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## **FINANCIAL ISSUES AND CHALLENGES OF TOBACCO PRODUCERS: A CASE STUDY FROM ALBANIAN PRODUCERS**

### **BUDŻETOWE KWESTIE I WYZWANIA PRODUCENTÓW TYTONIU: STUDIUM PRZYPADKU OD PRODUCENTÓW ALBAŃSKI**

#### **Abstract**

*The aim of this research paper is to realize an analysis of the tobacco market in Albania. We will be focused on some of the elements that have characterized this market, like the existence of monopoly situation. The study will help us reveal some of the problems that the monopoly as a competitive structure may have brought.*

*We also want to treat some of the issues or problems that tobacco producers face. We want also to see how much they are supported from the government and also want to discover their opinion about different issues regarding the way in which this market functions. The results showed that there are several problems that tobacco producers in Albania face. These problems are related with the market competitive structure and also with the governmental intervention. Informality has been one of the elements that have been followed by some other problems for the producers; such as uncertainties for the producers. So the study revealed that not everything is going well for tobacco producers in Albania. One of the main elements that have done the producers not satisfied as been the lack of the necessary support from the government, which should be more helpful toward them.*

**Keywords:** *tobacco, monopoly, producer, damage, financial profits*

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### Streszczenie

Celem tego artykułu badawczego jest przeprowadzenie analizy rynku tytoniu w Albanii. Skoncentrujemy się na niektórych elementach charakteryzujących ten rynek, takich jak istnienie sytuacji monopolistycznej. Badanie pomoże nam odkryć niektóre problemy, jakie mógł przynieść monopol jako struktura konkurencyjna. Chcemy również zająć się niektórymi problemami lub problemami, przed którymi stoją producenci tytoniu.

Chcemy także zobaczyć, jak bardzo są wspierani przez rząd, a także poznać ich opinie na temat różnych kwestii dotyczących sposobu funkcjonowania tego rynku. Wyniki pokazały, że istnieje kilka problemów, z którymi borykają się producenci tytoniu w Albanii.

Problemy te są związane ze strukturą konkurencyjną rynku, a także z interwencją rządową. Nieformalność była jednym z elementów, po których nastąpiły inne problemy dla producentów; takie jak niepewność producentów. Badanie wykazało zatem, że nie wszystko idzie dobrze producentom tytoniu w Albanii. Jednym z głównych elementów, które sprawiły, że producenci nie byli zadowoleni, był brak niezbędnego wsparcia ze strony rządu, które powinno być dla nich bardziej pomocne.

**Słowa kluczowe:** tytoń, monopol, producent, szkody, zyski finansowe

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### Statement of the problem in general outlook and its connection with important scientific and practical tasks.

The fields of the economic activity of humans are many. In order to fulfill their needs different people choose different ways or activities. Agriculture is one of the activities that people choose to gain money needed for a living. For some families it is the main source of the incomes. Of course that the agriculture field is wide, but we will stop and treat only one of the products cultivated: tobacco.

When talking about tobacco we take into consideration two sides: the one of the producers and the one of the consumers.

If we consider the consumer side, the first things that we may say are related to the negative effects that tobacco may have on the health of a human being.

All of us are conscious that smoking has its negative effects, but even we are conscious a great part of us continue to consume it. Smoking does not damage only the organism of those who smoke, but also the health of other people around tobacco consumers.

For people who consume a great amount of tobacco is difficult to stop smoking even when they may want, because is difficult to stop consuming something from which you may have created dependence. If we see around us we may spot that the number of smokers has increased. Something that is not a positive change from times before is the increase of people who start smoking in young age. What is to be emphasized is that even a great

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part of the people is conscious about the negative consequences that smoking may have, they still continue to smoke.

On the other side we have the producers and sellers. Those who are part of the industry of tobacco may use the tendency of increase of the number of consumers for financial purposes. Of course that the greater the number of their consumer, the greater their financial profits. It is a little “strange” if we take into consideration the sellers’ part and the consumers’ part. It seems that the higher the number of the people who are “damaged” from tobacco consuming, the higher the financial profits of those who operate in this industry. What is important is that those who are consumers know the possible consequences if they consume tobacco.

