
ANALYSIS OF THE TOBACCO PRODUCTION IMPACT ON THE ECONOMIC SITUATION IN THE COUNTRY

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ABSTRACT

Agriculture is exceptionally important economic industry and it enjoys a very important treatment in the global EU policy. The contribution of agriculture to the Union's gross domestic product (GDP) is below 3%, but this industry employs about 5% of the employed working age population of the Community and is a major source of income in many rural communities. Food, beverages and tobacco represent about 20% of the average household expenditure in Europe and their contribution in the Union's international trade and export is very significant.

The EU own production of basic agricultural products is vital both for its citizens and the political independence of its member countries. The economic, social and political importance of agriculture outweighs the contribution to the Union's GDP.

Tobacco cultivation and tobacco production are part of the most important economic activities in Macedonia. Our country is a well-known producer of high-quality oriental type of tobacco, which is part of the recipes for manufacturing best quality cigarettes. Tobacco production is of economic importance and it should be sustained, despite the reduced production imposed by the EU in many countries. Many types and varieties of tobacco which are well-known for their specific properties, participate in obtaining the expected properties. According to the aroma, tobacco is divided into aromatic and non-aromatic. The term “aromatic tobacco” usually refers to the oriental types and they contain essential oils and other aromatic substances, due to which, their leaves become fragrant after the process of drying.

The Balkan countries, including Macedonia together with Greece, Bulgaria, and Turkey, are the largest traditional producers and exporters of quality oriental tobacco. That is why the primary production of oriental small-leaf aromatic tobacco is of great economic and social significance for us. Due to its high quality, the Macedonian oriental tobacco is highly valued on the international market and together with the tobacco products, it is a significant export product that provides foreign exchange inflow into the state budget.

Keywords: Tobacco Production, Economy, Income, Export, International Market.

1. INTRODUCTION

Macedonia has a long history and tradition of growing and exporting raw tobacco, especially oriental type, mainly of the varieties “Prilep”, “Jaka” and “Basma”. As such, Macedonia is an

important producer of raw tobacco leaf and ready-made cigarettes in the region. Tobacco production enjoys a very important place in the Macedonian economy, due to economic and social reasons. With an estimated share of 3%, it is among the eight countries with the major tobacco production in the world. The area under tobacco covers 3.4% of the total arable land in the country, while the area under energy crops represents about 81.1% of the total area. The area under industrial crops is 9% of the total sown agricultural land, while the area under cereals, vegetables and forage crops is 91%.

Tobacco, as one of the most important industrial crops for the country, occupies about 70% of the areas under industrial crops and a share of approximately 30% in the total export of agricultural products, which represents 1% of GDP. According to the Food and Agriculture Organization (FAO), Macedonian tobacco production in tons would represent more than 11% of total EU tobacco production. Tobacco production employs about 35,000 agricultural households in the primary production and it is traditionally focused on exporting to world markets, especially after the independence of the country. This trend was strengthened after 2000, when 90% of the tobacco was exported to the world market, and the remaining 10% was used for domestic production of cigarettes.

The importance of tobacco production in Macedonia can be seen in the number of registered producers, i.e. families that produce tobacco. On average, 33,000 registered households are engaged in the tobacco production per year, which means that there are about 130,000 people engaged in the tobacco production. This number represents about 6.5% of the total population in Macedonia. The main factors that bring to oscillations in the number of tobacco leaf producers are the weather conditions, changes in procurement prices, the tobacco subsidies, as well as the global demand for tobacco.

Current situation with tobacco production in Macedonia

During the last ten years (2010 - 2019), the production of tobacco in Macedonia mainly consists of oriental tobacco from the aromatic types "Prilep", "Jaka", "Basmak" and "Dzebel", while the large-leaf tobacco of the types "Virginia" and "Burley" are not grown at all. The type "Prilep" participates with the largest share in the production (84%), then comes the type "Jaka" (14%), and the type "Basmak" which participates with the smallest part (1.8%). The participation of the types "Dzebel" and "Tola" with only 0.2% is insignificant.

