**ANALYSIS OF THE MEANING AND IMPACT OF SUBSIDIES ON THE DEVELOPMENT OF TOBACCO PRODUCTION IN MACEDONIA**

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**Abstract**

With the payment of subsidies in agriculture, the Republic of North Macedonia remains consistent in supporting the development and advancement of the agricultural sector and specifically tobacco production as one of the main branches of the Macedonian economy. Of course, it is necessary to comply with the common agricultural policy of the European Union, which implies a change in domestic legislation. More specifically, it is a matter of passing three key laws for harmonizing national policies with EU agricultural policies, that is, the Law on Direct Payments, the Law on Rural Development and the Law on Regulation of Markets.

In this paper, the economic effect of subsidies is specifically analyzed, which should give an answer to the question: Do subsidies additionally feed the inflation that occurs as a reflection of global trends? It should be emphasized here that inflationary effects may have a limited direct impact, why subsidies cannot be the cause of product price fluctuations because fluctuations mostly depend on the effects of the overall fiscal and monetary policy.

Subsidies as a stimulus measure in agriculture, and thus in tobacco production, do not have a measurable effect on local development, but through investments in mechanization, processing facilities, infrastructure, etc., they can be a stimulus and an incentive for development. Greater awareness, training and education of the agricultural population and companies from this area would lead to their greater utilization and rational use.

**Keywords:** agricultural policy, incentives, inflation, tobacco production, global flows

**Introduction**

Macedonia is a country in which quality types of oriental tobacco are traditionally grown, in addition to the famous regions in Turkey, Izmir and the Sea of Marmara area, where there are ecological conditions for the production of high quality oriental tobaccos. As a small continental country in the Balkans, Macedonia represents a "golden triangle" in the production of oriental tobaccos and has been a relatively stable traditional producer for many years in relation to the countries that surround it, which are producers of this type of tobacco.

Tobacco is a fully exportable product, the purchase of which depends directly on the requirements of multinational companies that have registered companies in Macedonia, so the volume of contracted production and the height of the market price derives from the raw material needs of the global cigarette industry. Modern ways of doing business gradually impose the need to consolidate the commercialized family enterprises where tobacco is mainly produced. It is considered that 10% of the population in Macedonia sees their financial survival in the production of tobacco.

Macedonia is considered a producer of high-quality aromatic oriental tobacco both regionally and globally, on world stock exchanges and markets. Tobacco production accounts for 5% of total exports and almost 30% of exports in the agricultural sector. The demand for Macedonian oriental tobacco (it is also found in the neighboring countries Bulgaria, Greece and Turkey, but not with the same quality as the Macedonian one) is still high. Tobacco production as an agricultural branch acquires strategic importance for the state economy, as a significant item of the earned income directly flows into the state budget.

This points to the fact that the future development of tobacco production and the entire complex of activities related to it must be based on the preferred standards of the European Union and the currents of modern world achievements in that area. The preferred standards of future development point to greater attention to the production itself, both to its quantitative limitation and to its qualitative worthiness, environmental protection, social security, economic efficiency, a healthy way of growing and developing plants, as well as respect to the guidelines from the World Health Organization.

In the European Union, if farmers do not meet the set standards, the amounts for direct payments (aid or subsidy) are reduced or completely canceled in the year in which those standards are not met.

The future of tobacco production will mostly depend on a good agrarian and export policy, but also on a good subsidy policy by the state, all in order to encourage and direct the young able-bodied population to tobacco production, in which they will see not only an opportunity for livelihood, but also space for development, expansion and of course making a profit. In that direction, motivation and leadership are a necessary link in a series of other related activities for realizing the entrepreneurial spirit among young people who are the future of our country. If all the measures continuously offered by the European commissions for the protection and promotion of agriculture, including the IPARD funds, are used, the development course of tobacco production in our country will be greatly advanced.

This means that among the population that is oriented to agricultural production and above all to tobacco production, it is of primary importance to create and build a perception of security and future in this sector, for which a developed management of all activities and appropriate motivation is necessary. Positive stimulation and motivation will ensure greater efficiency and effectiveness in work, reduction of production costs, increase in productivity and improvement of work results.

