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UNITED STATES SUBSIDY ON UNMANUFACTURED TOBACCO

Statement by the Representative of Malawi at the Council Meeting on 6 November 1967

The Government of Malawi has asked for the question of the United States subsidy on tobacco to be placed on the agenda of this meeting of the Council of Representatives, with a view to bringing it before the CONTRACTING PARTIES under the terms of Article XXII:2 of the Agreement.

On 10 June 1966, the United States Department of Agriculture announced that an export subsidy of 5 cents per pound would be payable on exports of almost all kinds of tobacco from the United States. The subsidy would be paid in respect of those types of tobacco the growers of which in the United States have accepted production controls. The regulations bringing this subsidy into force were published on 6 July 1966, and the notification by the United States Government to the GATT was published on 29 August 1966.

This subsidy of 5 cents per pound is in addition to a previous 5 cents subsidy which applied to certain old crop tobaccos. On these tobaccos, therefore, the total amount of subsidy now amounts to 10 cents per pound.

As soon as possible after receiving formal notification of the subsidy the Government of Malawi began direct discussions with the United States. When no satisfactory reply was received to these direct representations within a reasonable time the Government of Malawi initiated consultations under Article XXII:1 of the Agreement. The Government of the United States agreed to these consultations and the Governments of Canada, India and Turkey expressed the wish to join in them. They were held in Geneva on 14 and 15 February 1967, and a full report of these is embodied in the document reference INT(67)50 dated 22 February 1967. At the request of the United States this document has remained confidential to the parties to the consultation, but the Government of Malawi hopes that it will now be made available to all contracting parties.

Since the detailed case presented by Malawi and the other countries associated with her is set out in this document I propose only briefly to rehearse the considerations which have led the Government of Malawi to seek further consultations under Article XXII:2.

The export of tobacco is one of the major sources of export earnings for Malawi. The industry has been established in Malawi since before the First World War, and its products now account for between 30 per cent to 40 per cent of the export earnings of Malawi. It provides employment, and their major source of cash income, for some 100,000 families, both smallholders, and those employed on estates. In addition a substantial amount of urban employment is provided in the handling, packing and processing of tobacco for export.

Malawi tobacco is sold by free public auction and the prices received are determined solely by the quantity and quality of the tobacco offered, and by the relationship of supplies from Malawi to supplies of tobaccos from other major exporting countries, of which the United States is the most important. Malawi produces all the principal types of tobacco, though its main crop consists of dark fired tobacco which is entirely a smallholder's crop. Of this type of tobacco the United States and Malawi are the principal exporters to the world market, and the prices received by Malawi and its export opportunities are very largely determined by the prices and availability of comparable American tobacco.

The avowed object of the United States subsidy is to make American tobaccos more competitive in world markets. In other words the object is to enable them to be sold at lower prices than would otherwise be the case. The export prices of United States tobaccos have been inflated by the domestic price support policy of that country. Since their inception the support prices available to the American tobacco grower have never once been lowered and have generally risen from year to year. The result of this policy has been the accumulation of surpluses of tobacco which could not be profitably sold at world market prices. This situation is purely the result of United States domestic policies.

The action of the United States in introducing the export payment appears to the Government of Malawi to be quite contrary to the spirit of the provisions relating to subsidies set out in Article XVI. Further, it seems to the Government of Malawi that the United States action is contrary to the legal and moral obligations assumed by that country under the provisions of Part IV of the Agreement. It is especially contrary to the provisions of Article XXXVII:3(c) which requires developed contracting parties to have special regard to the trade interests of less-developed contracting parties when considering the application of measures permitted under the Agreement to meet particular problems, and to explore all possibilities of constructive remedies before applying such measures when they would affect the essential interests of these contracting parties. The Government of Malawi also in the course of the previous consultations drew attention to the provisions of Article XXXVI which stress the need for a rapid and consistent expansion of the export earnings of the less-developed contracting parties and their need for a share in the growth of international trade commensurate with the needs of their economic development.

With perhaps one exception the countries affected by the United States support subsidy are all developing countries. The express aim of the American action is to counteract the expansion of the trade of those developing countries by the maintenance of a two-price system, one for the internal market and one for export, a system which the United States itself has, in other contexts, severely condemned.

At the conclusion of the consultations under Article XXII:1 the representative of Malawi along with those of India, Canada and Turkey made two requests to the United States. The first was that the subsidy should be removed. The second was that, in the event of the United States Government considering the extension of the existing subsidy or of increasing the present level of subsidization, it consult, before taking any action, with the other governments. Finally on the conclusion of these consultations the representative of Malawi indicated that, should the United States Government not react positively to these representations, his Government would consider what further steps are open to it under the General Agreement.

There has in fact been no positive response by the United States to the representations. In reply to an inquiry by the Government of Malawi in May this year, the United States Government merely stated that it had no plans to increase the subsidy, that all aspects of the subsidy were under examination, and that, unless further information became available it saw no value in continuing consultation. The request of the Government of Malawi to the Council is for the appointment of a Working Party to examine the position with regard to the American export subsidy on tobacco and its effect on the trade of other countries and particularly that of the developing countries who export tobacco. If this request is granted no doubt the Working Party will examine the position in full detail, and there is no need for me at this stage to elaborate further. I think, however, that what I have said provides a prima facie case for such an examination of the position by the CONTRACTING PARTIES. The United States action in introducing this subsidy can, on the face of it, only be regarded as a direct attack by unfair means on a vital trade interest of Malawi and other developing countries.

Malawi expects to be able to demonstrate that, since it has been in operation, the subsidy has been effective in increasing United States exports at the expense of other countries. It also feels that the subsidy should not be viewed in isolation, but should be considered in the context of other measures used by the United States to promote its exports, including the use of the various provisions of Public Law 480, which has already harmed Malawi's trade in traditional markets. It should also be considered in the light of the changes in import duties agreed to by leading tobacco-importing countries, in the course of the Kennedy Round, which demonstrably have the effect of favouring imports from the high cost producing countries to the disadvantage of low cost producing countries.

The United States justifies the subsidy as a measure designed to regain its equitable share in the world tobacco trade. By equitable share it means the same proportionate share as it held some years ago. The Government of Malawi contends, on the contrary, that the absolute share of the United States in the world tobacco trade has not, in fact, fallen in quantity, and has actually increased in terms of value, and that the subsidy cannot be justified by any injuries suffered by American trade.

The Government of Malawi is greatly concerned for the future of an export industry the prosperity of which is vital for the future progress and well-being of its people.

On behalf of the Government of Malawi I request that this Council appoint a working party to examine Malawi's complaint and to report to the CONTRACTING PARTIES at the twenty-fourth session.