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RURAL AREAS and TOBACCO in the EUROPEAN UNION

(:Analysing study for the strategy of UNITAB:)

summary lecture

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Introduction

European tobacco growing appeared in the creation of the support system as one of the rather sensitive issues of the common agricultural policy, as an eco-social focus.

Debates continue under the pressure of

the price competition in the world market

the ecological and social drawback of tobacco growing regions

the growing pressure of the anti-smoking social atmosphere, and

the WTO negotiations aiming at the decoupling of direct payments.

To determine the evolved complicated economic policy situation is very difficult, even so we have to find those integration points which allow the sustainable tobacco production in Europe, for the benefit of rural inhabitants.

We must point out some important facts:

The logic of European **tobacco growing** and that of **tobacco consumption** have taken **different directions**.

European filler tobaccos do not play a role in forming world market tobacco prices, but Oriental tobacco does.

The key of competitive European tobacco growing is **direct production subsidy.**

Health risk will further increase more if controlled European tobacco is missing from blends of the tobacco products.

The employment potential of the tobacco growing regions will fall without this activity.

There is no employment or income alternative of tobacco in the ecologically disadvantaged areas.

The diversification of the activity is only possible with social devices.

In case tobacco growing will be finished, there will be a general degradation both in the instruments and in the environment.

European tobacco growing is dangerously dependent on the globalisation of the tobacco world.

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Figure 1 **The dependence of European tobacco growing**

In this study we examined global relations (biological, ecological, quantity, price, turnover and other factors), development of growing and consumption, employment, the difficulties of production diversification, regional connections, the effect of the ten new member states joining the EU in 2004 – taking Hungary as a model, and the possible directions of strategic activity.

Before the making of this lecture we could not examine all the issues concerning tobacco growing, so we would like to continue work. We wish to complete our study with the help of the member countries.

The tobacco growing of the European Union in a global comparison

Tobacco is grown in more than 120 countries in the world. Most successfully in the tropical and sub-tropical areas. Tobacco has a special biological ability to adapt that is why it can be grown successfully in most areas with temperate climate. Tobacco production is done in poor quality sandy soils where economical production of other plants is not possible. In Europe tobacco growing is regionally concentrated. Tobacco is grown mostly in areas which have the least advantageous climate and the poorest soil. In regions which are the least developed economically and socially, and where this activity has an outstanding economic and social role.

There are big rearrangements in the world's tobacco production. Production is being transferred from developed areas to developing countries. The main reasons for this are the following:

The growth of consumption, which mainly results from the fast increase of the population.

Tobacco can be produced at lower cost, due to better climate and cheaper labour force.

The agricultural policy support for tobacco growing is less and less in the developed countries.

Besides their climate and cheap workforce, another advantage of developing countries in the world market competition is their support from the WTO. In addition, there is regrouping of profit among the participants of the sector, as from cheaper raw material you can make products that are more profitable.

The cigarette manufacturing of developing countries and tobacco production are integrated by big multinational companies more and more. The concentration of production is growing continuously by the fusion of leading companies, and by acquisition of smaller firms. Since multinational companies control increasingly the whole tobacco sector, the quality of the produced raw tobacco is getting better and better, as well. In spite of that, **in most developing countries traceability, which serves consumers' health protection, lags behind European tobacco, which is produced under traditionally strictly controlled conditions.**

Thanks to the commitment of tobacco growers and the improvement of growing technology in the European Union (the European Charter for Tobacco Growing), the produced raw tobacco meets social expectations regarding quality, traceability, environmental protection and consumers' health protection to a growing extent.

In most tobacco growing countries outside Europe **the market operates still on a speculative basis. The safety of product quantity, the predominance of quality respects and health and work conditions are all lag behind the European criteria.**

In contrast, in the European Union tobacco is grown within quantity frames regulated by agricultural policy, in the framework of unified production contracts, under predictable market conditions and with predictable producer's profitability. Tobacco growing is usually not supported in developing countries. However, due to better climate conditions, cheaper workforce, and financial and technical support from multinational companies, it provides higher income than the average for growers, and it is one of the most profitable agricultural sectors.

As opposed to this, in the European Union the profitability of tobacco growing can only be maintained by significant direct support, mainly because of the high production costs.

Tobacco types grown in Europe

There is a wide range of tobacco types grown in Europe. The EU divides tobacco types into 8 type groups. (*I. Flue cured, II Light air cured, III Dark air cured, IV Fire cured, V Sun cured, VI. Basmas, VII Katerini, VIII Kaba-Koulak*).

As a reaction to the changes of the quality demands in the international market, the tobaccos grown in Europe have been tobacco types for 20 years that are able to meet consumers' demands in taste and are less harmful for health.

Ecological limits and possibilities

Tobacco is a subtropical plant. The world's great tobacco growing countries are situated where the quantity of rain and the temperature create more favourable conditions for tobacco growing than in Europe. As a consequence, concerning potential crops and tobacco quality (with exception of Oriental tobaccos), production is not competitive with the big tropical and subtropical tobacco growing countries.

The extent of European tobacco growing internationally

If you examine the long-term production trend in tobacco growing, you will find that tobacco production increased significantly between 1980 and 2005. The average annual growth was nearly 1%. The increase of production was completely due to developing countries. Their division in the world's tobacco growing went up from 62% to 81% between 1980 and 2001 (Keyser study). In the last ten years the quantity of raw tobacco produced worldwide has varied from 6 to 7 million tonnes (Figure 1.1.). Tobacco growing has dropped in the USA and in Turkey, whereas it has gone up in Brazil. The latter tendency can be seen in China and Argentina from 2003, as well.

The greatest tobacco growing countries– China, Brazil, India and the USA – together gave 64% of the world's tobacco growing between 2001 and 2005, and 68% in 2006 (Figure 3). Today the biggest tobacco grower in the world is China. However, China's production is almost totally for its own consumption.

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Source: FAOSTAT 2007

Figure 1.1 **Changes in the world's tobacco production between 1997 and 2006**

Internationally the quantity of tobacco grown in the European Union is not significant. In the last ten years it has given 5-6% of the quantity of raw tobacco produced worldwide. The trend is the following. ***Before 2005 the position of the EU in global production hardly changed. However, due to the tobacco CAP reform in 2006 – depending on the decisions of the member countries – tobacco production dropped radically (Figure 1.2). As a result, the proportion of the EU was less than 4% of the quantity of tobacco produced worldwide in 2006.***

EMBED Excel.Chart.8 \s

Source: FAOSTAT 2007

Figure 1.2. **Changes in the world's tobacco production in 2006, compared to the average of the previous five years**

The changes in the tobacco growing of the European Union – due to its internationally small quantity – do not have a measurable effect on the world's production, in spite of the significant fall in production.

The changes in the world's tobacco growing are mainly generated by the growth and fall of the production of flue cured Virginia type tobaccos.

Changes in the quantity of the world's FCV tobacco production

World's FCV production was some 4 million tons in 2006, 79% of this provided by four countries: China, Brazil, India and the USA. China produced more than half of the world's raw tobacco quantity from this type, while the EU 25 produced only 3% (Figure 1.3.).

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Figure 1.3. **The division of the world's FCV tobacco production in 2006**

The dynamics of the alteration in FCV tobacco production is given by China, compensating the decrease of the big Virginia producing countries like the USA and Zimbabwe. In the last few years Brazil and India have also increased their FCV production. The production of the EU 25 significantly dropped in this type in 2006 (Figure 1.4.). However, it represented a share drop of only 1% in the world's FCV tobacco production. This does not have a significance in the world market, but it has an eco-social importance.

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Figure 1.4. **Changes in the world's FCV tobacco production in 2006, compared to the average of the previous five years**

Changes in the quantity of the world's light air cured tobacco growing

The world's light air cured tobacco production was about 730 000 tons in 2006. This type is characterised by intense concentration too. It is because nearly half of the raw tobacco purchased in 2006 was produced by three countries: Brazil, Malawi and the USA (Figure 1.5.). In 1997 the USA had a dominant role in the world's light air cured tobacco growing. However, production was decreasing constantly, and in 2006 it was only one third of the quantity ten years before. The tobacco production of the European Union does not have a significance in this type, either. Concerning the average of the last few years, the EU-25 provided only less than 10% of the world's Burley tobacco production. However, the proportion of this type also dropped by 1%, due to the significant production fall in 2006. (Figure 1.6.). The main reason for decline is that this is one of the tobacco types which require the most manual workforce, and the price of workforce has gone up significantly in the past few years. In the developing countries, except for China, a relative stability can be seen in this respect.

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Figure 1.5. **The division of the world's light air cured tobacco production in 2006**

Source: ULT

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Figure 1.6. **Changes in the world's Light air cured tobacco production in 2006, compared to the average of the previous five years**

Changes in the production of Oriental tobacco

The world's Oriental tobacco production was 730 000 ton in 2006.There was a dramatic fall in the production of Oriental and Semi-Oriental tobaccos in the examined period. From 1997 to 2006 the quantity of produced tobacco fell to less than its half. The main reason is that the production of Turkey, which had had a dominant role in production, dropped to nearly one third of it. This drop mostly finished by 2003, and then production became more or less stabile (Figure 1.7). In contempt of decline in 2006 one third of the world's Oriental and Semi-Oriental tobacco production was given by Turkey.

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Figure 1.7. **Changes in the world's Oriental and Semi-Oriental tobacco production between 1997 and 2006**

In the same year the proportion of the EU-25 dropped to 8% compared to the 17% of the previous five years' average. This meant a fall of more than 60%. The main cause of this was the total decoupling introduced in Greece (Figure 1.8.).

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Figure 1.8. **Changes in the world's Oriental and Semi-Oriental tobacco production in 2006 compared to the average of 2001-2005**

The proportions of the most important tobacco types have shown remarkable changes in recent years. However, in total quantity, they followed the moderate growth of tobacco consumption. The main causes of the increase in the quantity of raw tobacco are demographic factors. Whereas the composition is influenced by consumers' tastes and the market competition of the leading brands.