The tobacco production has fluctuated in the years, both in the world and in our country. In recent years, Macedonia is ranked around the 30th place in terms of the amount of tobacco production (2014 30th, 2015 30th, and 2016 28th). The data below regarding the production of cultivated area under tobacco in hectares and the yield per unit area (kg/ha) in the period from 1953 to 2019, as well as the information on total production and concluded contracts, is obtained from the State Statistical Office:

Table 1.Total production in tons, tobacco cultivated areas in hectares, average yield and number of concluded contracts in Macedonia

Year	Cultivated area (ha)	Yield (kg/ha)	Production(t)	Number of concluded contracts
1953	17,361	790	13,715	78,296
1954	18,704	710	13,280	78,311
1955	21,856	900	19,670	79,327
1956	21,061	660	13,900	76,876
1957	28,447	1030	29,300	92,987
1958	25,352	710	18,000	85,267
1959	23,953	860	20,600	78,481
1960	20,435	690	14,100	60,343
1961	14,105	570	8,040	62,409
1962	20,286	700	14,200	74,809
1963	28,523	880	25,100	101,375
1964	32,632	950	31,000	104,697
1965	32,184	870	28,000	96,507
1966	34,342	760	26,100	103,910
1967	31,599	870	27,491	98,420
1968	30,103	670	20,169	79,584
1969	27,160	810	22,000	77,558
1970	28,833	820	23,643	69,586
1971	26,986	800	21,589	65,392
1972	28,983	1000	28,983	69,770
1973	28,962	1120	32,437	71,886
1974	30,084	930	27,978	69,913
1975	33,132	1030	34,126	78,776
1976	32,739	1030	33,721	79,408
1977	31,355	1030	32,296	74,313
1978	29,116	1070	31,154	67,536
1979	27,016	1090	29,447	59,677
1980	26,502	890	23,587	55,355
1981	25,442	1230	31,294	50,831
1982	26,984	1260	34,000	60,259
1983	27,096	830	22,490	58,757
1984	25,923	1185	30,719	53,692
1985	28,505	1078	30,728	71,033

1986	30,216	1159	35,020	80,256
1987	25,465	1125	28,648	57,826
1988	18,534	1201	22,259	54,440
1989	24,456	1126	27,537	49,135
1990	20,825	790	16,452	38,809
1991	18,324	1375	25,195	40,750
1992	22,497	1178	26,502	49,348
1993	21,373	1123	24,002	53,809
1994	14,864	1269	18,862	35,416
1995	10,891	1440	15,683	24,752
1996	11,738	1313	15,412	27,110
1997	19,290	1312	25,308	33,050
1998	25,016	1309	32,746	54,661
1999	24,700	1189	29,368	44,822
2000	22,790	973	22,175	37,617
2001	20,067	1157	23,217	33,906
2002	20,530	1116	22,911	26,971
2003	18,008	1332	23,986	32,000
2004	17,715	1221	21,630	27,343
2005	18,485	1498	27,691	38,000
2006	17,507	1436	25,036	29,230
2007	17,183	1287	22,056	29,771
2008	17,064	1001	17,087	30,519
2009	17,809	1355	24,122	38,710
2010	20,300	1492	30,280	40,743
2011	19,693	1348	26,537	33,234
2012	19,656	1392	27,333	29,090
2013	19,178	1453	27,859	42,367
2014	17,758	1553	27,578	34,445
2015	16,128	1503	24,237	28,454
2016	16,379	1554	25,443	27,380
2017	15,961	1643	22,885	29,132
2018	16,582	1541	25,547	34,104
2019	14,127		26,700	24,854

Source: State Statistical Office of the Republic of North Macedonia

The data in the tables above provides better global picture about the tobacco production in our country throughout a period of six and a half decades. The table shows that tobacco production compared to the cultivated area is stable, and, besides some oscillations in certain years, it is around 20,000 hectares. During the last several years there is a decrease, and it occupies around 16,000 ha. Regarding the volume production, besides certain oscillations, it is around 25,000 tons. There are changes in the number of the concluded contracts, and there is a drastic decrease compared to the first years, and now there are around 30,000 concluded contracts. During the last several years, this number was also stable. Concerning the last component, yield per ha, we can notice significant increase in the present compared to 60 years ago, so the yield has increased from 700 kg/ha to around 1500 kg/ha. This shows that the tobacco production follows the world trends, since they also show increase of the yield. However, our country is behind the world average volume, which is 1800kg/ha.

