

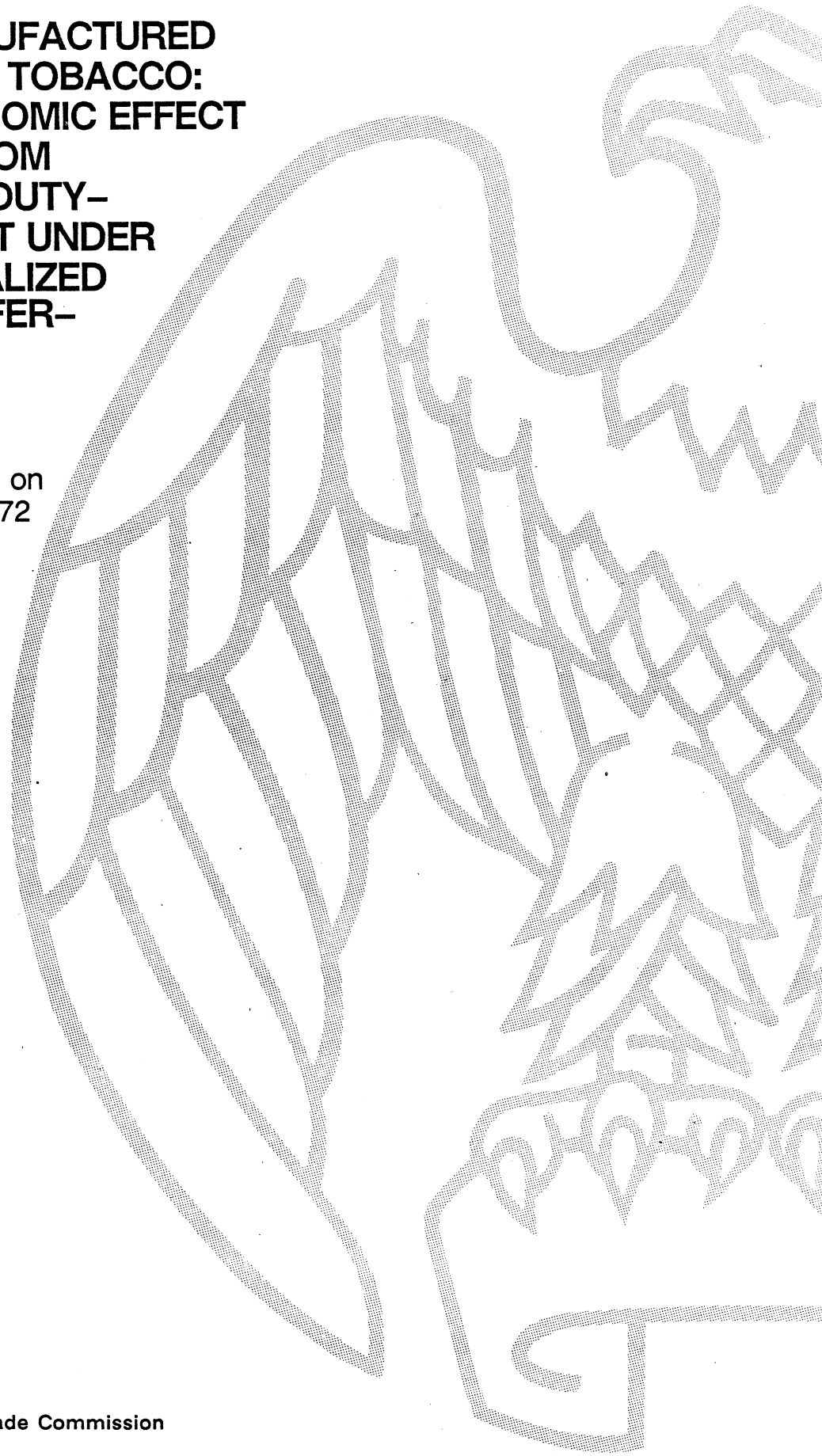
**CERTAIN UNMANUFACTURED
CIGARETTE LEAF TOBACCO:
PROBABLE ECONOMIC EFFECT
OF REMOVAL FROM
ELIGIBILITY FOR DUTY-
FREE TREATMENT UNDER
THE U.S. GENERALIZED
SYSTEM OF PREFER-
ENCES**

Report to the President on
Investigation No. 332-272

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United States International Trade Commission
Washington, DC 20436



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**Note.—This report is a declassified
version of the Confidential probable
effects advice report submitted to
the President on May 19, 1989**

INTRODUCTION

On March 22, 1989, the Commission received a request from the U.S. Trade Representative (USTR), pursuant to authority delegated by the President, in accordance with section 332(g) of the Tariff Act of 1930, for advice as to the probable economic effect on United States industries producing like or directly competitive articles and on consumers of the removal of cigarette leaf tobacco provided for in HTS subheading 2401.20.40 from eligibility for duty-free treatment under the U.S. Generalized System of Preferences (GSP). The USTR requested that the advice be provided on an expedited basis--not later than 60 days after receipt of the letter. 1/

In response to the USTR request, the Commission on April 3, 1989, instituted investigation No. 332-272 for the purpose of obtaining, to the extent practicable, information for use in connection with the preparation of the advice requested by the USTR. The Commission notice of investigation is contained in appendix B and appeared in the Federal Register of April 10, 1989 (54 F.R. 14294). No public hearing was held, but all interested parties were afforded an opportunity to submit written statements concerning the investigation. 2/

1/ A copy of the USTR's request is contained in appendix A.

2/ A list of interested parties who submitted statements is contained in app. C.