The farmer prices of raw tobacco

The farmer prices of the different types of raw tobacco vary considerably, in consequence of the difference in consumer's and tobacco product manufacturer's demands deriving from the special characters of the tobacco types. On the other hand, there are big price differences within the same type groups, too, depending on quality, which is mostly influenced by the conditions of habitat and the genetic features of the tobacco variety. Prices are also influenced by several other factors, such as the price policy of big companies engaged in contractual growing, and the payments of tobacco growing in the different countries. Price as a world market competition factor plays a role only in the case of filler tobaccos, since they can be substituted with each other. Globalization effects, however, influence local farmer prices more and more. The quantity of FCV and Light air cured tobaccos grown in the European Union does not affect world market prices, because of its insignificant volume. Comparing the farmer prices of the FCV and Light air cured raw tobacco produced in some of the main tobacco growing countries to the EU-15 prices between 2001 and 2006 (Tables 1.1.), you can see a fall in the farmer prices of the USA, and an equalization of prices among the producing countries.

Table 1.1.

Farmer prices of FCV and Burley in some countries of the world between 2001 and 2006

Farmer prices of FCV tobacco in some countries of the world
2001-2006
Farmer price EUR/kg
Country 2001 2002 2003 2004 2005 2006 the USA3,493,423,473,462,802,96Brazil1,021,001,011,221,501,69Argentina1,000,711,081,161,481,63India0,680,630,650,710,780,85**EU-150,781,040,820,680,630,80**
Farmer prices of light air cured tobacco in some countries of the world
2001-2006
Farmer price EUR/kg

Country 2001 2002 2003 2004 2005 2006 the USA3,703,713,713,722,973,07Brazil0,880,850,861,071,281,47Argentina0,940,561,191,321,041,05Malawi0,940,950,970,930,840,77**EU-150,450,860,570,520,530,68** Source: Indian Tobacco Board; European Commission

The relative stability of the EU-15 prices indicates that they adapt to the world market prices of the tobaccos of similar quality. It also shows that they are influenced by the supply and demand in the world market, and not by the tobacco quantity produced in the EU, or the level of subsidies. This is proven by the fact that the change in the EU raw tobacco prices did not follow the dramatic quantity fall resulting from the decoupling of the payment. Instead, it followed the centre of the price changes in the world market.

At the level of the single countries the change in the farmer price was usually followed by the change in the quantity of the produced tobacco. An exception from this is Malawi, where the price of Burley tobacco fell by 20%, although the level of production did not change. In the case of the EU, a slight increase in the farmer prices could not compensate the dpro in the production caused by the decoupling of the payments at all (Figures 1.9. and 1.10.).

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Figure 1.9. **Changes in the FCV tobacco quantity and its farmer price in some main tobacco producing countries of the world in 2006, compared to the average of 2001-2005**

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Figure 1.10. **Changes in the light air cured tobacco quantity and its farmer price in some main tobacco producing countries of the world in 2006, compared to the average of 2001-2005**

In the case of Virginia and Burley tobaccos, there is no determining connection between the quantity of tobacco produced in the European Union and the average farmer prices of raw tobacco. Besides, the drop in the European production will not have an effect on the world market prices.

It is different with aromatic tobaccos such as Oriental tobaccos. In their case the market pays for their unique character and special role in blends. It also pays for the fact that they can be grown in limited quantity, due to their special climate needs and extremely high manual workforce requirements.

In the case of these, world market prices react to the fall in the European supply. As for Basmas and Katerini type Oriental tobaccos, processors in Greece significantly raised the farmer price, which was the highest in Europe anyway. In spite of that, production fell by more than 50% because of the total decoupling (Figure 1.11.). They stopped producing the less marketable Kaba-Koulak and the *sun cured* Semi-Oriental tobacco (sun cured).

Figure 1.11. **Changes in farmer prices and crop of Oriental and Semi-Oriental tobaccos in Greece in 2006, compared to the average of 2001-2005**

Connections between export-import and the extent of producing tobacco products

The European Union is the biggest importer of raw tobacco in the world. It provides 70-75% of its own consumption from imports, and the level of self-support is about 25-30%. As for numbers, the total raw tobacco foreign trade deficit is around 1.2 billion €, considering an export of 500 million € and an import of 1.7 billion €. (Figure 1.12.)

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Figure 1.12. **The tobacco import and export of the EU-25 between 2003 and 2006**

Source: AKI, UNITAB

Most of the imports of the European Union are from the biggest exporter countries in the world – Brazil, the USA, Argentina, India, Malawi and Turkey (Figure 1.13.). In the period between 2003 and 2006 the quantity of the tobacco imported from Zimbabwe and the USA declined, while the imports from India and Macedonia rose.

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Source: AKI

Figure 1.13. **The tobacco import of the EU-25 by the main countries of origin**

The biggest part of the imported tobacco arrives in the EU from regions to which the Union gives customs preference, or which are customs-free areas. Therefore, the European market can hardly be protected by customs, as producers can import raw material from any part of the world freely, due to the multilateral customs preferences. The world's cigarette production grew by nearly 6% between 2000 and 2005, resulting from the rise in consumption. Moreover, the rate of the growth became higher in the last 2 or 3 years. Apart from China, the annual increase would have been only 0.3%. The European Union is one of the greatest cigarette producers in the world. In 2005 the manufactoring of tobacco products decreased in Europe, especially in the European Union. The fall was partly caused by the transfer in production, and partly by the slow but continuous decline of European consumption. According to the data provided by the Confederation of European

Community Cigarette Manufacturers (CECCM), cigarette production in the EU went down by 10% from 2004 to 2005, which means the number of cigarettes was 712,708 million. The production of pipe tobacco fell by 30%, to 8187.5 tonnes. In contrast, cigar and cigarillo production went up by 4%. There were 7845 million products made in 2005. ***Overall, the EU needs to import raw tobacco, but it is able to export huge quantities of tobacco products.***

The European tobacco production and consumption

The world market demand for tobacco products constantly rises nowadays. Between the turn of the century and 2025 the number of smokers is expected to grow from 1.1 billion to 1.7 billion. The increase of demand is greatly due to the growth of population and income. This is especially true for developing countries, which represent 70% of the world's consumption at present. China alone represents 44% of it. For this contributes in great extents that the big multinational tobacco product manufacturers transfer their activity into those regions. A reason for this is also that the multinational manufacturers of tobacco products transfer their activity to these regions: the Pacific region of Asia, Eastern Europe, Africa, and Latin-America. As opposed to this, consumption per person and absolute consumption have fallen in developed countries (Keyser). The fall mainly reflects the success of the anti-smoking campaign of the different countries.

The quantity of cigarettes marketed in the EU-25 dropped by 10% between 2002 and 2004. This is due to the fall in absolute cigarette consumption and to the rise in the consumption of other tobacco products. The tobacco consumption of the EU has fallen slightly in the last few years. In 2005 there were 106.63 million smokers – 2.5% fewer than a year before (CECCM). The drop in the quantity of raw tobacco produced in the European Union is not in line with the tobacco consumption of the EU. The tobacco production of the EU fell by

32% between 2005 and 2006, while the consumption of tobacco products dropped only by 2-3%. The best example of this is Greece, where in spite of the dramatic, 80% fall in production, cigarette consumption decreased only by 3% (Figure 1.14).

1.14 ábra **Changes of tobacco consumption and raw tobacco production in main tobacco growing countries of the EU**

Situation and subsidy system of greatest tobacco producer countries compared to the European Union

The Unites States of America

From the examined tobacco growing countries the USA's competition status is the most similar to that of the European Union, therefore their comparison is difficult. Moreover, there is no sense in comparing them, as it is the developing countries that may endanger the production of both the European Union and the USA. An important difference, however, is that the quality of the tobaccos grown in the USA is better than the European quality, so their farmer price is much higher, as well. Consequently, there is a real chance for operating the tobacco sector on a market basis in the USA, although only with the existing hidden subsidies.

We can summarize the situation of tobacco growing in 2007 in the following points:

Tobacco markets beginning to stabilize following the buyout

Concerns about labor availability and affordability, particularly in burley

Working toward more mechanization in burley harvest

High fuel prices particularly a problem for flue-cured

Ethanol boom affecting all of agriculture, tobacco somewhat insulated for now

To date, 2007 Farm Bill proposals appear to have marginal impact on tobacco

China

China is the largest tobacco growing country in the world, but most of the produced tobacco is for domestic consumption. The state has a monopoly on the whole tobacco sector. The tobacco production of China can be characterized by the following data. The sizes of tobacco growing areas and crops have multiplied in the last few decades. Similarly to Europe, tobacco growing plays an important role in rural development in China, as this sector requires a lot of live labour, but not the most workforce. The same is true for income, since it is not tobacco growing that provides the highest income in China.

The biggest competitors of tobacco are sugar-cane, cotton, rice and corn. An important factor is that tobacco can be grown successfully even on very small plots. The average farm size in China is 0.3-0.4 hectares. You can find very few farms specialized in tobacco. It is usually grown together with other plants. Another feature is that fluctuation among producers has been high in the last few decades – many of them have given up, but even more have started growing. As a result, the number of tobacco growers has doubled. However, the expertise of new growers is much less and their growing conditions are also worse than those of traditional tobacco growers. Many people grow tobacco because there is no market risk, as the state purchases their products at a fixed price. China started to change its agricultural policy when it joined the WTO, basically on the contrary to the objectives of the World Trade Organization.

It repealed taxes disadvantageous for agriculture, and started significant support programs. However, tobacco growing was left out of this support. The Chinese government did not launch a special program for the sector. Moreover, agricultural taxation remained only in the case of tobacco growing. On the other hand, although – within the framework of joining the WTO – China undertook the liberalization of buying up agricultural products and the gradual liquidation of state owned companies working in this field with a monopoly in three years, the tobacco sector was an exception from this. Therefore the government probably still controls production and the market through the regulation of the farmer prices of tobacco products. The following table summarises China's advantages and disadvantages in the competition compared to the EU.

Table 1.2.