We mentioned above the financial profits of the sellers that are in this industry. Now we want to pay some attention to those who produce tobacco and want to know information about some things. Which is their situation? Are they compensated fairly based on the work that they do to produce tobacco? Are they efforts compensated enough or are the companies that buy the tobacco from them those who benefit most from this? Are the earnings that the producers earn enough to fulfill their financial needs, or they are only sufficient to fulfill only the basic needs? This are some of the questions that we want to analyze during the study.

Tobacco plays an important role on the Albanian economy. For many families it comprises the main source of their economic activity and as a result of their incomes. Those who cultivate this product may have faced different problems during years. The atmospheric conditions have their influence in the production of tobacco, which directly may influence on the quantity and quality of the produced tobacco.

But these farmers do not face only this problem. Another point that needs to be analyzed is the one related to the market where these farmers sell the tobacco. We will analyze all this topics and will talk more concretely for the Albanian farmers that cultivate tobacco. One of the topics in which we will be more concentrated will be the one related to the problems that may face the farmers when selling their product. This will help us to create a more clear idea about the positive things and about the difficulties that they may face.

### **Analysis of latest research where the solution of the problem was initiated.**

griculture is one of the economic activities that many people have chosen as a way of living. In many countries this is one of the most important economic activities. Tobacco is one of the agricultural products that is produced in different countries and have served and still serves as an important way of living for many families.

But the work of tobacco producers, as a part of the agriculture have faced different problems, but our aim is to focus on economic ones.

Regarding the different financial problems and challenges that may have faced tobacco producers there are many authors that have been focused on different elements of these challenges.

Kohut S. (2015) have treated the evolution of the tobacco monopoly on Hungary during years. Her study was very useful to discover that there were several problems that still remained unsolved due to the existence of the monopoly on this market.

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Is interesting the fact that she mentions that even though there have been several transformations of the imperial excise, the monopolization of the Hungarian tobacco seemed to be the simplest form of excluding the market.

Chantornvong S., McCargo D., (2001) were focused on their study on the political economy on the tobacco control in Thailand. They emphasize on their study the fact that this country has some of the strongest anti-tobacco legislation.

They also revealed the fact that the possible privatization of the tobacco monopoly of this country may threaten the tobacco control. The negative impact of monopolies is widely commented in the scientific literature (Bokajlo & Dahl, 2018; Dahl, 2017).

Our study will be more focused on the financial challenges that the Albanian tobacco producers may face. There are several analyses done regarding these issues, and our focus will be the analysis of the challenges that Albanian tobacco producers have faced.

Our analysis is based on the information collected through the secondary data collected from some of the state institutions, such as INSTAT. Our primary data consist on the information collected by directly asking a part of the tobacco producers so we could have their opinion about some of the issues that we have included on our study.

As we previously mentioned, this issue has been subject of different discussions, but there aren't many research papers done to summarize them. We got inspired by the importance of this issue as well as from the lack of previous articles regarding it. Hope that through our work we can bring out some interesting facts that will be useful for the public and researchers.

Agriculture is one of the main economic activities in Albania and tobacco is one of the agricultural products that has had and still continue to have a great impact on the life of many families that have chosen it as a way of living (ACIT 2008-2014).

Since it has a great impact on the life of many families, it has been a subject of different discussions. Through our study we will try to analyze some of the financial challenges and problems that Albanian tobacco producers have faced.

Our focus will be mainly on the problems related to the existence of the monopoly structure on this market. We will try to reveal some effects that this market structure has brought to these producers.

### **Aims of paper. Methods**

Through this study we want to show which are some of the advantages and disadvantages of the monopoly as a competitive structure. These facts will be concretized on the market of tobacco in Albania. Tobacco is one of the agricultural products produced by Albania.

