figure of increase in consumption at 75,000 tons in the countries of the EEC and AOT's by the end of 1965."

"It is impossible that production in the AOT's, which has been shown to be small, can develop in such a way as to replace or even endanger traditional suppliers to the Community."

- (i) The statement that increased consumption in future years will be certain and appreciable is open to considerable doubt for the following reasons:

As explained by the United States delegation the total aggregate amount of duty leviable by the Six under the proposed duty of 30 per cent ad valorem will be 80 per cent higher than the total aggregate leviable under the existing import duties of the Six.

As a result of this duty increase the price of imported tobacco will increase sharply.

Consequently EEC manufacturers will compete strongly for tobacco produced in the EEC and AOT's with a resultant price increase of these tobaccos.

The manufacturers will accordingly be obliged to seek permission to raise the price of their cigarettes and other tobacco products.

This will tempt the consumer to buy cigarettes imported from other sources which, under existing GATT bindings, can be imported into some countries of the EEC extremely advantageously.

- (ii) We consider the contention that tobacco consumption within the EEC and AOT's will increase by 75,000 tons by the end of 1965 to be optimistic. It would be appreciated if a statement of figures over a recent representative period could be furnished by the EEC in support of this estimate, together with a statement of any new factors taken into account in making the estimate, should such figures not reflect the increase envisaged by the EEC.
- (iii) For the reasons stated elsewhere in this letter, Rhodesia and Nyasaland cannot agree with the statement that it is impossible that production in the AOT's can develop in such a way as to replace or endanger traditional suppliers to the countries of the Community.

(b) "It is reasonable to admit that an important portion of this increase will be sought in third countries whose share of trade will increase in actual value."

In any case, whether consumption increases (at whatever rate) or decreases, the duty affects the competitive position of Rhodesia and Nyasaland under its present terms of access to that market. Thus, taking normal commercial competition into account, which is something which Rhodesia and Nyasaland as a supplying country is prepared to meet, the change in the terms of access to the market reduces our opportunities of competing in the maintenance or expansion of sales in the Common Market. It is not a question of demanding a fixed share of a market either in ratio terms or in terms of absolute quantities but of a detrimental change in our opportunities to trade under normal competitive conditions.

(c) "In conclusion, study of the tobacco market as well as examination of the possibilities offered by the AOT's does not lead one to foresee, at least in the short term, any important diversion in present trade trends."

It is noted that the observation admits the possibility of diversion in the long term. Anticipation of such a diversion produces, and has produced, immediate effects setting in a trend detrimental to third country suppliers, a trend which if continued may prove irreversible.

(d) "Taking the longer view, it is more difficult to know to what extent these trends will be affected by habits, consumer taste and many factors which it has only been possible to touch on in these few lines, which appear to play a part, in the final analysis, more important than customs duties in the tobacco trade."

Consumer taste can be changed deliberately, and the action of governments or manufacturers is frequently the explanation of induced changes in consumer tastes.

Changes at an annual rate of $2\frac{1}{2}$ per cent, which is practicable without encountering consumer resistance, could produce in this case a change of blend by 30 per cent within the first twelve years of the life of the Treaty. The effect of the duty is to encourage such deliberate changes.

(e) "It only remains to conclude by taking into account the prosperity which the implementation of the Treaty cannot fail to produce. The rise in the standard of living which is bound to result from this implementation will contribute to increase the needs of the EEC and, at the same time, the exports of third countries."

This observation is tantamount to saying that the Community has a large economic development programme, an observation which we accept, but not as an exceptional feature or relevant to the question. Other countries, including

Rhodesia and Nyasaland, also have sound development programmes which will result in increased demand for the manufactures of Europe. What is relevant is the alteration in the terms of access to the market, irrespective of the expected expansion of the market and of whatever policies cause an expansion of the market. The suppliers must not be regarded as entitled to a limited or immutable part of a market, whether in ratio or absolute terms.

13. "Taking into consideration the points in the Rhodesian Memorandum about Quantitative Restrictions and the Agricultural Provisions of the Treaty, it must be noted that they refer to simple eventualities written into the Treaty. It appears premature to envisage consequences which their eventual usage would be likely to bring about."

We reiterate the reservations as set out in paragraph 8.3. of our memorandum of 15 August 1958, which was sent to the Member States of the EEC.

In addition to the foregoing comments on the observations read to the meeting of 4 November 1958, we wish to take the opportunity of developing our views on aspects of the effects of the Rome Treaty which have not so far been dealt with in this letter, and of commenting on the memorandum of the Six, dated 4 November 1958, dealing with the motives which influenced the fixing of the tobacco duty at 30 per cent, and the binding of the duty-free import of leaf tobacco into France.

14. Effect of the Tariff in other respects than in connexion with the association of the Overseas Territories

The first paragraph of our memorandum of 15 August 1958 stated our interest in the effects of the common tariff itself, in addition to the effects of the association of the Overseas Territories with the Common Market. However, because of the terms of reference of the Working Party the memorandum itself dealt specifically with the Associated Overseas Territories' issue only.

We express our appreciation for your agreement to include in the consultation the wider effects of the tariff, and take this opportunity of enlarging on those aspects.

Tobacco has been grown for many years in Italy, Germany, France and Algeria. Clearly any ecological problems in those countries have been solved.