China's advantages and disadvantages in the competition compared to the EU

ADVANTAGES	DISADVANTAGES
Huge potential production area More favourable weather conditions Cheap labour force Cheap finished product	High producers' fluctuation, and consequently lower expertise More profitable rival sectors (sugar-cane, cotton) Plants grown for food become more dominant No interest in producing quality products due to state contracts Lack of traceability system Relatively low crops

Source: our own study

Brazil

Brazil is the second largest tobacco growing country in the world, with a crop of 800 thousand tonnes. It is also the biggest tobacco exporter – it exports tobacco to more than 100 countries. Its main purchaser is the EU with 45%. The agricultural support system in Brazil does not aim at the different sectors, but at financing small and medium-size farms, disregarding the plants produced on them. Support is, on the one hand, through farmer prices (this may mean that the state purchases products at prices announced before, or it may mean the refunding of the price difference of private contractors, which also provides farmer prices announced earlier for producers), and on the other hand, through reduced credits.

The tobacco sector did not receive much support through either program between 2000 and

2005. Apart from the favourable climate and other comparative advantages, a great advantage of tobacco growers is that every year they negotiate with the processors and dealers about farmer prices through organisations protecting their interests. Besides, processors give technical assistance to the producers they made a contract with. On the basis of all this, we summarise the competition advantages and disadvantages of Brazil compared to the EU, which you can see in the following table.

Table 1.3.

Brazil's advantages and disadvantages in the competition compared to the EU

ADVANTAGES	DISADVANTAGES
More favourable climate conditions Cheaper labour force Better prices from processors due to price negotiations	The use of wood and coal-burning curing barns is harmful for the environment and not effective

Source: our own study

India

At present India is the third biggest tobacco growing country in the world after China and Brazil. Also, it is one of the largest consumers. Today tobacco is grown on 400,000 hectares, and the annual growth is about 700,000 tonnes. India exports tobacco to all the continents, 80 countries altogether, which represents 4% of their agricultural export. In order to exploit export possibilities and influenced by multinational companies, the Tobacco Board and the national tobacco association initiated the permission of foreigners' direct investment (FDI) in the tobacco sector. India's laws did not make this possible in 2007, but the modification of laws is in process. Tobacco growers in India have to face several problems. One of the main problems is the health and environmental protection attacks. According to the study of the ad hoc work team created in the framework of the WHO's Framework Convention on Tobacco Control (FCTC), in India it is possible to replace tobacco partially or completely with the following crop-shifting: tobacco – sugar-cane, tobacco – soya beans, sugar-cane and soya beans, soya beans and peanuts. The cause of environmental attacks is that the tobacco curing barns are mainly heated with wood and coal, which is both environmentally harmful and ineffective. (For curing 1 kilograms of tobacco you need 4.6 kilograms of coal.) The small tobacco growers' welfare fund financed from a special base (Beedi Workers Welfare Fund Act) has existed since 1976. But the total changing of the subsidy system is at issue. According to the plans, instead of subsidising production they will support the changeover to growing alternative plants, which will be financed from the taxes coming from tobacco products. There is no need to support the sector in India because of the competitiveness of tobacco growing.

On the basis of these, we compared India's competition status to the tobacco production of the European Union.

Table 1.4.

India's competition status compared to the tobacco production of the European Union

ADVANTAGES	DISADVANTAGES
Low production costs The average export price is better than the one in Brazil, America and Zimbabwe Low variable costs Low nicotine content meeting the present market demands	relatively low average yield the use of wood and coal-burning curing barns is harmful for the environment and not effective successful production of alternative plants (sugar-cane, soya beans, peanuts)

Source: our own study

Africa

One of the main competitors of the European Union is the developing countries in Africa. As we mentioned earlier, production has been transferred to developing countries in recent years.

Zimbabwe

Some years ago Zimbabwe was considered to be the world's fourth biggest tobacco growing country and one of the world's main tobacco exporters. The dynamically improving economy, including the tobacco sector, was hindered by the chaos of internal politics. The situation in Zimbabwe became very serious, and economy collapsed. It is this country where inflation is the highest in the world (it is a four-figure number). As a consequence, tobacco production fell to its fraction in a few years. While in 2000 they grew more than 230,000 tonnes of tobacco, today only 55,000 tonnes are produced. Because of the events in Zimbabwe, most of the qualified population moved to neighbouring countries, mainly Zambia, where they realized the possibilities of this, and they gave land and loans to the new settlers to restart production. As a result, the role of these countries may grow in the agricultural market, and the tobacco market, too.

We summarise the competition advantages and disadvantages of Zimbabwe compared to the EU in the following table.

Table 1.5.

Zimbabwe's advantages and disadvantages in the competition compared to the EU

ADVANTAGES	DISADVANTAGES
Better weather conditions Cheaper labour force Cheaper finished product	Serious crisis in internal affairs and economy Emigration of qualified farmers in large number The improvement of more profitable sectors hinders the tobacco sector during diversification (cotton, cut flowers, coffee, tea..)

Source: our own study

Malawi

Malawi is a relatively small country in southern Africa. Rapid population increases are driving land pressures in a country that is critically dependent on agriculture— specifically tobacco. Agriculture is the driving force in Malawi's economy. Not only do many families depend on crops for sustenance and income, agriculture also directly affects the service sector, dominated as it is by the transport and distribution of agricultural products.

The current approaches to stabilize national incomes are through a focus on specialty of tobacco that fetch higher unit prices (i.e., not burley), and addressing institutional constraints. Recently, the Malawi Growth and Development Strategy (MGDS) spelled out the following as the main national revenue stabilization mechanism aimed at increasing production of higher valued flue-cured and dark fire cured tobacco (both niche markets): (1) increased focus in terms of production; and (2) the creation of a more efficient and fair system between farmers and auction houses through:

Establishing cooperatives (*presumably farmers' clubs similar to those established through National Association of Smallholder Farmers of Malawi – NASFAM*);

Promoting tobacco products processing (*value addition, a broad national economic objective*);

Providing farmers with inputs such as seed, chemicals and fertilizers; and

Enhancing agricultural extension services (a system of sending out instructors to teach farmers on modern methods and technologies) and expertise.

Financing the tobacco sector is similarly difficult; the World Bank has a formal policy that it will not lend directly for, invest in, or guarantee investments or loans for tobacco production, processing or marketing. There are exceptions, however. World Bank operational policy states that it will support diversification in countries that are heavily dependent on tobacco as a source of income and foreign exchange (i.e., more than 10 per cent of exports). As Malawi qualifies under this exception, a *de facto* compensatory finance mechanism has been set up by the Bank to give support to the sector with a view to enhance participation to increase wealth for the poor. For instance, a World Bank project extended technical assistance and increased the availability of credit to smallholders, primarily through the Malawi Rural Finance Company (MRFC). The company came to serve as the leading source of finance for smallholder tobacco growers organized into Burley clubs. There was a need, as Malawi's commercial bank lending to the agricultural sector had declined by some 75 per cent in real terms between 1990 and 2000 due to increasing risks associated with lending to tobacco farmers, such as loan defaults due to poor harvests. The increased lending of the MRFC only partially cushioned the blow caused by this contraction. The idea behind increased access to credit, and flow of cash, in the rural areas is to increase economic activity. Improved tobacco productivity would enable rural populations to invest (diversify) into other secondary activities like retailing and small-scale agro-processing. The World Bank and other donor agencies have and will continue to provide support to facilitate the diversification of the rural and national economy in Malawi. The country simply has no (realistic) alternative as of now and support for diversification is a long-term intervention. The success of diversification strategies depends on the maintenance of a competitive and profitable tobacco sector from which savings can be derived and invested in other economic activities such as trading and agricultural processing activities.

There are private partnership program in Malawi, too. Tobacco Leaf companies provide all the inputs, equipments, food and extension services, which are needed for flue cured production. They then buy the tobacco from the farmers directly. It was reported that the contracted farmers earned “bigger” profit margins (according to their assessment) than they would by obtaining farm loans from the other agencies.

We summarise the competition advantages and disadvantages of Malawi compared to the EU in the following table.

Table 1.6.

Malawi's advantages and disadvantages in the competition compared to the EU

ADVANTAGES	DISADVANTAGES
Better weather conditions Relatively cheap labour force WTO support	More profitable sectors Plants grown for food become more dominant o Lack of traceability system o Low level grouping of producers Low farmer prices

Source: our own study

Developing countries

The poorest ones of developing countries do not support tobacco growing due to lack of source, but the buying-up system operated by multinational companies provide a secure income source better than the average for growers. That is why tobacco production is one of the most profitable agricultural sectors. (It also happens that capital intensive companies assist starting production, in return for producers' long-term selling obligation, which they make a contract about. This practice is supported by the governments of developing countries, as well, because rural population can receive suitable income with it.) Today it is a serious problem that farmers grow tobacco even instead of food crops while masses of people starve in the area. The loss of forests cut down because of tobacco growing and curing, and consequently the decrease of biodiversity cause serious environmental problems. That is why governments and international organizations try to reduce tobacco production by making farmers change over to growing other crops. However, for the time being this effort is not successful due to disincentive.

The status of tobacco production in the European Union

The quantity of tobacco grown in the European Union represented less than 4% of the world's tobacco quantity in 2006. Tobacco has been grown in the following 12 countries out of the 27 member states of the EU in 2007:

Italy	France	Slovakia
Spain	Germany	Hungary
Poland	Portugal	Romania
Greece	Belgium	Bulgaria

According to the regional policy of the EU, in these countries tobacco growing regions belong to Target Group 1 that is the group of underdeveloped regions.

We present typical European tobacco growing areas through some particular regions. We have chosen the following regions:

France: Aquitaine, Poitou-Charentes

Italy: Umbria

Spain: Extremadura

Portugal: Alentejo

Germany: Baden-Württemberg

Hungary: Northern Great Plain

Geographical location

Geographical location, climate and soil represent the conditions of the exploitation of the biological potential together. Under these conditions the efficiency of growing depends on the applied agricultural engineering.

Climate conditions

Europe is situated in the temperate zone, but its climate is varied – there are significant differences between particular areas. The types of climate in the chosen regions are very different from each other, too. The climate map of Europe can be seen in Figure 2.1.

Figure 2.1. **Climate map of Europe**

There you can see clearly that Hungary has continental, France has oceanic, and Spain, Portugal and Italy have subtropical climate. As for tobacco growing, the ideal weather is warm and rainy.

The most important data of the chosen regions for 2005 can be found in Table 2.1.

Table 2.1.