PRESENTATION OF PROBABLE ECONOMIC EFFECT ADVICE

In response to the USTR request for probable economic effect advice, the Commission determined that an appropriate format for such an analysis would be a commodity digest dealing with the effect of the tariff modification.

To provide a factual basis for the Commission's advice, the digest contains the following sections:

- I. Introduction
- II. U.S. market profiles
- III. GSP import situation, 1988
- IV. Competitiveness profiles, GSP suppliers
- V. Position of interested parties
- VI. Probable economic effect--removal
- ... U.S. import/export tables

I. Introduction.--This section provides basic information on the item including description and uses, rate of duty, type of GSP modification proposed, competitive-need country exclusions, competitive-need limit waivers, and an indication of whether there was U.S. production of the item on Jan. 3, 1985.

II. U.S. market profiles.--This section provides information on U.S. producers, employment, shipments, exports, imports, consumption, import market share, and capacity utilization. Where exact information is not obtainable, the best available estimates are provided.

III. GSP import situation, 1988.--This section provides 1988 U.S. import data, including the world total and certain GSP country specific data. Individual GSP country data are provided for the top four GSP suppliers in 1988.

IV. Competitiveness profiles.--This section provides background information on GSP supplier countries which are (1) the most significant sources, (2) likely to emerge as significant suppliers as a result of the GSP modification, and (3) affected by changes in eligibility as a result of the modification. Information is provided on the level and significance of the country as a supplier, the elasticities of supply and demand for imports from the country, and the price and quality of imports compared with U.S. and other foreign products.

V. Position of interested parties.--Brief summaries of written submissions from interested parties are provided.

VI. Probable economic effects.--This section provides advice on the short-to-near term (1-5 years, 1989-93) impact of the proposed GSP eligibility modifications in three areas: (1) U.S. imports, (2) U.S.

industry, and (3) U.S. consumers 1/. The probable economic effect advice, to a degree, integrates and summarizes the data provided in sections I-V of the digests with particular emphasis on the price sensitivity of import supply and demand. Thus, for example, if the price elasticity of demand in the United States and the price elasticity of supply in the exporting beneficiary country are both relatively high, elimination of even a moderate-level tariff suggests the possibility of large import increases from the beneficiary country. 2/ It should be noted that the probable economic effect advice with respect to changes in import levels is presented in terms of the degree to which GSP modification will affect U.S. trade levels with the world. Consequently, while U.S. imports of a particular product from GSP beneficiaries may change significantly, if GSP beneficiaries supply a very small share of total U.S. imports of that product or if imports from beneficiaries readily substitute with imports from developed countries, the overall effect on U.S. imports could be minimal.

In using the probable effect advice, several important factors should be taken into consideration. The HTS trade data used in the investigation were developed by the Commission by converting official TSUSA import statistics and Schedule B export statistics to the HTS format using Commission-developed concordances between the TSUSA/Schedule B systems and the HTS. As a general observation, data that are developed under one system and subsequently translated and presented in another, should be viewed with some caution. Such caution is recommended in this investigation due to fundamental differences in structure and classification concepts between the HTS and the TSUSA/Schedule B. While it is believed that the Commission has solved the great majority of the technical problems in converting trade data from one format to another, basic differences between the two systems make precise conversion of data impossible in many instances.

Further, confidence in available data and data estimates often varies by product and by type of information. To give the report user some indication of the level of confidence in data provided in the digest, the Commission uses the following coding system.

1/ The "U.S. consumer" may be a firm or person receiving an intermediate good for further processing or the end user in the case of a final good.

2/ Price elasticity is a measure of the changes in quantity that are brought about as a result of changes in price. The guidelines used for both supply and demand are as follows: The elasticity is low when the percentage change in quantity is less than the percentage change in price; moderate when it is between 1 and 2 times the percentage change in price; and, high when it is greater than 2 times the percentage change in price.

- No code = Response based on complete or almost complete information/data adequate for a high degree of confidence.
- * = Based on partial information/data adequate for estimation with a moderately high degree of confidence (e.g., *5, *X).
- ** = Based on limited information/data adequate for estimation with a moderate degree of confidence (e.g., **5).
- 1/ = Not available.

It should also be emphasized that the probable economic effect estimates are not forecasts of what will actually happen to U.S. imports in the future. Instead, they are estimates of how a change in GSP eligibility will affect these imports. For example, a digest might estimate that GSP eligibility will cause U.S. imports to increase modestly by 6 percent to 15 percent, whereas it might be reasonable to suppose that the recent decline in the dollar on exchange markets will cause actual imports in the digest to decline. This does not mean the estimate in the digest is inaccurate. Even if actual imports decline dramatically, they should still be at a somewhat higher level with GSP eligibility than without. It is this latter difference only that the digests are concerned with. Although a number of factors such as exchange rate changes, relative inflation rates, and relative rates of economic growth could have much greater effects on imports than changes in GSP eligibility, these other factors are beyond the scope of the USTR request.

CERTAIN UNMANUFACTURED TOBACCO

I. INTRODUCTION

Col. 1 rate of duty: 44.1¢/kg + 92.9¢/kg on wrapper tobacco content
(1988 AVE *15%)

Type of action proposed: Removal from GSP of cigarette tobaccos
classified under this item No. Stemmed cigarette tobacco accounted
for approximately 91 percent of imports under this item in 1988.
Stemmed cigarette tobacco was not eligible for GSP treatment until
January 1, 1989, when it was combined with certain tobacco, other
than cigarette, to form HTS item No. 2401.20.40.

Non-eligible GSP countries: Brazil

Current competitive-need-limit waivers: none

U.S. production on Jan. 3, 1985? Yes X No _____.