(a) Italy

Italy stands to gain considerably and in the immediate future from the proposed 30 per cent protective tariff. Its tobacco industry is geared through monopoly control in such a way that it can quickly expand production with the minimum of difficulty.

Italy grows the types of tobacco in which the Federation has an interest, including flue-cured, dark-fired, burley and other types. She already exports some eleven million pounds annually to her co-member States, over the barrier of their existing tariffs, and without any preference against third country suppliers. The new duty will give Italy free entry into co-member countries, and a 30 per cent advantage against third country suppliers.

This situation constitutes a positive and very substantial inducement to increased production.

Even if production in Italy is costly, her prices under the new preferential regime will inevitably be attractive to manufacturers in the EEC and damage will be caused to the trade of third country producers.

Evidence has been given by the United States representative, in these consultations, that some manufacturers in the Netherlands and Germany have indicated that they are already shifting to greater purchases of certain types from Italy in order to change blends, and that this is being done specifically in response to the proposed 30 per cent duty preference. Our own tobacco expert also has been informed independently of that development in respect of flue-cured and dark-fired tobacco. These reports give us great concern. The movement is something that has actually occurred. Italian flue-cured and burley tobaccos, according to manufacturers, can profitably be introduced as a substitute for medium and lower grades of Rhodesian flue-cured tobacco, since the 30 per cent preferential duty creates a price advantage that EEC manufacturers cannot ignore on the Continental market, which is so sensitive to price and costs of manufacture. The same consideration applies to the substitution of Italian dark fire-cured tobacco for that originating in Rhodesia and Nyasaland. We have further received information that, since the declaration of the duty, an increased number of Italian production instructors are in the course of training.

(b) Germany

The proposed 30 per cent duty will also prove an incentive to increased production in Germany, not only of cigar tobaccos but of other air-cured and flue-cured tobaccos.

(c) France and Algeria

In France, as in Italy, monopoly conditions obtain, strengthening the inducement to increase production. Algeria also is an area which is capable of taking full advantage of the new preference. Investment in increased production, both in France and Algeria, is expected to be considerable.

15. Comments on the memorandum of the Six, dated 4 November 1958, replying to the questions asked by Rhodesia and Nyasaland at the first consultation meeting.

(a) Motives influencing the fixing of the tobacco duty at 30 per cent ad valorem

We now note the principles on which the duty has been determined, as stated in the first part of your reply, and are grateful for your clarification of the impression previously created that the duty was fixed on the basis of an arithmetical average. It is noted that your reply states that the duty was fixed at a rate which appeared to the EEC to take account of the different interests involved. Should we assume that the interests taken into account did not include those of outside suppliers? Should we also assume that, if third country interests had been considered, a different result might have been reached, inasmuch as the explanation given in your reply would appear to indicate that, to a degree, an arbitrary element entered into the fixing of the present figure?

The Working Party recorded in its report (paragraph 7 on page 2 of GATT document L/805/Add.6) that: "The duties on tobacco in the Community are mainly of a fiscal nature." That statement of fact was not challenged or corrected by the Community until the present consultations started when, in discussion, and confirmed by your reply, the substantially protective nature of the common duty has been established.

In view of the individual statements by representatives of the Six at the meeting on 4 November 1958, that the 30 per cent duty was not based on any governmental desire to expand production within either the countries of the Community or the Overseas Territories, and in view of your contention that increased production is not envisaged and in fact is almost impossible in the AOT's, we cannot accept the need for any protective duty. Still less can we accept the extension of the present monopoly protection in two of the Member States, first to embrace the AOT's of other Member States and secondly to spread the protective effect of those monopolies to the Benelux and German markets as a protective influence over and above the protection afforded by the 30 per cent duty. Tobacco production, hitherto protected by the two Monopolies of Italy and France, will now enjoy, throughout the Community, the additional protective effect of the 30 per cent duty; in addition, tobacco grown in other Member States and AOT's will enjoy, not only the protection afforded by the 30 per cent duty, but that afforded by the two monopolies. Article 37 of the Rome Treaty has particular relevance in this connexion in that it provides for the removal, between Member States, of any discrimination attributable to the operation of monopolies.

We have concluded from the evidence supplied by the Community that no increase in protection beyond the existing level is justified on the basis of facts, expectations or intentions expressed to us. In those circumstances only fiscal taxation, which does not distinguish between internal and external supplies, is justifiable. We would, therefore, repeat the request in our memorandum of 15 August 1958, that the proposed 30 per cent ad valorem duty replaced by internal taxation. This method, on the one hand, would not result in discrimination against outside suppliers and, on the other hand, is well known to be a flexible instrument of fiscal policy.

(b) Binding of the duty-free import of leaf tobacco into France

Rhodesia and Nyasaland will consider its position in relation to this binding at the appropriate time.

In addition we would mention, for the record, the existence of the current agreement between France and Rhodesia and Nyasaland whereby France has certain obligations regarding the importation of unmanufactured tobacco originating in Rhodesia and Nyasaland.

16. The information so far elicited during this series of consultations has intensified our concern. Two protective considerations; the impact of the common tariff; the fact that manufacturers in Europe have, in response to the announcement of the tariff, already taken action leading to a diversion of trade: all these and other factors serve to increase our anxieties and provide even stronger grounds for repeating the request that the duty should be removed and, if necessary, replaced by fiscal taxation as provided for in Articles 95 to 99 of the Rome Treaty.