The most important data of the selected regions

Country-Region	**Average annual temperature** (°C)	**Annual rainfall** (mm)	**Average Hours of Sunshine** (Hours)
France-Aquitaine	17	650-800	2200
France-Poitou-Charentes	16	650-900	2250
Spain- Extremadura	17	520	2800-3000
Portugal-Alentejo	17	500-600	2970
Italy-Umbria	17	500	2500-2600
Germany – Baden-Württemberg	9,0-9,5	750-800	1600-1800
Hungary-Észak-Alföld	11	600	2000

Source: INTERNET1

Soil

Terrain and soil conditions are also varied, which means that tobacco growing regions have different types of soil. This is because of tobacco's outstanding biological ability to adapt. European tobacco growers made and make advantage of this. Growing is usually on poorer soil where the economical production of other plants is not possible. The positive effects of tobacco growing on rural development are mainly due to this fact.

Main macroeconomic indexes

We try to determine the macroeconomic features of the selected regions through several indexes. We used the data base of EUROSTAT.

Table 2.2.

GDP in 2006

Country-Region	**GDP** (Euro per capita)	**Deviation from national average** (%)	**GDP per capita, deviation from average of EU-27** (%)
France-Aquitaine	24722	-9,6	+10,4
France-Poitou-Charentes	23185	-15,2	+3,5
Spain- Extremadura	14163	-32,3	-36,8
Portugal-Alentejo	13106	-7,2	-41,5
Italy-Umbria	22817	-6,0	+1,9
Germany – Baden-Württemberg	30433	+11,8	+35,9
Hungary-Észak-Alföld	5606	-3,64	-75,0

Source: EUROSTAT

In the table above you can see that the Gross Domestic Product of the examined regions is usually far behind both the national and the Union average. The only exception is Baden-Württemberg in Germany.

Table 2.3.

The rate of unemployment in 2005

	Regional rate of unemployment (%)	**National rate of unemployment** (%)
France-Aquitaine	8,5	9,2
France-Poitou-Charentes	7,0	9,2
Spain- Extremadura	**13,1**	9,2
Portugal-Alentejo	**9,2**	7,6
Italy-Umbria	5,1	7,7
Germany – Baden-Württemberg	7,0	9,5
Hungary-Észak-Alföld	**11,0**	7,2

Source: EUROSTAT

Concerning the rate of unemployment, it is more varied. In the selected tobacco growing regions unemployment is higher than the national average in Spain, Portugal and Hungary. However, it is lower than the national average in France, Italy and Germany.

Data of tobacco growing farms in the European Union

The most important data concerning tobacco growing farms in the examined countries for 2006 are shown in Table 2.4.

Table 2.4

The most important data concerning tobacco growing areas

Member state	**Number of tobacco producing farms**	**Size of tobacco growing fields** (ha)	**Size of tobacco growing area comparing national agricultural area** (%)	**Average field per producer** (ha/producer)

France	3081	7315	0,025	2,4
Spain	3397	10043	0,04	3,0
Portugal	260	898	0,02	3,5
Belgium	100	72	0,005	0,7
Greece	17659	18388	0,48	1,0
Italy	9203	27906	0,14	3,0
Germany	422	3356	0,17	8,0
Poland	14123	16819	0,11	1,2
Hungary	1365	5855	0,01	4,3

Source: UNITAB and EUROSTAT

European tobacco growing farms are small, and as you can see in the table, their total area in the given country is also very small, it is only 0.01-0.5% of the agricultural areas. The tobacco growing area per grower is quite small, too, the average in the member states of UNITAB was 1.5 hectares in 2005. Tobacco was grown in the smallest area in Belgium and Greece, and in the largest area in Germany. Due to the regrouping of the quotas among the group of varieties and the lower need for manual work, it is the flu cured and fire cured tobacco that were grown in the largest area on farms in 2005. The concentration of tobacco growing areas has increased only slightly in the last few years. (Table 2.5.)

Table 2.5.

Change of farm size in the EU

Average tobacco producing farm size in the EU
between 1997-2006
hectare/farm

Country1997199819992000200120022003200420052006 Belgium1,31,31,31,51,51,61,71,51,40,7Germany1,92,73,63,64,14,64,85,25,78,0Greece0,91,00,90,90,91,01,01,01,01,0Spain1,71,91,81,92,02,12,32,12,33,0France**1,41,51,61,71,81,92,02,12,22,4**Italy1,31,41,21,31,51,61,81,92,03,0Austria1,21,11,21,41,51,61,82,1 Portugal5,55,85,24,04,24,85,04,86,13,5**EU 151,21,21,21,21,21,31,41,41,52,0Hungary 1,92,02,84,14,3**Source: UNITAB, European Commission

Employment

Tobacco growing requires significant demand on labor. According to the survey made by KSH [2005], on the tobacco growing farms in Hungary the use of workforce was 0.109 AWU per hectare on average, whereas on the farms growing other crops it was 0.047 AWU per hectare. (1 AWU=2200 hours/year, which means approximately 240 hours/ha compared to 103 hours/ha.) The different work processes of tobacco cultivation – topping, leaf, harvesting, sewing, picking – cannot be, or only partly mechanized. These processes must be carried out almost at the same time in the peak periods, therefore seasonal employment is high (more than 75% of employed people work in tobacco growing). In spite of the small size of tobacco growing farms the number of people employed in the sector is quite high. The importance of this is increased by the fact that most workers in the tobacco sector, especially seasonal workers, do not have a qualification, and they hardly have any other possibilities to find job.

Table 2.6.

Number of people employed in tobacco growing in 2006

Country	Nr. of workers
France	22878
Spain	42494
Portugal	3327
Italy	115906
Germany	10217
Greece	66750
Belgium	235
EU-15	**261807**
Hungary	19439
Poland	89137
Slovakia	-
EU-25	**370383**

Source: UNITAB

The number of jobs related to the tobacco industry was 919,052 in 2005. This is much lower than the number in 2004, when it was 1,119,308.

The natural indexes of tobacco growing in the EU

At present there are seven types of tobacco grown in the European Union (Figure 2.2), which require different growing technologies due to their variety character and agronomical needs. As a result, there are significant differences between the type groups of varieties concerning both natural and economic indexes.

During comparison at European level, we considered the fact that at present in Hungary only the FCV and Light air cured tobacco types have been grown.

EMBED Excel.Chart.8 \s

Figure 2.2. **Partition of types of tobacco grown in the EU-25**

Source: UNITAB and European Commission

Analyzing the change in the size of tobacco growing areas from 1997, we can say that in the case of the EU-15 it decreased continuously, although slightly, until 2005. Then in 2006 there was a marked drop, which was only partly compensated by the growth of area resulting from the joining of the three new member states. There are big differences among the member states in the drop of the size of areas, which you can see in Figure 2.3.

EMBED Excel.Chart.8 \s

Figure 2.3. **Change in the size of tobacco growing area in EU-15 and Hungary**

Source: UNITAB and European Commission

The cause drop of size of the area is that the CAP reform was introduced in the old member states of the EU in that year, and one of the main elements of the reform was the decoupling of payment from production. Consequently, a great percentage of tobacco growers gave up growing, so the size of planted areas fell almost to its half. The reform especially had a negative effect on the member states that decided for applying the total decoupling of tobacco subsidies from production. In the member states which decided for the partial decoupling, tobacco growing dropped to a much smaller extent. The percentage of payment decoupled from production had a significant effect on giving up growing. At a level of 100% decoupling there was a drop of 70-80% in Greece and Belgium, and at a level of 50% decoupling growing dropped by 45% in Portugal. In countries which chose the maximum, 60% rate of coupling (Spain, France), growing fell by 15-17% (Table 2.7 and Figure 2.4).

Table 2.7.

Effects of the tobacco payment system introduced in EU-15

Member State	**Crop (tons)**		**Rate of decoupling %**	
	2005	**2006**	**Change %**	
Belgium	1 019	196	-84	100
Greece	106 507	22 500	-79	100
Portugal	4 832	2 559	-47	50
Germany	11 038	11 957	+8	40
Spain	40 171	32 688	-19	40
Italy	115 717	96 588	-17	40
France	22 992	15 622	-30	40

Source: EUROSTAT and European Commission

Figure 2.4. **Changes of tobacco production of EU member states**

Source: UNITAB and European Commission

Examining the data of 2007, we can find that the decrease in the size of planted areas and in the quantity of crop continued, although only to a small extent.

The two tobacco types grown in the largest areas in the European Union are the FCV (Virginia) and the Light air cured (Burley) tobaccos. The division of their production in the different member states is shown in Figures 2.5 and 2.6.

EMBED Excel.Chart.8 \s

Figure 2.5. **The division of EU member state's FCV production**

Source: UNITAB and European Commission

EMBED Excel.Chart.8 \s

Figure 2.6. **The division of EU member state's Light air cured production**

Source: UNITAB and European Commission

In case of both tobacco types the size of growing areas and, consequently, the quantity of tobacco dropped markedly (Tables 2.8).

Greece practically stopped growing these two types of tobacco. The second largest drop of Virginia was in Portugal, and that of Burley was in Italy, Belgium and Austria.

Table 2.8.

Changes of the area and crop of FCV and Light air cured tobacco in EU member states in 2006 in comparison with the average of the previous 5 years

FCV						
Member State	**Area covered by contracts**			**Quantity**		
	2001-2005	**2006**	**Change**	**2001-2005**	**2006**	**Change**
	ha		%	ton		%
Germany	2429	1927	**-20,7**	5030	6196	**23,2**
Greece	12462	220	**-98,2**	42105	713	**-98,3**
Spain	8646	7611	**-12,0**	29605	25495	**-13,9**
France	4050	3777	**-6,8**	11258	9380	**-16,7**
Italy	17621	16406	**-6,9**	48960	48491	**-1,0**
Portugal	1673	782	**-53,2**	4784	2156	**-54,9**
EU 15	**46882**	**30723**	**-34,5**	**141742**	**92431**	**-34,8**
Hungary	3387	4055	**19,7**	5780	6195	**7,2**

Light air cured						
Member State	Area covered by contracts			Quantity		
	2001-2005	2006	Change	2001-2005	2006	Change
	ha		%	ton		%
Belgium	29,2	16	**-45,2**	86	32	**-62,6**
Germany	968	789	**-18,5**	2676	3116	**16,5**
Greece	2614	1	**-100,0**	10567	1	**-100,0**
Spain	2155	1373	**-36,3**	6248	3959	**-36,6**
France	3372	3386	**0,4**	9359	9007	**-3,8**
Italy	10915	5723	**-47,6**	49975	29195	**-41,6**
Austria	82	0	**-100,0**	222	0	**-100,0**
Portugal	186	117	**-37,1**	647	403	**-37,7**
EU 15	**20322**	**11405**	**-43,9**	**79778**	**45713**	**-42,7**
Hungary	1897	1800	**-5,1**	3293	2641	**-19,8**

Source: UNITAB and European Commission

There are remarkable differences between the EU's member states concerning the yield. If we take the average yield of the years 2001-2005 in the countries of the EU-15, the crop of the yield Virginia tobacco was 2.9 tons/hectare, whereas that of Burley tobacco was 3.3 tons/ha. This shows a great dispersion concerning both old and new member states. The reasons are natural conditions, technological standard, and the current payment system. The role of the latter became dominant in 2006. Before that year the crop of Virginia in Spain and Greece was above 3 tons/ha on average, and the crop of Burley in Italy and Greece exceeded the other member states with a result of 4 tons/ha. The lowest crop of both Virginia and Burley had been produced in Germany and Hungary, the causes of which we will explain later in the case of the latter.