**Research material and method**

The research in this paper has a scientific and analytical approach with mandatory use of statistical data from relevant sources such as: World Bank, State Statistics Office of the Republic of North Macedonia, Ministry of Agriculture, Forestry and Water Management of the Republic of North Macedonia, Chamber of Commerce, data from Eurostat database, data from the Food and Agriculture Organization of the United Nations - FAO (Food and Agriculture Organization of the United Nations), data from the World Health Organization, as well as own analyzes and empirical research through the use of mathematical-statistical and comparative methods, as well as tabular and graphical presentation of the obtained results.

**Results and discussion**

The Republic of North Macedonia continuously supports the subsidization of tobacco production and tobacco is a unique crop whose production and purchase is regulated by the precise Law on tobacco, tobacco products and related products. According to the analysis of the Ministry of Agriculture, Forestry and Water Management of the Republic of Macedonia, there is no payment of subsidies for tobacco in Turkey, and in Bulgaria and Greece subsidies for the production of oriental tobacco were last paid in 2009. The existing conventions and initiatives by the world's health institutions are not a threat to reduce the areas with tobacco, and according to experts, the development of this production is going in the right direction.

With regular payment of subsidies to farmers, the state remains consistent in supporting agriculture and specifically tobacco production as one of the main branches of the Macedonian economy. Of course, it is necessary to comply with the common agricultural policy of the European Union, which implies a change in domestic legislation. More specifically, it is a matter of passing three key laws for harmonizing national policies with EU agricultural policies, that is, the Law on Direct Payments, the Law on Rural Development and the Law on Regulation of Markets.

In order to get a clearer picture of the effect of subsidies on agriculture, the Ministry of Agriculture, Forestry and Water Management of the Republic of Macedonia plans to conduct a detailed analysis, including all the expert and professional capacities that the state has at its disposal, which will data will be obtained for the creation of further agricultural policies and for the first time it will be known exactly which crops are strategic and whether there will be a need for additional financing and stimulation.

Regarding the economic effect of subsidies, the question is often asked: Do subsidies further feed the inflation that occurs as a reflection of global flows? It should be emphasized here that inflationary effects may have a limited direct impact, why subsidies cannot be the cause of product price fluctuations because fluctuations mostly depend on the effects of the overall fiscal and monetary policy. Subsidies as a stimulus measure in agriculture, and thus in tobacco production, do not have a measurable effect on local development, but through investments in mechanization, processing facilities, infrastructure, etc., they can be a stimulus and an incentive for development. Greater awareness, training and education of the agricultural population and companies from this area would lead to their greater utilization and rational use. In Macedonia, in the field of tobacco production, the following amounts have been allocated in the form of subsidies ( Table 1.):

**Table 1. Share of direct payments for tobacco in total direct payments for agriculture, 2015 - 2021**

|  |  |  |  |
| --- | --- | --- | --- |
| Year | Total funds for financial support in agriculture  in denars | Total funds for produced and sold raw tobacco from harvests 2015-2021 in denars | Participation of tobacco support in the total support of agriculture in % |
| 2021 | 3.723.103.000 | 1.276.178.716 | 34,3 |
| 2020 | 6.668.000.000 | 1.724.500.000 | 25,9 |
| 2019 | 6.138.767.000 | 1.699.679.706 | 27,7 |
| 2018 | 6.210.500.000 | 1.696.688.814 | 27,3 |
| 2017 | 6.117.857.000 | 1.505.429.595 | 24,6 |
| 2016 | 6.320.000.000 | 1.130.548.658 | 17,9 |
| 2015 | 6.260.000.000 | 1.489.031.604 | 23,8 |

Source: Ministry of Agriculture, Forestry and Water Management of the Republic of North Macedonia