Description and uses: Leaf tobacco which enters the United States classified under HTS item No. 2401.20.40 includes stemmed tobaccos used in the manufacture of (1) cigarettes and (2) other tobacco products (i.e., cigars, chewing tobacco, snuff, and pipe-smoking tobacco). Stemming is an operation that removes the center rib (or stem) of the tobacco leaf. U.S. production of unmanufactured tobacco consists primarily of types used in the production of cigarettes (*90 percent).

There are three general types of cigarette leaf tobacco grown in the United States (flue-cured, burley, and Maryland) that are used in the manufacture of cigarettes. Flue-cured leaf is the tobacco most commonly produced in the United States and constitutes between 40 and 50 percent of the tobacco in U.S. cigarettes. It is characterized by its light body, fine oily texture, and mild and somewhat aromatic taste. This tobacco is heat-cured in airtight curing barns heated by a system of flues. Burley tobacco is second to flue-cured in terms of production in the United States and accounts for 30 to 40 percent of the tobacco used in cigarettes. Burley tobacco is light and papery and is readily combustible. Its elastic (springy) quality improves the porosity of the cigarette blend and its highly absorbent character makes it an ideal carrier for the flavoring compounds used in the manufacture of cigarettes. It is slowly air-cured in freely ventilated barns, with heat used only when needed to maintain humidity in proper balance. Maryland-type tobacco is grown in much smaller volume than flue-cured or burley in the United States and generally represents less than 3 percent of the tobacco in U.S. cigarettes. The leaf is thin and dry, neutral in aroma, and also air-cured. It is valued for its fire-holding capacity and its elasticity. There are no U.S. imports of Maryland-type tobacco, however, substantial quantities of flue-cured and burley are imported and compete with domestic production. Previous to January 1, 1989, imports of stemmed cigarette leaf tobaccos were classified under item No. 170.35 of the Tariff Schedules of the United States (TSUS) and were not eligible for GSP treatment.

Tobaccos, other than cigarette tobaccos, which enter under HTS item 2401.20.40 include tobacco used chiefly in the body or core of cigars (filler), tobacco used to bind the cigar body or core, thus sealing and shaping the cigar (binder), fire-cured tobacco used primarily in the manufacture of snuff, chewing tobacco, and pipe-smoking tobacco, and sun-cured and dark air-cured tobacco used in chewing tobacco and

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snuff. Imports of these tobaccos are estimated to be predominantly tropical or subtropical cigar filler tobacco. The filler tobacco in a cigar normally supplies about 75 percent of the finished weight and determines the flavor or aroma of the cigar. Imported cigar filler is generally used in combination with the relatively mild domestic leaf to provide flavor and bouquet in a cigar. Differences in plant strains, soil, climate, and method of curing account for important differences between continental domestic cigar filler and imported cigar filler. Previous to January 1, 1989, imports of these tobaccos (tobaccos, other than cigarette tobaccos, entered under HTS item No. 2401.20.40) were classified under item No. 170.45 of the TSUS and became eligible for GSP treatment on July 1, 1987, pursuant to Presidential Proclamation 5660.

II. U.S. MARKET PROFILES

Certain unmanufactured tobacco (includes cigarette, cigar, and other types)

Certain unmanufactured tobacco (includes cigarette, cigar, and other types) 1/: Profile of U.S. industry and market, 1984-88

Item	1984	1985	1986	1987	1988	Percent change over period 2/
Producers (thousand farms).....	*235	*231	*224	*212	*213	-2
Employment (thousand employees).....	3/	3/	3/	3/	3/	-
Shipments (millions of dollars) <u>4/</u>	*2,995	*2,391	*1,815	*1,847	*2,108	-7
Exports (millions of dollars).....	1,157	1,183	900	838	987	-4
Imports (millions of dollars) <u>5/</u>	85	101	114	132	121	9
Consumption (millions of dollars).....	*1,923	*1,309	*1,029	*1,141	*1,242	-8
Import to consumption ratio (percent)..	*4	*8	*11	*12	*10	-

1/ This table and market profile includes all products imported under HTS item No. 2401.20.40 (formerly TSUS item Nos. 170.35(pt) and 170.45).

2/ This figure represents the average annual compound rate of change over 1984-88.

3/ Not available, but estimated to be in excess of 230,000 employees. Most U.S. tobacco farmers do not grow tobacco as their sole crop but grow other crops or raise livestock and grow tobacco to supplement their income.

4/ Includes all unmanufactured tobaccos, except wrapper.

5/ Imports only include unmanufactured stemmed tobacco classified under HTS item No. 2401.20.40. It should be noted that substantial quantities of unmanufactured tobacco enter the United States in an unstemmed form.

Comment: In the United States, the production and marketing of most tobacco types is controlled by a Government program of acreage allotments, marketing quotas, and price supports. Voters (tobacco producers) determine by periodic referendums whether to participate in the USDA support program for their type of tobacco. U.S. price-support legislation provides that when marketing quotas are in force, price support shall be made available to any producer who is unable to sell tobacco for at least the loan level (price support). Since the United States exports about 14 percent of the world's total exports of unmanufactured tobacco and imports about 16 percent of total world imports, U.S. prices tend to influence those in other markets. Export price changes in other markets tend to follow those of the United States for major tobacco types. However, foreign-producer-country export prices also reflect other factors such as government tobacco policies, the influence of stocks held by governments, dealers, and manufacturers, and general supply-demand conditions.

Soil and climate primarily determine where commercial quantities of quality tobacco can be produced. The major U.S. area of tobacco production is the Southeastern United States, where tobacco for cigarettes is grown. In 1987, U.S. production of unmanufactured tobacco made up about 9 percent of total world production. China, the world's largest producer, accounted for 32 percent and Brazil, Turkey, and Zimbabwe, accounted for 6 percent, 3 percent, and 2 percent,

respectively. The majority of unmanufactured tobacco produced and traded throughout the world is cigarette type tobacco.