The economic indexes of tobacco growing in the EU

It is true for prices as well that there are big differences within the EU. Growers can sell their tobacco at the highest price in France, Italy and Germany. In these countries the price of Virginia was some 1 Euro per kilogram in the last few years. It is Portuguese, Spanish and Hungarian growers who can sell Virginia only at the lowest price, as it is around 0.55 Euros/kg in those countries (Table 2.9).

Table 2.9.

Farmer prices of FCV tobaccos in the EU member states between 1997-2006

EUR/kg

State1997199819992000200120022003200420052006 Germany0,730,730,750,760,820,870,730,961,180,91Greeca1,040,600,540,550,741,000,640,300,290,75Spain0,550,520,540,580,630,950,910,620,560,57France0,950,920,920,960,970,970,850,991,011,04Italy0,720,620,590,670,750,980,990,950,960,98Portugal0,310,310,360,300,330,510,420,540,510,55 **EU 150,750,600,570,610,781,040,820,680,630,80**Hungary1,201,381,341,321,531,571,430,720,560,53Source: UNITAB and European Commission

As for Burley, the higher prices are 1.46 Euros/kg in Belgium, and 1.3 Euros /kg in France. These are almost four times as high as the ones in the countries with the lowest farmer prices. Such countries include Spain, Portugal and from 2004 Hungary. (Table 2.10).

Table 2.10.

Farmer prices of Light air cured tobaccos in the EU member states between 1997-2006

EUR/kg

State1997199819992000200120022003200420052006 Belgium1,091,031,081,140,911,291,301,241,211,46Germany1,031,041,061,051,071,151,151,181,191,15Greece0,530,430,440,500,540,540,440,400,200,55Spain0,500,490,480,480,480,610,580,340,330,34France0,991,010,940,981,131,091,151,221,321,30Italy0,180,200,230,300,340,570,460,470,480,71Portugal0,330,260,340,270,310,440,480,480,450,48 **EU 150,350,360,360,420,450,860,570,520,530,68**Hungary0,820,890,940,991,121,171,040,590,340,44Source: UNITAB and European Commission

Tobacco is a special sector among agriculture concerning production costs, too. It is because in case of most crops the cost is 600-800 Euros/hectare, while in case of tobacco the cost is about, in many countries even over, 4000 Euros/ha and in some countries can exceed the 8.000 Euros/ha. Table 2.11 contains the unit costs of tobacco growing.

Table 2.11.

Unit production costs in some European countries

(EUR/kgs)

	Spain (2007)	**France** (2005)	**Italy - Veneto** (2006)	**Hungary** (2006)
Virginia	2,4-2,8*	2,0-2,5*	2,7-2,8	2,6-2,7
Burley	1,75**	2,3-2,6**	2,0	2,0-2,1

* depending on the rate of mechanization and type of energy source

** mechanized, or greatly mechanized whole plant harvesting

Source: ANITTA, INEA, national tobacco growers associations

Comparing costs is difficult, as they are calculated in different ways in the different countries. In some countries including Hungary, production cost contains the cost of total workforce (that of family workforce, too), whereas in several other countries it contains only the wages of seasonal workers. In the chart, in case of Italy - Veneto the cost of the production include the alternative costs of family labor. In France the costs neither include family labor, nor equipments depreciation.

Different technologies also make comparison difficult. This is especially true for harvesting. In some countries such as Italy the harvesting of both tobacco types has been greatly mechanized, while in others, e.g. Hungary, harvesting is completely done manually. In the chart the cost of the Burley tobacco refers in Spain to mechanized whole plant harvesting, while in France 75-80% of the Burley was harvested by KIRPY machine. In this country, in case of the FCV tobacco in 2005, 11% of the area had been mechanically harvested.

Analyzing the cost structure in Hungary, we find that the greater part of production costs in case of other agricultural crops– sometimes 80% - are material costs. In the case of tobacco growing it represents 30% of total costs (Virginia 38%, Burley 24%). In tobacco production the personal costs are much higher than in other sectors, which is because of tobacco’s extremely high requirement of living labour. In the case of Virginia tobaccos personal costs may represent about 40%, and by Burley tobaccos they may reach 65% of total costs.

Another special feature is that the different tobacco types have different technological requirements (e.g curing, irrigation, etc.), which generates remarkable differences in costs. The production costs of FCV tobaccos exceed those of the air cured Burley tobaccos by more than 20%. This is mainly due to the energy costs of irrigation and curing. Concerning technology, a big problem of the sector is that the curing barns is out of date in several countries including Hungary. It wastes a lot of energy, which increases costs significantly due to the energy prices growing continuously.

EMBED Excel.Chart.8 \s

Figure 2.7. **Average production cost and price of FCV tobacco in 2006**

EMBED Excel.Chart.8 \s

Figure 2.8. **Average production cost and price of Burley tobacco in 2006**

The comparison of costs and farmer prices shows the evident necessity of subsidizing European tobacco growing. In the case of Virginia prices cover 20-45% of the costs, and in the case of Burley they cover 15-54% of the costs (Figures 2.7 and 2.8).

The social effects of the tobacco sector

Recently two things have influenced European tobacco growing negatively:

The WTO strove discriminated production support,

The World Health Organization (WHO) questioned the subsidizing of tobacco growing for moral reasons.

The manufacturers of tobacco products try to meet these requirements as much as possible. That is why there has been a significant development of products in the last decade, one of the aims of which is to decrease the harm to health. The result of the product development in Hungary is shown in Table 2.12.

2.12. táblázat

The result of product development in Hungary

	1986	**2000**	**2005**
Tobacco consumption (kgs/ year)	7	5,4	4
Number of consumer (million people)	4	3,5	3,2
Nicotine (mg/ cigarette)	2	1,5	1,5
Tar (mg/cigarette)	35	15-20	12-15
The smokers consumed:			
Tar	100 t	38 t	26 t
Nicotine	5,6 t	2,8 t	1,2 t

The average number of cigarettes smoked per person is 20 per a day. Thanks to product development, in the last nearly 20 years the harm caused by tar has fallen by 74%, and the harm caused by nicotine has gone down by 73% (calculated according to the EU equivalent).

Taxation of tobacco products

The taxation of tobacco products is easy achievable for governments, because

• they collect taxes from the highly concentrated tobacco industry;

• in contrast to other alternative products and services, the taxation of tobacco products can be explained easily with public health reasons;

• since tobacco products have low price elasticity, the increase of taxes have smaller effects on the market compared to other products. (As a result of a possible tax increase the profit of tobacco producers decreases to a relatively smaller extent compared to other products.)

The main member states making tobacco products (Germany, Hungary, the Netherlands, Great-Britain) prefer the specific tax, while the member countries that specialize in tobacco growing (France, Greece, Italy, Spain) favor the *ad valorem* type of tax. The reason for that is the protection of local, cheaper products and that of domestic tobacco growing. The different kinds of tax structures lead to huge differences in the price of cigarettes in the EU. According to the World Bank, **increasing the price of cigarettes** reduces smoking the most successfully and the most cost effectively way, especially among young people and people with low income, who are greatly price sensitive. **A 10% rise of prices in developed countries reduces consumption by approximately 4%.** The price influences both starting and giving up smoking. An example to follow in Europe is **Switzerland's support system, where the source of subsidizing tobacco growing is the tax type revenue collected after the cigarettes sold in retail trade.**

Difficulties of diversification and alternative crops to tobacco

While performing the CAP reform of the European Union's raw tobacco sector, the questions of the diversification of tobacco production, and the switch to growing alternative crops or performing other agricultural activities become more and more important.

That is the reason why the following measures were taken: the quota by-back system proposed by the European Commission was introduced, the Community Tobacco Fund made certain arrangements, and the ad hoc study group of the WHO FCTC was set up. Besides, the professional organisations of the member states also study the possibilities of diversification and conversion to other crops. The issue is dealt with in several countries in the world, and some studies have been made, too.

Some important studies carried out in the issue and institutes dealt with the topic:

EUROSTAT study (2001)
COGEA study (2003)
FAO study (2003)
Tobacco Institute of South Africa (2007)
Keyser study (2007)
ANITTA case study (2006-2008)
University of Hohenheim (DIVTOB Projekt, 2008)
Agricultural Economics Research Institute, Hungary (2008)

During the evaluation of the possibilities of diversification, the specialities character and eco-social role of the sector have to be underlined and the following point of views have to take into consideration:

The alternative possibilities and their expectable effects have to evaluate only a complex way, by analyzing the situation simultaneously in economical, social and environmental respect, both at farm level and the level of national economy.

Due to the special role of the tobacco, the significance of the sector in rural development and sustainable development of the regions concerned, shell take into consideration of high priority.

There is no solution, what can be generalized for the single countries or regions, due to their different ecological and economical conditions and social circumstances..

During analyzing the possibilities of substitution activities, the studies have to carry out concerning the whole product chain of the sectors (growers, processors and connecting activities).

A possible grouping of ***the factors to be examined*** while analyzing the alternatives to tobacco in the tobacco growing regions is shown in Figure 3.1.