Firstly we will realize an analysis of the changes that might have experienced this product during years, and then will analyze some of the positive and negative effects that the monopoly position of the buyers of this product might have had. We also aim to reveal and treat any other problem that tobacco market may have experienced recently or has in the present.

To realize this analysis we were based on the information collected from some of the national statistical institutions in Albania and also on the information collected from interviewing some of the producers of tobacco.

The information obtained by the Institute of Statistics served us to see the evolution of tobacco during years, while a part of the information obtained by interviewing people

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who cultivated tobacco. It was very interesting to know their opinion about the way how was organized the tobacco market. This was important for our study, because for a great number of families cultivating tobacco was the main source of incomes.

In a summarized way some of the main objectives of this study are:

- To show some of the disadvantages that the monopoly of the tobacco market may have had.
- To realize a comparative analysis of the benefits or negative sides of the monopoly structure of the tobacco market.
- To show if the actual competitive structure for this market is the best.
- To see if there may be anything that may be changed to bring any positive effect.
- To reveal any problem in the way of functioning of the tobacco market.
- To give some recommendations, based on the results.

## **Exposition of main material of research with complete substantiation of obtained scientific results. Discussion**

### **The History of Tobacco in Albania**

The history of the tobacco in Albania is very early. It is thought that it has been brought in Albania in the XVII century, but the authentic industrial production of it started on the XIX century, in Durres. In 1924 was established an anonym society named STAMLES. After the country's liberation, this industry got empowered and was very competitive. There was a high demand from western and eastern markets, which brought its benefits. The farmers in different villages had some profits, because the increase in the demand of the tobacco created an employment opportunity for them.

Another group to whom this change in demand brought its positive effects was the one of the people who got employed in the different units and storehouses.

This increase of the demand shows about the good quality that the tobacco produced in Albania had.

In 1946-1947, all the existing factories passed as state factories, while some of them got closed. After 1957, the country started to export cigarettes in the Eastern countries of Europe. During the '80 years the most part of the cigarettes was exported.

The collapse of the communist regime in 1991 had effects also in the industry of the tobacco.

At this period, the openness of Albania toward the international markets, gave to the tobacco consumers the opportunity to smoke cigarettes coming from other countries.

The quality and the price (which were very competitive) of them brought negative consequences on the Albanian factories, causing in this way their "destruction" one by one. This had an important economic effect, because the industry of tobacco was an important column for the Albanian economy.

To see how the production of tobacco has changed during years, in the figure below we are representing the evolution of the production level during 2000-2019 years.

As we can see from the figure, the level of the tobacco produced has experienced changes from one year to another. The lowest level of the tobacco produced is the one of the 2007, with 900 tons and the highest level in 2000 with 6200 tons. What the figure clearly shows is the significant decrease in the level of the tobacco produced, after 2000 {ACIT (2008-