**Table 2. Share of direct payments in total value per kilogram**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year | Average purchase price kg/denars | Average subsidy per kilogram | Total value | Price in euros (kg/purchased tobacco) | % of the subsidy in the cost price |
| 2010 | 136.6 | 60 | 196.6 | 3.20 | 31% |
| 2011 | 164.8 | 60 | 224.8 | 3.66 | 27% |
| 2012 | 180.2 | 60 | 240.2 | 3.91 | 25% |
| 2013 | 152.6 | 60 | 212.6 | 3.46 | 28% |
| 2014 | 117.2 | 60 | 177.2 | 2.88 | 34% |
| 2015 | 184.5 | 60 | 244.5 | 3.98 | 25% |
| 2016 | 196.8 | 60 | 256.8 | 4.18 | 23% |
| 2017 | 217.6 | 70 | 287.6 | 4.68 | 24% |
| 2018 | 214.2 | 70 | 284.2 | 4.62 | 25% |
| 2019 | 219.9 | 70 | 289.9 | 4.71 | 24% |
| 2020 | 158.8 | 70 | 228.8 | 3.72 | 31% |
| 2021 | 200.4 | 70 | 270.4 | 4.40 | 26% |

Source: Ministry of Agriculture, Forestry and Water Management of the Republic of North Macedonia

In the calculation, it is assumed that after 2017, an average of 70 denars subsidies were paid per kilogram of purchased tobacco, because the second class participates with more than 60% in the purchase, and the first and third class with slightly less than 20%. From the calculations, it can be seen that the percentage of participation in the total price received by the producers is 23% to 31%, which is a significantly high percentage (Table 2., Chart 1.)

**Chart 1.** **Graphic representation of the participation of subsidies in the total price of a kilogram of delivered purchased tobacco by years**

In order to give an assessment of the impact of subsidies on agriculture, and especially on tobacco production, it is necessary to take into account the fact that in Macedonia since its independence, only one census of agriculture has been carried out, in 2007, while in 2022, the so-called A trial census of agriculture that will be the basis for the main census that will be carried out during 2023. What is still a big drawback in the agricultural subsidies in our country is that a large part of the subsidies are used as a social measure, although they should contribute to increasing competitiveness, to the creation of large carriers of the production process that will then contribute to increase in exports. In this direction, special attention should be paid to how the subsidies cause permanent positive consequences, and not temporary and apparent effects.

If we continue with large expenditures in agriculture in the form of subsidies, the thesis is asserted that in conditions of increased subsidies as a global trend of rising prices, it causes the release of a mass of money for consumption, instead of increasing consumption for investments in infrastructure that does not would cause inflationary movements. If this is the case, the issue of limiting their use or restructuring the subsidy plan also arises.

Every year the Government of the Republic of North Macedonia pays out significant funds from the central budget in the name of subsidizing agricultural production (Chart 2.) Most of these funds are in the form of direct payments to farmers and are seen as a key tool for maintaining Macedonian agricultural production. This type of direct financial assistance for many farmers means supplementing their incomes, which on the other hand directly affects the profitability of the agricultural activity. For more than a decade, subsidies have been one of the key agricultural production support measures of all governments, regardless of their political background. Direct payments in agriculture are divided into direct payments for crop production, direct payments for livestock production and direct payments for organic production. In addition to these forms of direct payments in agriculture, in certain years there are measures for additional support for the development of agriculture, such as financial support for insurance, for the protection of agricultural land, for providing technical support in agriculture, as well as assistance for certain categories of holders of agricultural holdings. (for example, a young farmer or for increasing arable land, etc.). For the period 2008-2019, 1.049 billion euros were paid in agriculture for agricultural subsidies, which is 87 million euros on average per year.

**Chart 2. Programs for financial support in agriculture and rural development - subsidies for crop and livestock production and the IPARD program in the period 2013 - 2020**

Source> National strategy for agriculture and rural development for the period. 2021-2027

The Tables shows that Macedonia constantly allocates funds for financial support of agriculture and that most of the disbursed funds are paid in the form of direct payments to farmers, which for tobacco producers are based on delivered kilo by class. The fact is that Macedonia, as a candidate country for membership in the European Union, will have to comply with the Union's Common Agricultural Policy (CAP), which includes a gradual transition from direct support per paid kilogram to direct support based on arable hectares. However, in its recent National Tobacco Strategy, the government confirmed that production-related targeted direct payments will continue to be used for some sub-sectors, including tobacco production.

