**PRICE POLICIES IN PRIMARY TOBACCO PRODUCTION**

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 **ABSTRACT**

 A retrospective analysis of price in tobacco industry in all its stages shows prices as administratively determined and monopolistic category. They have been formed in accordance with social plans and were poorly influenced by the market laws, i.e. by the law of supply and demand – one of the most important factors in price formation. In this sense, the pricing policy consists of various types of prices, depending on the measures and instruments of economic policy, as well as the development of certain economic structures in the country and positioning of tobacco production as a whole. The prices in tobacco industry, particularly in the primary sector, were guaranteed. In literature, they can be found as protective prices, contract prices, purchase prices etc., but in general, the essence and purpose of these prices is the same - to guarantee the security of tobacco farmers. In practice, the aim of these prices is to stimulate and maintain certain level of primary production (tobacco, etc.) which is of strategic and national importance for society, motivated by its economic, social and political significance.

**Keywords:**price policies,primary tobacco production,price analysis,market instrument,purchased tobacco

 **ЦЕНИТЕ ВО ПРИМАРНОТО ПРОИЗВОДСТВО НА ТУТУН**

Во долгогодишната практика гледано ретроспективно,во тутунското стопанство во сите негови фази цените во минатото се формирале по административен пат и имале карактер на монополски цени.Тие се формирале во рамките на оппштествените планови и може да се рече дека на нив слабо влијаел законот на пазарот,пред се законот на понудата и побарувачката кој е битен фактор во формирањето на цената.Во таа смисла, во политиката на цени и нивното формирање егсистираат повеќе видови на цени во зависност од мерките и инструментите на економската политика и политиката на развој на одредени стопански структури во земјата,како и нејзиното структурално насочување на производството во целина.Конкретно,во тутунското стопанство,а особено во неговиот примарен сектор егзистирале гарантирани цени.Во литературата под овие цени се подразбираат и поимите:заштитни цени,договорни цени,откупни цени итн., но битно е дека суштината и целта на овие цени е иста-гарантираат сигурност кај производителите.Овие цени во практиката имаат за цел да стимулираат и задржат одредено ниво на примарно производство(тутун и др.)од стратегиско и национално значење за општеството,мотивирано со економско,социјално и политичко значење.

**Клучни зборови**:политика на цени,тутунопроизводство,ценовна анализа,маркетинг инструмент,откуп на тутун

 **INTRODUCTION**

During the administrative period, prices as a major market instrument were under the direct responsibility of the state authorities. They determined the basic policy of prices for products of wider interest, with the possibility of negotiation on primary distribution of prices among subjects in the reproductive cycle, in order to provide a more equitable distribution of income starting from the primary to the final production. In tobacco industry, companies perform all functions of production and trade. In primary production, for example, there are three stages which include 16 working processes:

* Production of tobacco seedlings, with 7 working processes
* Field production, with 11 working processes, and
* Domestic manipulation, with working processes.

The above stages and working processes are dominant in the creation of cost structure of the primary tobacco production. Crucial factor in maintaining stable and continuous production is the height of the production value achieved by the producers. Tobacco production is highly sensitive to changes of price and is very elastic with respect to this change. Creators of price policy in the primary tobacco production should abandon the traditional idea that the price of raw tobacco is a social category, because practice has proved that it is an economic category which directly affects the production.

**SOME ASPECTS OF PRICES IN THE PRIMARY TOBACCO PRODUCTION OF R. MACEDONIA**

The influence of prices upon primary production of tobacco can be determined by comparison between pre-transition and transition periods and the period of free negotiation and formation of prices on tobacco market.

The effect of prices and their economic impact on primary production can be seen from the data on production and average prices of tobacco type Prilep in the periods 1982-1984 and 1993-1997.