Tobacco production is an important branch of the Macedonian agriculture, which brings foreign exchange inflow of about 100 million euros per year and thus directly affects the improvement of the economic situation of the country. The situation with the import and export of tobacco in the period 1998-2019 can be seen from the following data.

Table 2. Tobacco and tobacco products export

Product	Unit	1998	2002	2004	2005	2008	2010	2011	2012	2013	2014	2019
Fermented tobacco	Tons	14,612	17,378	15,248	15,117	19,305	16,546	21,495	22,462	25,444	22,558	22,493
	Average price USA \$/kg	3.39	3.28	3.7	3.8	5.03	5.7	5.5	5.3	6.1	5.6	4.2
	Tons	3,760	3,000	2,317	2,315	2,547	3,523	4,431	3,057	3,032	2,160	1,478
Cigarettes	Average price USA \$/hg	8.20	6.36	6.34	6.34	10.07	7.5	7.9	7.8	9.2	8.3	7.5

Source: Economic Chamber of The Republic of North Macedonia

In 2019, 23,971 tons of tobacco were exported and processed which shows mild decrease of 4% compared to 2014 when 24,720 t were exported and processed, or decrease of 14% compared to 2013, and decrease of 4% compared to 2012. The total financial result from tobacco and tobacco products export in 2018 is USA\$ 106,700,000 [which is decrease of 28% compared to 2014 (USA\$146,213,000), or 40% compared to 2013 (USA\$180,876,036)].

In the other hand, 3,480 tons of tobacco and tobacco products were imported, which is 9% more compared to the previous year (3,190 t), or 25% less compared to 2013 (4,595 t).

Table 3. Tobacco and tobacco products import

Product	Unit	1998	2002	2004	2005	2008	2010	2011	2012	2013	2014	2019
	Tons	6,665	3,381	4,125	2,683	3,260	2,911	3,625	4,968	3,197	1,463	1,216
Fermented tobacco	Average price											
	Price	2.35	2.48	2.04	3.04	3.22	4.67	4.09	4.52	5.4	5.3	4.8
	USA\$/kg											
	Tons	400	502	266	266	619	724	980	1,268	1,398	1,724	2,260
Cigarettes	Average rate											
	USA\$/kg	6.67	5.80	13.8	13.8	9.49	10.8	11.6	10.4	12.1	13.7	7.84

Source: Economic Chamber of North Macedonia

As a product which is completely exported, its purchase depends directly on the needs of the multinational companies who have their own companies registered in Macedonia, while the volume of the agreed production and the market price result from the needs of the world cigarette industry for raw material. Hence, the entry of one the largest world’s industries “Philip Morris” in the “Tobacco Factory – Prilep” is evaluated as an event with positive impact of the industry in the following period, while the global activities for reducing the consumption of cigarettes may be a factor with negative impact on the tobacco production in the country. Furthermore, there are the obligations that the country has undertaken by signing the FCTC (Framework Convention on Tobacco Control) in 2006 for non-investment in the tobacco production and promotion, and gradual reduction of areas under this crop. However, given the fact that tobacco production has both economic and social impact in the country, for the time being it is not expected to decrease, but on the contrary, the thesis that tobacco has no other alternative that could hire such a large workforce and bring significant income for the country is being more and more emphasised, while respecting the fact that it is inevitable to follow the world trends and the trends in the industry.

2. CONCLUSION

The Republic of North Macedonia is considered as a high-quality tobacco producer on the world market, both regionally and globally. Tobacco production participates with 5% in the total export and with nearly 30% of the export in the agricultural sector.

The production and trade of tobacco and tobacco products in GDP participates with about 3.2%, and the tobacco industry participates with 4% in the total industry of the country, and over 4% of the total number of people employed in Macedonia are in this sector. However, the value of tobacco production in Macedonia is much higher than expected. Tobacco production has a huge social and economic importance, and the number of about 35,000 families for which it is the main source of existence supports this fact.

The favourable climatic and soil conditions, as well as the culturological basis, have contributed to turning the tobacco production into a Macedonian tradition and lifestyle. Tobacco has been a daily preoccupation and basic existence for approximately 150 thousand citizens for years.

Although the existence from tobacco mainly depends on the weather conditions in the current year, thanks to the good strategy and favourable subsidy policy, tobacco production retains its stability which is of great importance, given the fact that it is both a perspective for the country and opportunity for economic growth.

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