During 1984-88, annual U.S. shipments of tobacco declined irregularly from *\$3.0 billion to *\$2.1 billion, while the number of producing establishments (farms) declined from *235,000 to *213,000. The declines reflect a general decrease in U.S. demand for manufactured tobacco products and a very competitive world market for unmanufactured tobacco.

Certain unmanufactured cigarette tobacco

Certain unmanufactured cigarette tobacco 1/: Profile of U.S. industry and market, 1984-88

Item	1984	1985	1986	1987	1988	Percent change over period 2/
Producers (thousand farms).....	*210	*207	*202	*191	*192	2
Employment (thousand employees).....	3/	3/	3/	3/	3/	-
Shipments (millions of dollars) 4/.....	*2,847	*2,262	*1,716	*1,776	*2,048	-6
Exports (millions of dollars).....	1,156	1,183	899	837	987	-4
Imports (millions of dollars) 5/.....	74	95	110	123	110	11
Consumption (millions of dollars).....	*1,765	*1,174	*927	*1,062	*1,171	-8
Import to consumption ratio (percent)..	*4	*8	*12	*12	*9	-

1/ This table and market profile is intended to reflect only that portion of HTS item No. 2401.20.40 that is cigarette tobacco (formerly TSUS item No. 170.35(pt)).

2/ This figure represents the average annual compound rate of change over 1984-88.

3/ Not available, but estimated to be in excess of 200,000 employees.

4/ Includes flue-cured, burley, and Maryland cigarette tobaccos.

5/ Estimated imports of stemmed cigarette tobacco.

Comment: This market profile is intended to reflect that portion of HTS item No. 2401.20.40 that is cigarette tobacco.

The United States is primarily a producer of cigarette tobacco (flue-cured, burley, and Maryland). U.S. cigarette tobacco usually commands premium prices in the domestic and world markets because of its high quality in comparison with tobacco from other major producers. U.S. producers are very efficient and generally benefit from certain production and distribution cost advantages over foreign producers because of their closeness to the market, the use of advanced farming methods, and the fact that domestic cigarette processors desire the special characteristics (flavor, elasticity, etc.) found in quality U.S. leaf tobacco. However, in recent years, tobacco quality in certain producing countries, such as Brazil and Zimbabwe, has improved and as a result, the price differential between these tobaccos and U.S. tobacco has generally narrowed. These producers have always been very price competitive in the U.S. market for lower quality cigarette leaf. The production of unmanufactured tobacco is extremely labor intensive and allows foreign producers (Brazil, Korea, Malawi, Zimbabwe, etc.) to enjoy labor-cost advantages over the United States. USDA reports that over the 10-year period, 1978-87, the percent of foreign tobacco used in the production of U.S. cigarettes has risen from 20 percent to 36 percent. USDA indicates this change was primarily the result of the availability

of cheaper foreign-produced cigarette tobacco in relation to higher priced U.S. tobacco. However, in recent years, new legislation was enacted that lowered U.S. price supports and is more conservative with future support price increases, thus encouraging U.S. tobacco's price competitiveness in the domestic and world markets.

During 1984-88, U.S. shipments and consumption of these tobacco types declined irregularly. The decline in shipments and consumption is primarily the result of the availability of cheaper foreign-produced cigarette tobacco in relation to U.S. tobacco, a decrease in U.S. consumption of cigarettes, and a very competitive world market for cigarette tobacco.

Certain unmanufactured tobacco, other than cigarette tobacco

Certain unmanufactured tobacco, other than cigarette tobacco 1/: Profile of U.S. industry and market, 1984-88

Item	1984	1985	1986	1987	1988	Percent change over period <u>2/</u>
Producers (thousand farms).....	*25	*24	*22	*21	*21	-4
Employment (thousand employees).....	<u>3/</u>	<u>3/</u>	<u>3/</u>	<u>3/</u>	<u>3/</u>	-
Shipments (millions of dollars) <u>4/</u>	*148	*129	*99	*71	**60	-13
Exports (millions of dollars).....	1	1	1	1	1	-
Imports (millions of dollars) <u>5/</u>	11	6	4	9	11	-
Consumption (millions of dollars).....	*158	*134	*102	*79	**70	-16
Import to consumption ratio (percent)..	*7	*4	*4	*11	**16	-

1/ This table and market profile is intended to reflect only that portion of HTS item No. 2401.20.40 that is tobacco, other than cigarette (formerly TSUS item No. 170.45).

2/ This figure represents the average annual compound rate of change over 1984-88.

3/ Not available, but estimated to be in excess of 30,000 employees.

4/ Includes cigar filler and binder, dark air-cured, fire-cured, and sun-cured tobaccos.

5/ Imports of certain stemmed filler tobacco, other than cigarette, as reported under TSUS item No. 170.45.

Comment: This market profile is intended to reflect that portion of HTS item No. 2401.20.40 that is tobacco, other than cigarette.

Imported tobacco, other than cigarette tobacco, which enters the United States classified under HTS item No. 2401.20.40 is estimated to be predominantly tropical or subtropical cigar filler tobacco. Differences in plant strains, soil, climate, and method of curing account for important differences between continental domestic filler and imported filler. In general, cigar filler tobacco from GSP eligible countries is not directly competitive with domestic leaf, as it is used in combination with the relatively mild domestic leaf to provide flavor and bouquet in a cigar. 1/ Other tobaccos which enter the United States in this category are believed to consist primarily of fire-cured, dark air-cured, and binder tobaccos, which in some cases, are competitive with similar domestic types used in the production of snuff, smoking tobacco, chewing tobacco, and cigars. USDA sources report that some of these tobaccos sell at prices similar to U.S. types and are not significantly different in quality than certain grades of U.S. tobacco of the same type.