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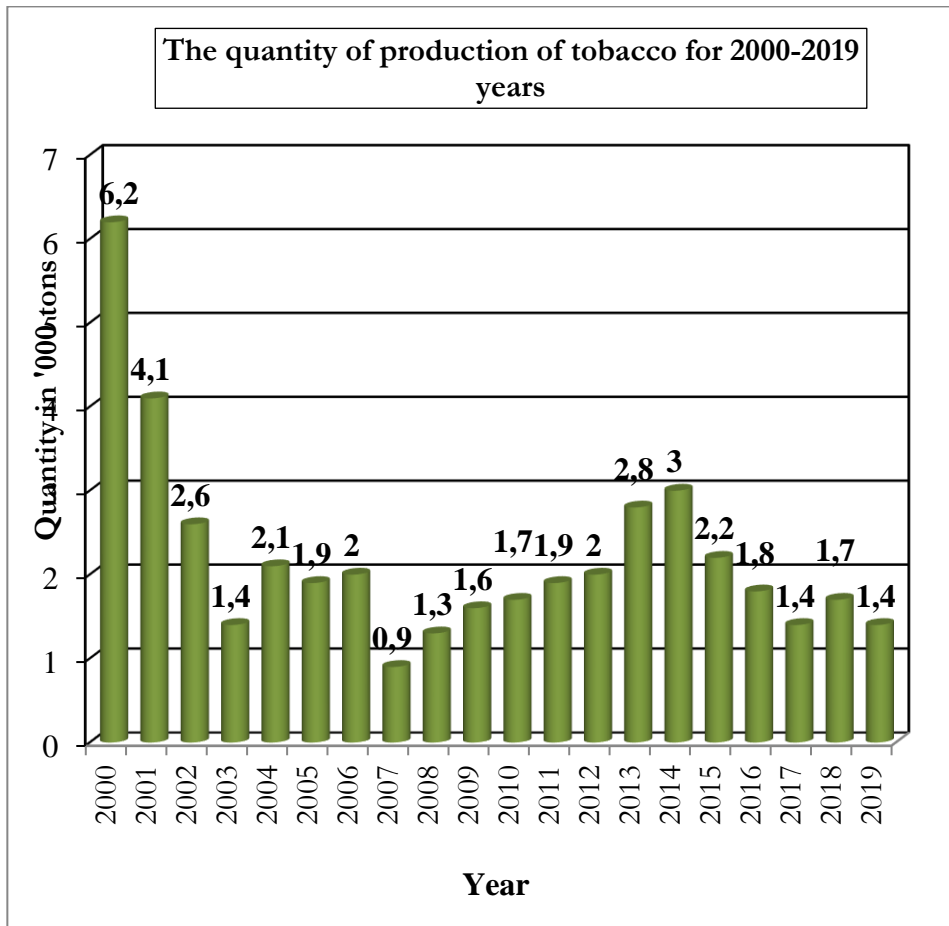
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2014}. This has continued till 2003 and even though there has been an increase in the next years, these levels still remain low in comparison with the production of 2000.

Now we want to stop for a moment in the decrease that tobacco production has experienced. Which may be some of the reasons that have caused this decrease?

We previously mentioned that this product has been very important for the economy of Albanian farmers, so we are interested in discovering some of the reasons that have stimulated them to abandon this activity and choose something else to earn money for their living. Are these reasons related to the opportunities that have been offered by any other activity or there is any problem in the way that the tobacco market functions?

**Figure 1. The quantity of production of tobacco for 2000-2015 years.**



Source: Ministry of Agriculture, Rural Development and Water Administration

### **Financial Challenges and Problems of Albanian Tobacco Producers**

The aim of the study was to treat some of the problems that have faced Albanian tobacco producers. In this part of the study we will treat some of the main problems that they have faced.

#### **\* *Competitive structure***

Tobacco has been considered as one of the agriculture products with the highest level of rentability, as a result it has attracted many farmers to cultivate it.

This has been also supported by the geographical position, which is adaptive for the cultivation of tobacco. As we talk about all these positive elements, we may think that there has not been anything wrong with this economic activity. In fact not anything has gone as it should go; this is shown by the change of the production during years.

Since there has been a significant decrease in comparison with the previous years, this means that there may be things that have not functioned well.

One of the reasons that have brought some problems for the tobacco producers is related to the market competitive structure. For many years tobacco market has been dominated by a monopoly structure. The market has been dominated by only one company, which was the only one who bought the tobacco from the producers.

Did this situation have any positive or negative effect on producers? We are representing some of these elements below.

#### ***Price.***

The power that a buyer has on the determination of the buying price is high.

What we have seen about the prices is that different prices have been applied for farmers that were located in different cities of Albania. What we ask in this case is if it is fair that even though different farmers make the same work and have the same product, they get compensated differently (they receive different sums of money)?

Not only this is an issue that needs to be treated more, but also the determination of the price is an issue that needs attention. How is the price that companies pay to buy the tobacco? Of course that when the market is dominated by only one buyer, as has been for many years in Albania, those who sell the product do not have many influence on the price. Sometimes the producers may be in a situation in which the buyers say that their product is not of the required quality, so they will not buy it with a high price.