According to today's state of the economy, instead of developing, increasing production, purchasing and modernizing equipment or expanding the activity, the largest percentage of received subsidies are used by tobacco producers to supplement their own budget. Actually, instead of a development component, the subsidies do not give the expected result and represent a component for "maintaining life". It is understood that in order to have an effect from them, they should first go into the right hands, i.e. with the primary producers, then parallel to the primary tobacco production, they should to develop the processing industry. In our country, the processing facilities for processing tobacco and tobacco products are predominantly privately owned, and tobacco, which is almost entirely an export product, depends directly on the requirements of multinational companies that have registered companies in Macedonia. Hence, the scope of the agreed production and the height of the market price results from the raw material needs of the world cigarette industry. In recent years the demand for tobacco is on the downward trend, but not only for tobacco but also for the world market the global demand for cigarettes is decreasing which leads to a decrease in the demand for unfermented tobacco, and that brought it also leads to a reduction in tobacco prices. Due to its quality and exceptional properties, especially due to the fact that oriental tobaccos cannot be easily replaced in cigarettes, Macedonian tobacco is still in demand in the markets of the world.

Currently, subsidies for tobacco production largely have an economic component and most of the time, instead of development, they serve to supplement the domestic budget and a significant number of families rely on tobacco production as the main source of income. Most tobacco producers are directly dependent on government subsidies, but in the medium and long term this type of policy is unlikely to be economically sustainable.

Despite the high subsidies, the average monthly income of tobacco producers is lower than the average monthly net salary in Macedonia and far below the value of the minimum consumption basket of households.

The danger hidden in the subsidies thus generated is that farmers may decide to grow crops only because of the high subsidies. As a result, more tobacco can be produced than the market can absorb.

Despite the amount of subsidies, in Macedonia, the number of concluded contracts, the number of tobacco producers and the number of hectares under tobacco are decreasing (Chart 3.) The reason for this probably lies in the fact that tobacco, as a distinctly labor-intensive crop, is not interesting for the young population, as well as the fact that the average salary in agriculture is lower than the average salary in the country, by almost a quarter

**Chart 3. Number of signed contracts and number of tobacco producers**

Source: Ministry of Agriculture, Forestry and Water Management of the Republic of North Macedonia

This can be followed by the fact that perhaps some of the tobacco producers are thinking about diversifying their production towards other crops or choosing an alternative production. Thus, from several analyzes and interviews of tobacco producers, the result is that 30% of them are ready to redirect their production in accordance with the requirements that may arise during the EU accession process. This percentage is significant and can be increased if the state works to educate and inform tobacco producers.

**Conclusion**

Based on the previously presented situations and analyzes of the meaning and impact of subsidies on the development and sustainability of tobacco production, we can state that in order to increase the effect of subsidies, it is necessary to move them within the following framework:

• Macedonia, as a candidate country for membership in the European Union, must respect the EU's Common Agricultural Policy (CAP), which includes a gradual transition to direct support based on planted hectares and not on the amount of agricultural crops. It will also be necessary to think about diversification of production, and the new National Tobacco Strategy 2021-2027 provides several approaches, i.e. possible exit solutions for replacing tobacco with other crops (such as peppers, hazelnuts, stevia, sesame, etc.) . Diversification, primarily due to traditionalism, would go slowly and for that, a lot of education, time and effort invested not only by tobacco producers, but also by all relevant institutions is needed.

• Subsidies must contribute to increased productivity and efficiency which indicates the fact that the state should carry out a thorough mapping of tobacco producers in order to distinguish those who are for professional agriculture from farmers who only have short-term goals to grow a certain crop such as tobacco only when there are subsidies for that crop. It is also necessary to work on the inclusion of the young population, who could more easily and effectively adapt to the use of new technology and innovations with tobacco production, which would increase the efficiency and effectiveness of tobacco production entities and lead to greater productivity.

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