During 1984-88, U.S. shipments and consumption of these tobacco types decreased significantly, reflecting a general decline in demand for the manufactured tobacco products in which they are used. USDA sources indicate consumption of these manufactured tobacco products continues to be hurt by price hikes, health concerns, negative publicity, and recent legislation which requires warning labels, bans certain advertising, and raised Federal excise taxes.

1/ Puerto Rican cigar tobacco is aromatic and can be used like other subtropical leaf to heighten the taste of a blend. However, in recent years, Puerto Rican cigar tobacco has only accounted for about 1 percent of U.S. production.

III. GSP IMPORT SITUATION, 1988

Item	Imports			Percent of total imports	Percent of GSP imports	Percent of U.S. consumption
	Stemmed tobacco	Stemmed tobacco, other than cigarette	Total			
Quantity (thousand pounds)						
Total.....	80,926	9,594	90,520	100	-	7
Imports from GSP countries:						
Total.....	70,303	9,259	79,562	88	100	6
Brazil 1/.....	40,552	2,482	43,034	49	55	3
Korea.....	5,258	0	5,258	6	7	2/
Mexico.....	1,918	3,240	5,158	6	6	2/
Chile.....	3,883	0	3,883	4	5	2/
Value (thousand dollars)						
Total.....	109,897	10,884	120,781	100	-	6
Imports from GSP countries:						
Total.....	99,900	10,480	110,380	91	100	6
Brazil 1/.....	58,070	2,883	60,953	50	55	3
Korea.....	9,444	0	9,444	8	9	1
Mexico.....	6,010	1,462	7,472	6	7	2/
Chile.....	6,298	0	6,298	5	6	2/

- 1/ Brazil is not currently eligible for GSP treatment for HTS item 2401.20.40.
 2/ Less than 0.5 percent.

Comment: In 1988, imports of cigarette tobacco types amounted to \$110 million or about 91 percent of total imports (by value) entered under HTS item 2401.20.40. Brazil is the principal GSP supplier of these tobaccos. In 1988, approximately 95 percent of U.S. imports of these tobaccos from Brazil consisted of cigarette tobaccos.

It is difficult to estimate a price elasticity of demand for U.S. imports of the unmanufactured tobaccos contained in HTS item No. 2401.20.40 because of the various types and qualities of tobaccos with different demand characteristics that are included herein. However, it is estimated that most unmanufactured tobaccos (especially those of lower quality) have high price elasticities because of abundant supplies of competitive products at comparable prices. Some unmanufactured tobaccos (e.g., certain cigar fillers) are believed to have low to moderate price elasticities because they do not compete with an abundant supply of like or directly competitive products at comparable prices and demand is significantly affected by such nonprice factors as quality, availability, and limitations on switching supply sources. Overall (since the majority of imports are estimated to be cigarette tobaccos), the price elasticity of import demand for all unmanufactured tobaccos contained in this item is estimated to be high.

IV. COMPETITIVENESS PROFILES GSP SUPPLIERS

Competitiveness indicators for Brazil for all digest products, as of 1988

Ranking as a U.S. import supplier, 1988..... 1

Price sensitivity:

- Can production in the country be easily expanded or contracted in the short term?..... Yes No
- Does the country have significant export markets besides the United States?..... Yes No
- Could exports from the country be readily redistributed among its foreign export markets?..... Yes No
- What is the price sensitivity of import supply?.. High Moderate Low
- Can the U.S. purchaser easily shift among this and other suppliers?..... Yes No
- What is the price sensitivity of U.S. demand?.... High Moderate Low

Price level compared with:

- U.S. products..... Above Equivalent Below
- Other foreign products..... Above Equivalent Below

Quality compared with:

- U.S. products..... Above Equivalent Below
- Other foreign products..... Above Equivalent Below

Competitiveness indicators for Korea for all digest products, as of 1988

Ranking as a U.S. import supplier, 1988..... 2

Price sensitivity:

- Can production in the country be easily expanded or contracted in the short term?..... Yes No
- Does the country have significant export markets besides the United States?..... Yes No
- Could exports from the country be readily redistributed among its foreign export markets?..... Yes No
- What is the price sensitivity of import supply?.. High Moderate Low
- Can the U.S. purchaser easily shift among this and other suppliers?..... Yes No
- What is the price sensitivity of U.S. demand?.... High Moderate Low

Price level compared with:

- U.S. products..... Above Equivalent Below
- Other foreign products..... Above Equivalent Below

Quality compared with:

- U.S. products..... Above Equivalent Below
- Other foreign products..... Above Equivalent Below

Competitiveness indicators for Mexico for all digest products, as of 1988

Ranking as a U.S. import supplier, 1988..... 3

Price sensitivity:

Can production in the country be easily expanded or contracted in the short term?..... Yes X No ___

Does the country have significant export markets besides the United States?..... Yes X No ___

Could exports from the country be readily redistributed among its foreign export markets?..... Yes X No ___

What is the price sensitivity of import supply?.. High X Moderate ___ Low ___

Can the U.S. purchaser easily shift among this and other suppliers?..... Yes X No ___

What is the price sensitivity of U.S. demand?.... High X Moderate ___ Low ___

Price level compared with:

U.S. products..... Above ___ Equivalent X Below ___

Other foreign products..... Above ___ Equivalent X Below ___

Quality compared with:

U.S. products..... Above ___ Equivalent X Below ___

Other foreign products..... Above ___ Equivalent X Below ___

V. POSITION OF INTERESTED PARTIES

Petitioner

The Cigar Association of America, Inc. (CAA) is the petitioner. The CAA is a non-profit trade association whose membership comprises the producers of the majority of large cigars produced in the United States and includes, as associate members, a number of tobacco leaf dealers who buy and sell stemmed cigarette filler tobacco as well as stemmed cigar filler tobacco.