Figure 3.1. **A possible grouping of the factors to be examined while analyzing the alternatives of tobacco**

Under the economical factors at farm level, the existing structure of the production, the size of the area available together with the possibility to lease arable land, the degree of supply in equipments and capital, the human factors (professional skill, demand on manual work and its seasonality, type of the manpower, possibility of re-training, and so on), the market factors and other important factors, which influencing the profitability of the activity, shell take into consideration alike.

The main conclusions of the studies are the following:

Due to tobacco's outstanding ability to adapt, in the European Union tobacco is traditionally grown mostly in areas where **unfavourable climate** and **poor soil limit the scope of possible activities** and the profitable growing of alternative crops.

The possibilities of diversification need to be examined as individual cases, within the scope of economic impact studies. This is necessary because tobacco growing countries and regions have different natural, economic and social conditions. Also, farms have varied environmental conditions, economic situations and area sizes. Generalisations might be dangerous and may lead to serious economic and social problems.

In order to replace tobacco, **alternative plants** would be needed that **give high income in a small area, have a stabile market, and provide high level employment for farmers, and seasonal workers**. Crops those are able to adapt to the natural conditions of the poorest regions and to social expectations.

Fruits and vegetables are less attractive to grow, due to the returning **crisis situations** in their market. As opposed to this, in case of tobacco the sale of the whole quantity produced is guaranteed.

Grains and fodder-plants (together with animal breeding) can be regarded as alternatives, only if **the size of farms can be increased**. **Most producers, however, do not possess the necessary size of land, and they do not have the possibility to extend it.**

The **special**, high value **equipment** needed for tobacco growing **can be used for growing other plants only to a limited extent**. Consequently, **the requirements of investing in the new activities** to be introduced through diversification **would be high, and most of the existing equipment would be unexploited.**

There is **overproduction on the market** of possible **alternative crops**, which makes it difficult to extend their production, or entering for new growers into these markets.

The impact studies carried out so far showed that **there were very few cases where producers managed to find some kind of replacing activity in another sector**. Possible alternatives – especially for small tobacco growing farms – are limited **only few activities**.

Growing one or two new plants completely replacing tobacco has no reality at present, and **there is probably not a single crop which would fulfil the same important and broad role that tobacco does.**

The regions which have applied the quota by-back program are having an economic recession and are threatened with complete economic crisis.

The main strengths of tobacco growing in the most disadvantaged regions:

ability to adapt to the extreme natural conditions of less favoured areas,

providing the financial stability of farms, and

high employment of unskilled local population.

In what follows, we emphasise some advantages of tobacco growing which play an influencing role in the comparison with alternative activities (Figure 3.2.).

Figure 3.2. **Some advantages of tobacco growing**

Conclusions:

In the European tobacco growing regions there is no activity that would offer a real alternative to tobacco growing both from an economic and a social viewpoint.

Growing alternative plants and diversification do not offer a suitable alternative to provide the present level of profitability and employment at the same time.

Alternative possibilities do not provide the utilization of the special equipments used for tobacco growing, and starting new activities require significant investment.

Until now, in Europe no agricultural or other activity have been able to provide the extent of employment required by tobacco growing and the related branches, or to keep the population in rural areas.

In case tobacco production stops, the employment of unskilled workers – mainly seasonal workers – will not be possible in the tobacco growing regions from sources assigned for rural development.

Switching over to other activities is an extremely long and complex process with several restricting factors. Insisting on diversification without knowing its expected complex effect is risky.

At present there is no reason for urging the switch to other activities, as according to the forecasts, the world's tobacco consumption is going to rise in the next twenty years at least.

> During that time, producers can make the investments needed for the new production and process systems, and the income from tobacco production can help to finance the introduction of alternative plants. Creating the new agricultural product course is a long and capital-intensive process.
>
> The diversification has to be a diversification based on tobacco production. It should not mean stopping tobacco production, as keeping the existing jobs is mainly provided by that.

When examining the possibilities of diversification, the multi-purpose use of tobacco should be emphasised.

In order to introduce diversification successfully from an economic-social viewpoint, extensive research and intensive innovation are needed.

Situation in Hungary (in the view of ten new member states joining the EU in 2004)

Tobacco growing can be considered as a special small branch of Hungarian agriculture. It has a past of several hundreds of years. As a result of the economic and social changes in recent decades, the tobacco growing regions have moved to the north-east of the country by today, mainly to Szabolcs-Szatmár-Bereg county. Figure 4.1. shows the size of the tobacco growing areas in 2006, region by region.

Figure 4.1. **Size of the tobacco growing areas in 2006 by regions**

As it can be seen on the map, 97.5% of the tobacco growing areas can be found in the Great Plain, and, within that, mostly in the Northern Great Plain, which is approximately 71.4% of Hungary's tobacco growing areas. 26.1% of the tobacco growing areas can be found in the Southern Great Plain, 2.1% in Northern Hungary, and only 0.4% in the other regions. Consequently, we present Hungary's tobacco production through the Northern Great Plain.

The macro-economic indicators of the tobacco growing regions

From the macro-economic indicators first we examine GDP. The division of GDP by regions is shown by Figure 4.2..

Figure 4.2: **GDP per person by regions**

Source: Central Statistical Office,2007

You can see that in 2006 there were big differences in the rates of the GDP per person. The advantage of Central Hungary can well be seen. Its rate is far above the national average, and it is 2.5 times as high as the rate of the Northern Great Plain, which takes the last place.

Table 4.1.

Some features of the population

Region	Population	Activity rate	Employment rate	Un-employment rate	Average monthly gross earnings	
	thousand persons	% of prev. year	%	EUR		
Central Hungary	2854	100,5	59,6	56,6	5,2	758
Central Transdanubia	1110	99,9	57,2	53,6	6,3	571
Western Transdanubia	990	99,9	58,3	54,8	5,9	556
Southern Transdanubia	971	99,3	51,6	47,1	8,8	536
Northern Hungary	1261	99,3	48,8	43,6	10,6	542
Northern Great Plain153499,549,144,79,1395						
Southern Great Plain	1347	99,4	51,6	47,4	8,2	398

Source: Central Statistical Office

According to the demographic data, the population of the region is decreasing. One reason is the fall in natural reproduction, and the other is the fact that the population is moving away. The unemployment rate is much higher than the national average, it was 9.1% in 2005. The average earnings are the lowest in the country.

Changes in the natural indicators of tobacco production

The changes in the size of planted areas, in the average yield and in the total crop quantity are shown in Figure 4.3. In the last ten years the size of the planted areas have stabilized between 5500 and 6000 hectares. The average crop quantities have gradually declined. The reasons for that are the regulation system -farmers get the whole amount of support even by an average yield of 1.45 tonnes/hectare-, the low farmer prices and the lower level of payments compared to that of the EU 15.

EMBED Excel.Chart.8 \s

Figure 4.3. **The changes in the size of planted areas, in the average crop quantity and in the total crop quantity in Hungary**

According to our survey, in today's Hungary there are approximately 25,000 people who are in relationship with tobacco through production and related activities. This is so in spite of the fact that the number of people contracted is only slightly more than 1300, according to the number of contracts. This low number is mainly due to the integrators' activity, which developed because of the high instrument requirements and to exploit existing instruments.

The profitability of tobacco production

For the income calculation we used the reports on the production cost in 2006 made by Hungarian Tobacco Growers Association (MADOSZ). They were made from the data of joint venture, considering an average crop of 1.8 tonnes/hectare. On the basis of this we prepared a forecast of the production cost until 2010. The expected average farmer prices between 2007 and 2009 were provided for us by ULT Co. In 2010 no production support can be expected, so we calculated the farmer price from the average prices of Hungarian import, which we corrected with the quality difference of Hungarian tobaccos. So we took the price of unprocessed tobacco as 2.1 Euros per kilogramme in the case of Burley, and 2.8 Euros in the case of Virginia. Considering the cost structure of unprocessed tobacco (the cost of raw material is half of the cost of the final product) and the material balance, the farmer price of the Burley tobacco was ~0,8 Euros/kg, and that of Virginia was 1,0 Euros/kg (1EUR=250HUF) (Tables 4.2 and 4.3.).

Concerning the income calculation, *Income I.* is the difference between the returns and the production cost. *Production value* is the sum of the returns and the support (SAPS + top up), and *Income II.* is the difference between the production value and the production cost.

The income of tobacco production per hectare (*Income II.)* rises year by year between 2006 and 2009, and then production shows a deficit in 2010, due to the decrease of subsidies. However, it has to be realized that the income of production mainly comes from the payments. Moreover, the losses of production are financed by the supports, too (see *Income I.* being negative). This means that it depends on the extent of the decoupling, when the growers will stop production. That is, they will grow tobacco as long as the coupled payments cover the deficit of production. In Hungary, even with the 2007 rate of subsidies, the income of production per hectare may be lower than the amount of payments (SAPS + decoupled top up) per hectare decoupled from production.

Table 4.2.

The income of the production of Burley tobacco

(EUR/ha)

Item	**2006**	**2007**	**2008**	**2009**	**2010**
Production cost	3 764	3975	4077	4173	4164
Returns	751	826	844	863	1350
Income I.	-3 012	-3150	-3233	-3311	-2814
Direct payments/ SAPS	101	105	132	158	184
Top up, coupled	2 951	2861	2861	2861	0
Top up, decoupled	0	372	822	1273	2200
Production value	3 803	4 164	4659	5154	3734
Income II.	39	*188*	582	981	-430

Average crop (t/ha)	1,8	1,8	1,8	1,8	1,8
Average farmer price (EUR/t)	417	459	469	479	750

Source: Agricultural Economics Research Institute (AKI) –Hungary 2007

T a b l e 4.3.