In this situation the producers have to decide whether to sell the product or to not.

In most of cases they are obligated to accept this, because they do not have any other alternative where to sell the product.

Another fact that should be mentioned about the price is if it is enough to compensate the producers for the work that they do? This is a question to which is difficult to answer, but we may make another comparison. If we compare the price at which a producer sells a kilo of tobacco and the price at which a tobacco consumer can buy a package of cigarette, we see how high the difference is.

In some cases, the producers have sold a kilo of tobacco with a price that has been lower than the price at which a consumer has to pay to buy only a package of cigarettes.

For example, in some cases producers have sold the tobacco for even 160 ALL (Albanian currency, Albanian lek), while one only cigarette package is sold at least 200 ALL. When we hear that it seems ridiculous, but it is true.

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**Payments.**

Another problem that tobacco producers have faced is related to the payments. For many years this has been an important problem. One of the delays is related to the time at which the companies have bought the tobacco.

On many cases the product has been bought months after the tobacco has been ready to be sold.

This has been a factor that has prolonged the time from the moment that the tobacco has been planted till the moment that the producers have received the money.

Even though the buyers have promised that the producers would receive their money very soon, many times these payments have been delayed.

They have received the money after more than a year from the moment that has started to plant the tobacco.

And what needs to be mentioned is that on the last years have also have been producers that have sold the tobacco and had not received the money even if had passed more than two years from the moment of sale(ACIT 2008-2014)..

The existence of a single buyer has not given to the producers the opportunity to choose between different alternatives, so they would choose the best buyer.

**Productivity.**

The existence of only one buyer in the market has obligated the producers to cultivate the variety of tobacco required by the buyer. Sometimes these varieties have not been very appropriate for the producers, due to their low level of productivity.

But when there has been no other choice, the producers have been obligated to work with this one, even though it had been less profitable. These are some of the problems related to the monopoly domination on tobacco market. Nowadays, there is not only one company that operates in this market, there are some companies. Anyway the problems that we mentioned above have not been eliminated yet.

**\* Informality**

One of the problems that Albanian tobacco producers have faced is the one related with the informality. (ACIT 2008-2014). Tobacco is a plant that requires a long time to be produced. In some cases producers do not maintain any contact with the buyers.

The first contact may be in the first months of the year, when the people or businesses give the seeds to them. Different companies that buy the tobacco from the producers may work with different varieties of tobacco.

This depends on the requirements of the companies that buy the tobacco.

During this period till the end, when the product is ready, buyers have very rare contacts with the producers.

They may meet them only sometimes, when they may make any control of the growth of tobacco in different stages of its life.

One problem that tobacco producers have faced some times is related to the variety of tobacco that they cultivate. There have been cases when these companies have "disappeared"; they have only given the seed to the farmers at the first moments and have not had any other contact with them when the product has been ready to be sold.



When the producers then may try to sell the product to other companies they have faced some problems.

In some cases other companies have told that they would not buy their product because their variety of tobacco has been different from the variety with which they worked. In some other cases they have profited from the situation and have bought the tobacco with a very low price in comparison with the price of the tobacco that they have bought from producers that have cultivated their product.

One of the problems that tobacco producers face is related to the informality that exists in this market. Those who cultivate tobacco, in some cases do not have any information about the company that buys their product.

Tobacco producers sometimes sell their product to these "anonym" companies and do not receive an official document that shows the obligation that the company has to pay a sum of money to the producers.

It is really strange to hear that these families sell their product, which in most of cases is the main source of incomes, and receive only a document written by hand.

This document represents the money that the company that buys the product owes to the producers. This analysis brings out some issues. Firstly, we mentioned that the producers do not have enough information about the buyers of tobacco.

What happens if the buyer does not appear anymore? How will the producers contact them? How will they receive their money? Secondly, we said that due to the informality the producers do not have any official document for the sale. Again, what happens if the buying companies do not appear anymore? May they follow the legal procedures without any official document?