The CAA requests that duty-free treatment for stemmed cigarette filler tobacco be withdrawn effective retroactively to January 1, 1989. The CAA indicates this can best be accomplished by revising Subheading 2401.20.40 of the Harmonized Tariff Schedule of the United States and adding a new Subheading 2401.20.50, to read as follows:

	Unmanufactured tobacco (whether or not threshed or similarly processed); tobacco refuse:
	Tobacco, partly or wholly stemmed/stripped: Not threshed or similarly processed: Other:
	Not containing wrapper tobacco, or not containing over 35 percent wrapper tobacco:
2401.20.40	Cigarette leaf
2401.20.50	Other, including cigar leaf

The CAA requests that GSP treatment be withdrawn from stemmed cigarette filler tobacco for two reasons. First, cigarette filler tobacco is an import sensitive commodity and such tobaccos from GSP countries do not need duty-free treatment to compete in the U.S. market. Second, continuation of GSP eligibility for such tobacco may disrupt the domestic price support program for flue-cured and burley cigarette filler.

Support

The CAA submitted a statement to the Commission indicating that GSP treatment should be withdrawn from stemmed cigarette tobacco because GSP-eligible countries produce stemmed cigarette tobacco in large volumes and sell it at low prices. The CAA indicates that continued duty-free treatment of such low priced cigarette filler tobacco will likely raise the cost of the tobacco price support program and raise the carrying cost for thousands of small farmers. The petitioner also indicated that GSP-eligible beneficiary countries have for years demonstrated their ability to compete without the benefit of duty-free treatment and returning cigarette filler tobacco to dutiable status will have an insignificant effect, if it has any effect at all, on consumers in the United States.

The American Farm Bureau Federation (the Farm Bureau) provided the Commission a statement in support of the removal of stemmed cigarette filler tobacco from the list of articles eligible for duty-free treatment under the GSP, effective retroactively to January 1, 1989. The statement 11

indicated that the Bureau has member organizations in 49 states, representing more than 3.5 million member families and approximately 200,000 of these families are tobacco farmers. The Farm Bureau reports that the major suppliers of cigarette filler tobacco are highly competitive producers that for years have shipped substantial quantities of tobacco to the United States under the full MFN tariff. The Bureau's statement indicates that the elimination of the duty on stemmed cigarette filler tobacco would introduce into the U.S. market additional quantities of tobacco at low prices resulting in an adverse effect on U.S. tobacco farmers and the U.S. price support program for domestic tobacco. The Farm Bureau's statement also indicated that with the Uruguay Round of multilateral trade negotiations underway to reduce barriers and distortions to international commerce, U.S. tariffs and other trade measures should not, at the outset, be "given away" under GSP.

Opposition

No formal statements were received from interested parties.

VI. PROBABLE ECONOMIC EFFECT--REMOVAL

(Probable economic effects advice deleted)

(Probable economic effects advice deleted)

Digest title: Certain Unmanufactured Tobacco
U.S. imports for consumption, principal sources 1984-88

Source	1984	1985	1986	1987	1988
<u>Quantity (1,000 pounds)</u>					
Brazil.....	16,461	33,650	34,137	49,155	44,034
Korea.....	4,857	5,419	5,989	4,773	5,258
Mexico.....	2,025	1,335	2,559	4,397	5,158
Chile.....	570	126	268	1,877	3,883
Malawi.....	3,773	4,648	3,473	5,268	3,765
Argentina.....	1,752	4,998	5,261	4,221	3,426
Canada.....	2,120	1,467	2,909	3,326	2,162
Japan.....	369	183	209	2,926	4,734
Thailand.....	2,401	2,889	3,667	4,353	2,437
Indonesia.....	0	289	0	2,364	3,240
Zimbabwe.....	560	565	2,579	1,894	1,880
All other.....	16,303	9,666	12,672	10,489	10,542
Total.....	51,191	65,235	73,723	95,043	90,519
GSP total....	44,151	58,180	63,478	83,170	79,562
<u>Percent</u>					
Brazil.....	32.2	51.6	46.3	51.7	48.6
Korea.....	9.5	8.3	8.1	5.0	5.8
Mexico.....	4.0	2.0	3.5	4.6	5.7
Chile.....	1.1	.2	.4	2.0	4.3
Malawi.....	7.4	7.1	4.7	5.5	4.2
Argentina.....	3.4	7.7	7.1	4.4	3.8
Canada.....	4.1	2.2	3.9	3.5	2.4
Japan.....	.7	.3	.3	3.1	5.2
Thailand.....	4.7	4.4	5.0	4.6	2.7
Indonesia.....	-	.4	-	2.5	3.6
Zimbabwe.....	1.1	.9	3.5	2.0	2.1
All other.....	31.8	14.8	17.2	11.0	11.6
Total.....	100.0	100.0	100.0	100.0	100.0
GSP total....	86.2	89.2	86.1	87.5	87.9

Note.--Because of rounding, figures may not add to the totals shown.

Source: Estimated from official statistics of the U.S. Department of Commerce.