The income of the production of Virginia tobacco

(EUR/ha)

Item	**2006**	**2007**	**2008**	**2009**	**2010**
Production cost	4 714	5 062	5 056	5 141	5075
Returns	941	1 094	1 118	1 143	1800
Income I.	-3 773	-3 968	-3 938	-3 998	-3275
Direct payments/ SAPS	101	105	132	158	184
Top up, coupled	3 731	3 595	3 595	3 595	0
Top up, decoupled	0	494	1 067	1 640	2812
Production value	4 773	5 288	5 911	6 535	4796
Income II.	59	226	855	1 394	-279
Average crop (t/ha)	1,8	1,8	1,8	1,8	1,8
Average selling price (EUR/t)	523	608	621	635	1000

Source: Agricultural Economics Research Institute (AKI) –Hungary 2007

In the tables it can be seen that in case the payment is decoupled and 50% that of will be re-allocated to the 2nd pillar of CAP, the income becomes negative, and the subsidies no longer covers the deficit of production. As a result, you can expect the end of tobacco production.

Situation of employment

An example of the fact that the agriculture of the Northern Great Plain is broken up into small farms is that only less than 4 hectares of tobacco area falls on a producer's contract on average. We examined the number of people being employed, which includes the producer's family members who take part in the production, and often do other activities, too. Besides, we took into consideration the agricultural seasonal workers who are employed for six months. We found that there are 20,960 people related to tobacco growing in our region.

T a b l e 4.4.

The number of people employed in tobacco production and primary processing by regions in 2006

Region	**People employed**
Northern Great Plain	20960
Southern Great Plain	3357
Northern Hungary	379
Central Transdanubia	95
Western Transdanubia	0
Southern Transdanubia	95
Central Hungary	114
Total	**25000**

Source: MADOSZ

In the Northern Great Plain most of the living of the people employed – or almost all of it – comes from tobacco production. A production value of 17,2 million EUR is produced there.

The role of tobacco growing in rural development

The size of the tobacco sector in the structure of plant production hardly measurable, but its importance is far bigger than that of plants grown in greater areas in several respects. Its significance is because of its governmental revenue, and its ability to employ a great number of people. These, however, are not enough to be fully accepted socially.

As we mentioned earlier, by today the tobacco growing regions have moved to the north-east of Hungary, especially to the Northern Great Plain. Tobacco grows mostly in sandy soils, which are not suitable for growing other plants successfully. That soil could be used for afforestation, growing apples, cabbages and rye of low or medium quality, but their market is unstable every year. In addition that, the cost of starting a new activity would be rather high, mainly in the case of plantations. The villages and farms in Szabolcs and Nyírség are traditional tobacco growing districts, and in the region there is no other viable employment possibility. The conditions in the Northern Great Plain and the situation of the people living there are backward, compared to the other parts of the country. That is why the presence of tobacco is especially important, as in the region it is the main source of living for many families. It has positive socio-political effects, which play an essential role in rural development. They include employment, due to its need on great amount of man-power, and its ability to produce income. As a consequence, it helps to keep the population in the tobacco growing districts, which is essential in compensating the urbanization going on these days. If we want tobacco production to fulfil this function in the future, as well, we have to stabilize and improve its ability to produce income. We can achieve this in two ways. On the one hand, by constantly improving of technology and equipment, and on the other hand, by increasing returns. The latter can be realized by the improvement of quality and increase of average yield, if the value judgement in the market is favourable, and the price of domestic unprocessed tobacco remains competitive.

Joining forces for stability – UNITAB's efforts and strategy

European tobacco growing is being attacked more and more by WTO and WHO. This is because of its relative high level of subsidy compared to the other agricultural sectors and to third countries, and also because of the character of the final product. As a result, the changes of the raw tobacco Common Market Organization, initiated and proposed by the European Commission and regulations and measures in force, strive to make the operation of the sector impossible, by treating the tobacco growing on discriminative way.

Due to the fact that the tobacco sector is threatened increasingly, there has been an intensive fight for the stabilisation of European tobacco production led by UNITAB, since the introduction of the CAP reform in 2003.

In the following chart we summarized the changes of regulation system in last period, and in line with that the activity and reaction of UNITAB and its alliances.

CAP REFORM			THE ACTIVITY OF UNITAB AND ITS ALLIANCES		
TIME OF CHANGE	**MAIN EVENTS AND GOALS**	**MAIN ARRANGEMENTS**	**TIME**	**REACTIONS**	**MAIN GOALS**
1992 reform	-decreasing subsidy -introducing of production quotas -simplifying subsidy system	2075/92 EC regulation			
1998 reform	- encouraging quality tobacco production - inciting growers to abandon tobacco production; - focusing on issues of health care and environmental protection	- simplifying administrative tasks by rationalising the quota system - increasing control - quota buy back system - supporting producers who abandon tobacco production			
2001	- announcing the political declaration 'The EU's Strategy for Sustainable Development'	- the tobacco regulation system makes it possible to gradually phasing out tobacco subsides			
2002	WTO Doha Agreement - reducing the so called "trade distorting subsidies"	- including the agriculture subsidies into the the subjects of trade negotiations	2002	publishing the Green Book of European Tobacco Growing	- synthesized the situation of European tobacco growing, its special role and the viewpoint of the sector's members - made it more efficient contact building

2003	- providing the conditions of a more market-oriented production and those of producers' stabile livelihood -encouraging quality production - increased consideration of environmental and consumers' health protection factors	- principle of decoupling - modulation - payments depend on complying with the EU's environmental protection and food safety regulations (cross compliance)	2003	publishing the White Book of European Tobacco Growing	- the book contains a summary of the exchange of opinions - recomposes the problems influencing the sector's present situation - summarizes the solutions regarding the future, and their feasibility
2003	Proposal of the Commission for total decoupling of tobacco payments		2003	demonstration of European tobacco growers	- tobacco producers should be treated equally to other agricultural producers - the scheduled phasing out of subsidy cannot be performed without making an extensive impact study -result: withdrawal of the proposal

2004	- the EU finalized its conceptions regarding regulation of tobacco production - finished the reform for the CAP 2006-2013 period	- 864/2004 EC regulation - working out a transition system for 2006-2010 - partial decoupling (minimum 40%) - from 2010, reallocation 50% of the payments into II pillar of CAP.	2004	29th UNITAB Congress - Kavala	- UNITAB has to establish its European strategy - grower's organisations have to be reinforced - dynamic action is necessary towards Brussels administration - quality, traceability and product safety have to be the trademarks of European tobacco production - encouraging technical improvement - exploring different market possibilities should be increased - finding further possibilities and solutions to maintenance of tobacco growing

2005	- modifications in the raw tobacco CMO	- 1679/2005 Council regulation -termination of premium- and tobacco production limiting system introduced by 2075/92 Council Regulation - termination of quota by-back system	2005	The European Charter for Tobacco Growing	- production under economically balanced conditions - making quality products that meet buyers' demands - taking care of the working conditions of people, especially that of seasonal workers - keeping the health care regulations on consuming the final product as early as during production - protecting the environment A végtermék fogyasztásával kapcsolatos egészségügyi előírások betartása már a termelés stádiumában
2005	Cessation of tobacco subsidies of 919 million EUR.	Proposal in European Parlamant for Budget amendment 2006	2005	Strong lobby activity in Strasburg	protecting the budgetary source of tobacco subsidies

2006			2006	30th UNITAB Congress - Mainz	- In the disadvantaged regions the crucial role of tobacco growing in the maintenance of rural livelihood has to be reinforced. - refuse to support a social policy within the context of the second pillar, which merely seeks to disguise the mass destruction of existing jobs, and which deprives farmers of half of their income. - Demands that tobacco growing be treated in the same way as all the other sectors. - They guarantee that they will follow the principles of the European Tobacco Chart. - They emphasize the responsibility of the process industry. - Counts on the support of regional and national public authorities and all the European institutions to create a political and economic

2007-	Health Check -simplification of CMO - making the direct payment system simpler and more effective - preparing for new global challenges (effects of climate change, decrease of water supply, spread of bio-fuels, decrease of biological diversity, focusing on the problems of sustainable development)	- adjustments on the measures of CAP reform - most of direct payments have been already decoupled from production - the pillar of rural development have been reinforced	2007	Signing the Bovolone Declaration	- Emphasizing the crucial role of tobacco growing in the dynamic improvement of rural environment. - Stating as a fact that the complete decoupling was a fatal mistake. - Refusal of the present CAP reform of raw tobacco. Demanding that tobacco production should be treated equally to all the other agricultural sectors, and that the present support system should be extended unchanged until 2013. This would give a chance to maintain tobacco production, employment related to it, and the improvement of rural areas, which is relevant for socio-poltical reasons, as well. - Members of the sector pledge themselves to do their activities according to the spirit of the European Charter of UNITAB

2007	draft of COPA-COGECA Working Party on Tobacco	- The present Common Market Organization should be extended until 2013 - Sufficient budget sources should be spent on starting research and regional pilot programs studying the alternatives of tobacco growing.

2007	Common letter of the agricultural ministers to commissioner Mrs Fischer Boel	- Keeping payments depending on production, with extending the present raw tobacco payment system without changes until 2013. - The extension should include the postponement of regrouping 50% of the support sources available for the sector from pillar I. to pillar II., from 2010 to 2013. - It must be assured that New Member States will be able to keep the system of national support within the framework of closing up to the present support level of the Old Member States.

2007	UNITAB Study	- Establishes that the impact assessment made before the reform did not consider the extent and time of the employment and social effects of the CAP reform, and did not consider its effect on the primary process industry, - the reform came into conflict with its own purposes, - there are no complementary measures that would offer financial support against the negative effects of the reform.
2007	A.E.R.E.T	Establishing the A.E.R.E.T. (European Association for Tobacco Research and Experimentation) as the legal form of common research and development activity of European growers, resarchers, processors and manufacturers.

2008	Citta del Tobacco	Alliance of tobacco growing cities for the maintanance of European tobacco gowing and his connecting activities. Acknowledging tobacco growing, as the only irreplaceable agriculural activity in tobacco growing regions.
2008	UNITAB, FETRATAB and EFFAT's common letter to Mrs Mariann Fischer Boel,	- Due to the tobacco CAP reform, an especially alarming social situation has evolved in several tobacco producing regions of the EU, especially in Greece. - The issue has gone beyond the frames of agriculture, and has become an economic, social and regional issue. - Carrying out social and economic impact studies within Health Check was urged.
2008	Demonstration of Greek tobacco growers in Athens	- Protesting against the negative effect of decoupling .