**Table 1. Price movement of Prilep tobacco (MKD/kg),
 before the transitional period**

|  |
| --- |
|  Price 1982 1983 1984 |
| 1. Support price 132,65 164,10 252,285 2. Productional price 160,40 208,71 371,05 3. Yield in tons 21312 30028 30855  |

**Transitional period**

|  |
| --- |
|  Price 1993 1994 1995 1996 1997 |
| 1. Support price 42,0 82,0 82,0 82,0 82,02. Productional price 16,16 52,43 56,65 74,48 140,003.Yield in tons 24000 18862 15683 14958 25000  |

**Source: Analysis of Yugotutun Skopje**

As a rule, support prices are given for one year or more, to cover the costs and secure profitability to tobacco growers and they are always lower than the production costs. When support prices do not secure profitability, tobacco production stagnates and economic interest of tobacco producers is threatened. Data in Table show dramatic decrease of tobacco production in the transition period as a result of maintaining the support prices at the same level for almost four year and neglecting the economic interest of tobacco growers. In this period, production costs were smaller than the support price. It can be stated that .government guaranteed the suppot price, particularly in the period 1993-1997 when lower production prices were achieved. Difference between the production cost and support price was compensated by the government.

With privatization of tobacco enterprises in R. Macedonia after 1997, the system of support prices was abandoned and a new law was passed which created general economic climate in which tobacco companies can freely negotiate on the prices of production. The purchase of tobacco from the 1997 crop shows that buyers were obliged to have a license and to buy tobacco by the Rules for tobacco purchase. In this case it was not respected and the entire crop was estimated as a first grade tobacco. In 1997-2004 the big liberalism with regard to varietal purity continues, so that many varieties of Prilep tobacco were produced and accepted by the Commission for recognition of varieties, along with tobacco varieties created in development departments of tobacco companies. Every year, tobacco buyers ask from manufacturers to produce authentic varieties with high purity and quality. Such tobacco can be created only in competent institutions, like the Scientific Tobacco Institute – Prilep. In this way, the unsuitable tobacco varieties will be eliminated from the market and the oriental tobacco type will achieve fair price for its quality. In 2006-2007 there was increased demand for tobacco on the world market and purchasers tried to use this opportunity to achieve higher price for tobacco. Actually, according to the leading experts, this was just a short-term phenomenon, i.e. tobacco raw is stationed in a chain of locations and the condition of tobacco material from all these locations should be known before the supply reaches the purchaser. The relatively good harvest in 2008 further consolidated the situation with tobacco raw on the world market. Poorly estimated harvest by tobacco dealers contributed to the increase of purchase price of tobacco. This phenomenon can be presented through the average price of tobacco raw.

 **Table 2. Average price of tobacco raw (2006-2010)**

|  |
| --- |
| Year MKD/kg $/MKD $/kg |
| 2006 118,78 41,65 2,852007 129,91 43,56 2,982008 137 46,45 2,952009 192 42,45 4,522010 168 47,60 3,52  |

 **Source: Lj.Poposki "Tobacco Company Prilep - the rise and decline",**

 **Society of Science and Art –Prilep, 2014**

The above data reveal that after 2006 the purchase price of tobacco raw was growing and reached the peakl in 2009, to immediately fall at 168 MKD / kg in 2010. This condition occurred when the dollar exchange rate was the lowest and quite oscillating (from the lowest rate of 41,65 MKD in 2006 to 47,60 MKD in 2010). The analysis of production price of tobacco raw in 2009 shows that it is enormously large compared to 2008, and the MKD price is enormously diminished, calculated in dollars ($ 42.45 / MKD). The oscillation can be seen from the data in the following table:

**Table 3. Oscillations in the price of tobacco (2001-2010)**

|  |
| --- |
| Year Export price Production price Share of the production price Difference  $/kg $/kg in % in prices (%) |
| 2001 3,40 1,80 52,9 47,12002 4,33 1,64 37,8 62,22003 4,54 2,59 57,0 43,02004 4,34 2,95 68,1 31,92005 4,64 2,43 52,3 47,72006 1,94 2,85 146,9 -46,02007 3,55 2,98 83,0 17,02008 3,05 2,95 96,0 4,02009 4,36 4,52 103 -3,02010 4,76 3,52 74,0 26,0 |