Digest title: Certain Unmanufactured Tobacco
U.S. imports for consumption, principal sources 1984-88

Source	1984	1985	1986	1987	1988
<u>Value (1,000 dollars)</u>					
Brazil.....	25,471	52,187	51,867	70,886	60,952
Korea.....	8,496	10,092	11,397	8,120	9,444
Mexico.....	2,690	1,398	3,927	6,387	7,472
Chile.....	780	190	462	2,952	6,298
Malawi.....	5,242	6,392	6,634	6,929	6,083
Argentina.....	3,122	7,282	7,941	5,389	4,475
Canada.....	3,733	2,417	4,642	5,181	3,447
Japan.....	524	280	301	1,294	3,273
Thailand.....	3,722	4,347	5,102	5,881	3,143
Indonesia.....	0	385	0	2,675	2,583
Zimbabwe.....	929	863	3,219	2,218	2,248
All other.....	29,723	14,465	17,814	14,049	1,363
Total.....	84,432	100,298	113,306	131,961	120,781
GSP total....	75,606	91,028	100,105	118,580	110,380
<u>Percent</u>					
Brazil.....	30.2	52.0	45.8	53.7	50.5
Korea.....	10.1	10.1	10.1	6.2	7.8
Mexico.....	3.2	1.4	3.5	4.8	6.2
Chile.....	.9	.2	.4	2.2	5.2
Malawi.....	6.2	6.4	5.9	5.3	5.0
Argentina.....	3.7	7.3	7.0	4.1	3.7
Canada.....	4.4	2.4	4.1	3.9	2.9
Japan.....	.6	.3	.3	1.0	2.7
Thailand.....	4.4	4.3	4.5	4.5	2.6
Indonesia.....	-	.4	-	2.0	2.1
Zimbabwe.....	1.1	.9	2.8	1.7	1.9
All other.....	35.2	14.4	15.7	10.6	9.4
Total.....	100.0	100.0	100.0	100.0	100.0
GSP total....	89.5	90.8	88.3	89.9	91.4

Note.--Because of rounding, figures may not add to the totals shown.

Source: Estimated from official statistics of the U.S. Department of Commerce.

Digest title: Certain Unmanufactured Tobacco
U.S. exports of domestic merchandise, by principal markets, 1984-88

Market	1984	1985	1986	1987	1988
Quantity (1,000 pounds)					
West Germany.....	39,979	51,817	56,030	45,958	69,142
Japan.....	78,201	85,463	69,048	96,650	62,814
Netherlands.....	3,823	9,849	15,637	16,116	25,180
Hong Kong.....	6,555	9,076	8,371	10,808	17,534
Taiwan.....	17,603	19,087	11,683	5,900	20,173
United Kingdom.....	24,571	14,984	15,842	12,075	15,492
Italy.....	11,736	5,693	3,538	8,928	14,902
Denmark.....	10,559	12,386	11,007	10,810	11,873
Thailand.....	14,409	17,627	12,875	7,383	13,359
All other.....	155,502	158,540	109,538	78,208	87,053
Total.....	362,938	384,520	313,568	292,836	337,521
Percent					
West Germany.....	11.0	13.5	17.9	15.7	20.5
Japan.....	21.6	22.2	22.0	33.0	18.6
Netherlands.....	1.1	2.6	5.0	5.5	7.5
Hong Kong.....	1.8	2.4	2.7	3.7	5.2
Taiwan.....	4.9	5.0	3.7	2.0	6.0
United Kingdom.....	6.8	3.9	5.1	4.1	4.6
Italy.....	3.2	1.5	1.1	3.1	4.4
Denmark.....	2.9	3.2	3.5	3.7	3.5
Thailand.....	4.0	4.6	4.1	2.5	4.0
All other.....	42.8	41.2	34.9	26.7	25.8
Total.....	100.0	100.0	100.0	100.0	100.0

Note.--Because of rounding, figures may not add to the totals shown.

Source: Estimated from official statistics of the U.S. Department of Commerce.

Digest title: Certain Unmanufactured Tobacco
U.S. exports of domestic merchandise, by principal markets, 1984-88

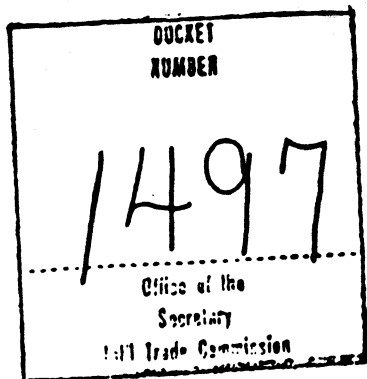
Market	1984	1985	1986	1987	1988
Value (1,000 dollars)					
West Germany.....	128,529	161,939	164,911	138,175	208,390
Japan.....	281,312	291,550	220,736	292,593	208,197
Netherlands.....	13,334	29,342	46,288	50,097	74,832
Hong Kong.....	22,329	27,093	22,893	28,621	50,806
Taiwan.....	50,640	50,992	33,142	16,045	49,297
United Kingdom.....	78,589	43,500	46,202	36,692	46,100
Italy.....	39,626	17,843	8,589	23,362	39,049
Denmark.....	35,812	43,567	38,737	34,550	36,041
Thailand.....	40,890	47,085	30,277	16,182	34,187
All other.....	466,036	470,520	288,005	201,614	240,393
Total.....	1,157,099	1,183,431	899,781	837,932	987,292
Percent					
West Germany.....	11.1	13.7	18.3	16.5	21.1
Japan.....	24.3	24.6	24.5	34.9	21.1
Netherlands.....	1.2	2.5	5.1	6.0	7.6
Hong Kong.....	1.9	2.3	2.5	3.4	5.2
Taiwan.....	4.4	4.3	3.7	1.9	5.0
United Kingdom.....	6.8	3.7	5.1	4.4	4.7
Italy.....	3.4	1.5	1.0	2.8	4.0
Denmark.....	3.1	3.7	4.3	4.1	3.7
Thailand.....	3.5	4.0	3.4	1.9	3.5
All other.....	40.3	39.8	32.0	24.1	24.3
Total.....	100.0	100.0	100.0	100.0	100.0

Note.--Because of rounding, figures may not add to the totals shown.