This would be very difficult.

All these facts show the uncertainty that accompanies tobacco producers.

But if they face all these problems, why do they still cultivate tobacco?

In some cases farmers do not have many opportunities based on the geographical position of the place where they live. So for some of them it is one of the few ways to gain money. For some others this is a product that has higher rentability in comparison with other plants. So, being the main source of incomes is one of the main reasons that "obligate" the farmers to take these risks.

We have to say that all these factors have stimulated farmers to leave the tobacco and cultivate other plants, such as medicinal plants.

#### **\* Governance support**

One of the problems that tobacco producers in Albania have faced is related to the governmental intervention on this market. If we take into consideration the opinion of the producers about the role that the government has played in this situation we see that they are not very positive. Regarding the role that the governance has played, we will be focused on two points. The first is related to the incentives that stimulate the producers to continue this economic activity and the second related to the help that the governance has given to the producers.

#### **Governments' incentives.**

In some cases one of the main reasons that the farmers have cultivated tobacco has been due to their opportunities.

This has been one of the few alternatives that they have found to survive.

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Others have seen this as an economic activity with a good rentability. But what have not been enough for these producers are the governance incentives that may be used as a mean for stimulating them to increase tobacco cultivation. If the government would give any subvention to the producers, of course that this would bring its effects on the quantity of tobacco produced.

#### **Governmental help.**

This is another direction with which the producers have not been very satisfied. In some cases when they might have faced any problem regarding the tobacco selling or the payment delays, they have felt the lack of the governmental assistance. When they have faced the problem of payment delays, they have even protested and have asked for the governmental help, but what they have received in exchange has been only a promise for help.

These producers have also been toward a situation in which they had large quantities of tobacco not sold, stock on their warehouses.

The help that the government has offered in these cases has been minimal.

When the market was dominated by only one buyer, the only promise that has been given has been the change of the monopoly domination. In other cases these problems have passed without any intervention from the government (ACIT 2008-2014).

#### **Conclusions**

At the end of this study, we are making a short summarize of some of the main facts that the study revealed and any recommendation that could be useful to change or improve the actual situation.

- One of the main facts that this study brought out is related to the negative effects that the domination of a single buyer in the tobacco market has brought to the producers. The existence of a single buyer has damaged producers through the prices that at which they have sold the tobacco. When is only one buyer, it will have a higher power on the price determination, which is reflected also in this case.

This situation has also eliminated the opportunity of the producers to choose between different companies the one which has the best terms.

- Something else that this study revealed is related to the informality. Informality has been present in this economic activity like in many others (ACIT 2008-2014).
- This has brought uncertainty for the producers, because they are not sure when or even if they will receive their money. This situation brings difficulties for the producers, when they may want to require their rights without having any official document.
- One of the problems that the tobacco producers in Albania face is related to the role that should play the government.


The information collected by the producers revealed that they were not satisfied and have not seen any important role or help from the government. They expressed that the government should play a more active role and support more them.

The governmental subventions were almost nonexistent and also its intervention to regulate this market when producers have faced any problem with the buyer.

- Through the study we revealed some of the problems that tobacco producers in Albania have faced.

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These problems have discouraged a part of them to find any other way to survive. For others cultivating tobacco remains one of the few ways to gain money. There is a considerable number of families in which all the members are involved in this activity and work for the most part of the year for this (ACIT 2008-2014). So they continue doing this even though they face different problems.

- What we may suggest after this analysis is that the government should play a more active role in tobaccos' market. Its role is important especially toward the subventions that it should offer in order to encourage more farmers to cultivate tobacco. Another important point regarding the governmental intervention is related to the help and protection that the government should offer to the producer, so they will not feel uncertain and maybe discouraged to continue working.

The government should be more supportive with the farmers when they may face any problem.

All this may help firstly the producers and of course the state, whose wellbeing will increase.

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