**Source: Derived data and analysis of the work of Ltd Tobacco, Tutunski kombinat – Prilep**

Interested situation was observed in the crop season of 2009, when tobacco buyers neglected the standard rules for purchase and overestimated the production price of tobacco in relation to the export price, which is used for alimentation of the production price and processing costs. The presented data show negative effect on the difference in prices (-3%). After recognizing this error and in attempt to compensate the loss from 2009, in 2010 tobacco was bought from the farmers by lower purchase price. In order to avoid such situations, the following statement should be taken into account:

* Good knowledge of the absorption potential of domestic and international tobacco market with regard to quantities, structure and commercial types and varieties of tobacco;
* Regular monitoring of the ongoing production of tobacco raw ;
* Monitoring of the commodity structure of tobacco raw through:
1. Movement of beginning inventories of tobacco
2. Movement of the current production
3. Exports of tobacco raw
4. Imports of tobacco raw
5. Consumption of tobacco raw
6. Ending inventories

The two extremes that emerged in tobacco purchase (2007 and 2009) were reported by external experts and tobacco dealers who pointed out that the quality of tobacco raw was variable and impaired. In this context, Mr. Richard English, manager of Philip Morris, in his paper "Offer and demand of oriental tobacco" from 1992, warned that the quality of tobacco raw was not improved, but the prices were still going up, which make it necessary to take constructive steps by the manufacturers and the farmers in order to increase and maintain the share of oriental tobacco in the world market. This means that it is necessary to initiate corrective actions in the area of ​​pricing, quality and marketing.

After 2010, the production of tobacco raw in Macedonia has been stable, and so are the prices of purchased tobacco, which depend on the harvest - whether it is successful, average or above average in terms of quality of tobacco raw. So, purchase prices depend on the oscillations of quality by years, but they are growing even if an extreme occurs in some harvests, due primarily to the weather conditions in the current year. Production of tobacco and movement of prices in 2010-2015 are presented in Table 4:

**Table 4. Average price of tobacco (2010-2015)**

|  |
| --- |
| Year Purchased tobacco (t) Average price MKD/kg |
| 2010 26393 136,62011 21024 164,82012 27993 180,22013 30997 152,62014 24857 1172015 20000 185 |

**Source: Ministry of Agriculture, Forestry and**

**Water Economy**

The harvest of 2016 is distinguished by the highest quality tobacco production. It is predicted that over 24000 t tobacco will be purchased at an average price of 197 denars, which is high enough to satisfy the wishes of tobacco growers and to be a stimulation for higher production and better quality. The movement of purchase prices by classes in the period 2013 2015 is presented in Table 5:

 **Table 5. Movement of purchase price by classes**

|  |
| --- |
|  Price 2013 2014 2015 |
|  I 248 249 270 II 178 178 189 III 136 136 136 IV. 55 55 55 |

**Source: Prices agreed with tobacco growers**

From the data on prices agreed between tobacco growers and buyers it can be concluded that there are no big changes in purchase prices. These prices determine the yield of purchased tobacco, as presented in Table 6:

**Table 6. Yield of purchased tobacco in %**

|  |
| --- |
|  Classes I II III IV  |
|  2013 10,0 57,4 25,2 7,4 2014 4,3 28,4 44,0 23,3 2015 10,0 65,0 23,0 22,0 |

**Source: analysis of Tutunski Kombinat - Prilep**

Data show that tobacco raw is mainly purchased in three purchase classes, while the fourth class has a tendency to decrease, so that the total purchase is realized at an average price that gravitates around the second class.

    C**ONCLUSION**

1. Despite the fluctuations in purchase prices during the transition and pre-transition period, there is a tendency towards more objective correlation between the average price and the quality of purchased tobacco. In addition to the upward moving purchase prices, stabilization of tobacco production is also supported by the government subsidies to the farmers.

2. The achieved average price of over 250 MKD, along with the allowed subsidies, is a guarantee for sustainable and stable tobacco production.

3. Both the producers and buyers of tobacco are obliged to have consolidated cooperation and relations, in order to sustain the initiated trend in tobacco production and trade and to achieve the best possible prices.

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