Source: Estimated from official statistics of the U.S. Department of Commerce.

APPENDIX A

U.S. Trade Representative Request of March 22, 1989,
for Probable Effect Advice



THE UNITED STATES TRADE REPRESENTATIVE
 Executive Office of the President
 Washington, D.C. 20506

March 22, 1989

The Honorable Anne Brunsdale
 Acting Chairman
 United States International Trade
 Commission
 500 E Street, S.W.
 Washington, D.C. 20436

RECEIVED
 MARCH 23 1989
 OFFICE OF THE SECRETARY
 U.S. TRADE COMMISSION

Dear Acting Chairman Brunsdale:

The Trade Policy Staff Committee (TPSC) has accepted an emergency petition for the removal of cigarette leaf tobacco provided for in subheading 2401.20.40 of the Harmonized Tariff Schedule of the United States (HTS) from the Generalized System of Preferences (GSP). In this connection, under authority delegated by the President, I request, pursuant to section 332(g) of the Tariff Act of 1930, that the Commission provide its advice as to the probable economic effect on United States industries producing like or directly competitive articles and on consumers of the removal of cigarette leaf tobacco provided for in HTS subheading 2401.20.40 from eligibility for duty-free treatment under the GSP.

The TPSC has granted a request from the Cigar Association to conduct the review of this petition on an expedited basis. The Commission is therefore requested to consider the case on an expedited basis and to provide its advice not later than 60 days after receipt of this letter. In view of this compressed time, we do not expect the Commission to hold a public hearing on this case.

In accordance with USTR policy, I direct you to mark as "confidential" such portions of the Commission's report and its working papers as my Office will identify in a classification guide. Information Security Oversight Office Directive No. 1, section 2001.21 (implementing Executive Order 12356, sections 2.1 and 2.2) requires that classification guides identify or categorize the elements of information which require protection. Accordingly, I request that you provide my Office with an outline of this report as soon as possible. Based on this

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RECEIVED

**The Honorable Anne Brunsdale
Page Two**

outline and my Office's knowledge of the information to be covered in the report, a USTR official with original classification authority will provide detailed instructions.

The Commission's assistance in this matter is greatly appreciated.

Sincerely,



Carla A. Hills

CAH:lbw

APPENDIX B

U.S. International Trade Commission Notice of
Investigation

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C.
(332-272)

CERTAIN UNMANUFACTURED CIGARETTE LEAF TOBACCO: PROBABLE ECONOMIC
EFFECT OF REMOVAL FROM ELIGIBILITY FOR DUTY-FREE TREATMENT UNDER GSP

AGENCY: United States International Trade Commission

ACTION: Institution of investigation.

SUMMARY: Following receipt on March 22, 1989, of a request from the U.S. Trade Representative (USTR) under authority delegated by the President, the Commission instituted investigation No. 332-272 under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)). The USTR requested that the Commission provide advice as to the probable economic effect on the United States industries producing like or directly competitive articles and on consumers of the removal of cigarette leaf tobacco provided for in the Harmonized Tariff Schedule of the United States (HTS) subheading 2401.20.40 from eligibility for duty-free treatment under the U.S. Generalized System of Preferences.

EFFECTIVE DATE: April 3, 1989

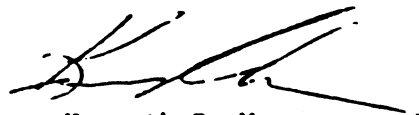
FOR FURTHER INFORMATION: For further information, please contact Mr. William Lipovsky of the Commission's Office of Industries at 202-252-1331. For information on legal aspects of the investigation contact Mr. William Gearhart of the Commission's Office of the General Counsel at 202-523-0487.

PUBLIC HEARING: No public hearing is scheduled for this investigation.

WRITTEN SUBMISSIONS: Interested persons are invited to submit written statements concerning the investigation; such statements should be received by the close of business on April 26, 1989. Commercial or financial information which a submitter desires the Commission to treat as confidential must be submitted on separate sheets of paper, each clearly marked "Confidential Business Information" at the top. All submissions requesting confidential treatment must conform with the requirements of section 201.6 of the Commission's Rules of Practice and Procedure (19 CFR 201.6). All written submissions, except for confidential business information, will be made available for inspection by interested persons. All submissions should be addressed to the Secretary, United States International Trade Commission, 500 E Street, SW., Washington, DC 20436.

Hearing-impaired individuals are advised that information on this matter can be obtained by contacting our TDD terminal on (202) 252-1810.

By order of the Commission.



Kenneth R. Mason
Secretary

Issued: April 5, 1989

APPENDIX C

List of Parties Submitting Statements to the Commission

INTERESTED PARTIES

Those listed below submitted written statements to the United States International Trade Commission on Certain Unmanufactured Cigarette Leaf Tobacco: Probable Economic Effect of Removal from Eligibility for Duty-Free Treatment under the GSP (Investigation No. 332-272). All statements were received by the close of business on April 26, 1989.

Interested Party and Organization

McKenna, Conner & Cuneo
Washington, DC
on behalf of

Cigar Association of America
Washington, DC

Michael K. Tomenga)--OF COUNSEL

Mayer, Brown & Platt
Washington, DC
on behalf of

American Farm Bureau Federation
Park Ridge, Illinois

Carol J. Bilzi)--OF COUNSEL