2008	Launching of the website 'Save European Tobacco Growers'	- Drawing the attention of public opinion on the social-economic importance of European tobacco growing in maintaining the rural life. - Presenting that the reform has no effect on the public health, while threatening the livelyhood of thousands of people, who are working int he sector.
2008	Berlato Report	- For the security of growers income, derogation have to be made in case of tobacco regarding the reallocation of 50% of payments into rural development, as there is no guarantee that this will be available for tobacco growers. - Member states should be flexible in the issue of further decoupling until 2013.

2008	Common proposal of the delegation of tobacco growing member states for the meeting of the Horizontal Agricultural Issues Workteam on 11-12 June 2008, regarding amending the the Council Regulation 1782/2003	- maintenance of payments coupled to production - maintenance of the present system of tobacco CMO (postponing the reallocation of subsidies into II. Pillar)
2008	Statement of COPA and COGECA's concerning the legal proposal of the Commission regarding the Health Check	- Member states must be given the possibility to increase the proportion of partial decoupling further on a sectoral base before 2013. - Tobacco producers should be treated equally to other producers.

During the performance of the Health Check, the following fact should be taking into consideration to a greater extent:

At present, there is no overproduction in European agriculture and limiting the production by decoupling of the payments should not be a real aim.

Commonplace application of CAP reform, which disregards the specialities of certain sectors, or the extremly changeable ecological condiotions and socio-economic situation of the different regions, can cause huge damages in the economy and employment of the sectors and regions concerned.

In European Union, it is the tobacco sector, which fell victim in greater extent to this mistake and its multiplying effects. Since the numerically consequences of the total decoupling have not been presented till now, by the Eurpean Commission, the future consequences of its proposal for further decoupling cannot be assessed too.

During Health Check, the decision makers of EU should undertake correcting the obvious mistakes derivig from the inadequate impact assesment and undifferentiated enforcement of the results of WTO negatiations, which have in case of acertain sectors the consequences are inconsistent with the original aims of the reform.

Summary

The project ’Rural Areas and Tobacco’ can be named as **‘Facts and Efforts in European Tobacco Sector’**, which serves the maintenance of tobacco growing in Europe, and the prosperity of the population living on it. This study was made in the mature spirit of UNITAB. It strengthens solidarity by the fact that this culture has significant eco-social aspects in tobacco regions, which the decision makers of the reform of European Union’s Common Agricultural Policy cannot ignore. Consideration and differentiated arrangements are needed, which fulfill the life conditions of the different regions, in maintaining both nature and human living, and particularly the building of society. This study would like to contribute to the more and more extensive – and hopefully successful – strategy of UNITAB. The main summarizing statements are the following:

Tobacco growing in globality

6.1.1. The focal points of tobacco growing follow cheaper production, while in the case of tobacco raw material speculative market behavior has increased.

6.1.2. Multinational companies and their partners integrate most of the world’s tobacco growing and market.

6.1.3. The expected parameters of tobacco quality are influenced by the needs of production- and product development. The European expectations to decrease the health risk of smoking can be achieved only by assuring ‘traceability’ in the quality control. This could be made possible by the production of ‘closed-chain’ European tobacco raw material in the EU and outside of it, in case the application of the ‘traceability’ quality control would accepted there too. Besides, only products that were made and controlled according to the ‘traceability’ quality control system could be sold with a ‘European protected’ label.

6.1.4. European tobacco growing as a world market factor is insignificant, except for

Oriental tobacco. In the latter case, the quantity plays a role in supply and demand, as a price modifying factor.

6.1.5. The possibility of the survival of European tobacco production is outlined in direct payments, and producers' social position is outlined in producing 'European quality'. By demanding this the support of loyal and demanding smokers can be achieved.

Realities of tobacco in Europe

6.2.1. Tobacco made its way to Europe as the consumption and production culture of 'the new world', as smoking became a passion very soon. Thanks to its biological ability to adapt, it 'took roots' where the growing of most other plants was less successful. The main cause of its economic success was that it was cheaper to grow locally than to import from America. Smokers had to get used to different tastes though, but a kind of European taste soon evolved. Shortly, state monopolies appeared, and tobacco became their main treasury source.

6.2.2. Thanks to tobacco's outstanding ability to adapt, it brought more income than other crops, even on poor soil and less favorable climate, though with more manual work. Today this gives its eco-social importance, and it seems to be invincible in the field of diversification.

6.2.3. Due to its eco-social significance according to our present knowledge, tobacco must have a respectable position in the EU's Common Agricultural Program reform.

The diversification and alternative crops to tobacco

At present, in the price competition of the open tobacco world market there is no perspective of European tobacco without the direct payments of production. Of course, the solution is looked for in diversification and alternative crops.

A general European method for diversification has not been worked out yet.

The common features of tobacco growing are:

Great seasonal demand for manual work.

Great demand for instruments and energy, special equipments.

Sale of products through one channel and contracts.

Cultivation is done mostly in small farming units.

It is traditionally regional.

It is done mainly in less favored areas.

It has a special feature that in the present social conditions there are a big number of seasonal workers who are able and willing to work in tobacco growing. The safe job, employment and maintenance of the environment related to the sector should be replaced together with their complex eco-social system. This is conceivable with unique approaches and based on impact studies, but such are not known yet.

The introduction of **alternative crops** is possible in case of new structures, with different equipments, and on much bigger farms, which are generally not available in present structure of European tobacco growing.

Alternative crops are not competitive with tobacco in seasonal employment, and in their case the employment ensured by the processors will be fall out.

6.3.2. Maintaining European tobacco growing and avoiding a social crisis are only possible by keeping payments coupled to the production and by the prominent general improvement of the given regions.

Situation in Hungary (in the view of the accession of ten new members to the EU in

2004)

6.4.1. To characterize **the joining of ten new states in 2004** it is possible to take the Hungarian model, as Hungary is situated in the Carpathian Basin, in one geographical unit of Central Europe, with similar climate, soil and their variety to those of the other joining countries. On the basis of this, we can make some general conclusions.

6.4.2. **Tobacco and treasury** (state budget): The growing, processing and trade of tobacco 'offered' the 'goldmine' of integration in most European states, which was worth not only exploiting but also feeding. The Habsburg Empire and later the Hungarian Royal Tobacco Excise were successful in this field. The examples of history showed the security, future and stabile income of tobacco growing. Families and villages were built upon this agricultural sector. Tobacco growers brought a new culture into peasants' activity, and they grew out of their community as an elite layer. The social degradation of tobacco growers is faulty way of looking even today, as their knowledge and hard work can make a dynamic effect on improving rural areas. This is proven in the 'Hungarian model', since the majority of raw material is produced in regions of most disadvantaged conditions, where the population makes its living on this culture.

Organized tobacco growing is still controlled by potential integration, including processors. From this point, the price competition of the tobacco market is open, and the sector can be maintained only by subsidies. The results achieved around the millennium prove that there are a lot of reserves in the biological potential, technology and technical improvement. However, the rate of expenditure and the profitability do not allow the developments necessary to reach world standard.

The 'Hungarian model' proves too that the decline of tobacco growing leads to social crisis, especially in the Northern Great Plain. The crisis may evolve all over Europe. Therefore, the correction of the reform have to be influenced by as many arguments as possible. Following an unsuccessful attempt it is not possible to restore the original conditions, as tobacco growing can never be restarted once it is stopped.

Together for stability

UNITAB's strategy is to fight in Europe for

100 thousand tobacco growing farms,
400 thousand tobacco growers,
keeping related processing jobs,
maintaining rural communities.

6.5.1. The relationship of the reform and rural areas

The CAP reform of the European Union ignores the eco-social situation of tobacco growers. The decoupling of the payments will result in a unpredictable turn and a crisis situation.

The way to the solution of the social problems of disadvantaged regions is through the production – through work culture, producing quality yield while considering environmental issues and continuous professional improvement.

6.5.2. The effects of the CAP reform

The introduction of the CAP reform caused a decline in production and increasing of costs. Farmer prices mostly remained steady. In spite of all that, in countries where payments were only partly decoupled from production tobacco growing was mostly not stopped.

In those countries, which decided to apply the partial decoupling, a **new phenomenon** was the concentration of farms and that of holdings. Young people entered the production, and the quality of tobacco raw material improved measurably.

A **new aspect,** decreasing the health risk of smoking plays a role as early as in the phase of growing, with the ‘traceability’ control system. The aim of this is to introduce “European quality’, and to obtain consumers’ loyalty in maintaining European tobacco growing.

6.5.3. The decoupling of subsidies in practice

The negative effects of the reform are indicated clearly by the example of Greece, where 19 processors were closed in 2006, and only 4 continued to work. In the tobacco growing regions unemployment increased at an unexpected rate. There is no alternative employment, and the fall in national income is significant. These are the social effects, which must be avoided by all means.

Summarizing SWOT analysis

We analysed the available data in our study, and we made the SWOT analysis of European tobacco production, which shows the present conditions and the future effects, and possible strategies in connection of tobacco growing and rural areas.

General SWOT analysis in connection with **tobacco, rural areas** and the **European Union**	**STRENGHTS** Suitable genetic background, regarding quality, consumers requirements and adaptability to local conditions Tobacco growing farms of several decades' experience Its role in rural employment is significant, due to its great demand on manual work Production pre-financing by primary processors, good organized integration connections EU subsidies adjusting to production costs The possibility of production at a quality according to international standard is given. Traceability in making products Low transport cost, due to the favourable location of processors -strong research and development activity (AERET)	**WEAKNESSES** Old, energy wasting technology (curing barns) in some countries Huge decrease of area in the last two years Low level of mechanization Presence of grey economics in the verticum Low exploitation of processing capacity Conflict of interests between representatives of the sector regarding the prices There is no example of geographical origin protection in the sector
OPPORTUNITIES It has a significant role in maintaining the rural population. It has strong social-economic connections. Community and national encouragement of growers' cooperation Stabile tobacco consuming standard Constantly increasing demand for controlled products - Increasing demand on high quality products Consumers of medium and top category products are relatively price-insensitive	***OFFENSIVE STRATEGY*** ***Quality encouraging payment system*** ***Introducing and emphasizing of quality certificate for a controllable, traceable and excellent quality tobacco*** ***Ensuring the availability of 2nd pillar payments for the sector*** ***Dynamic, united action at EU level against the discriminative measures of EU Commission***	***CHANGE ORIENTED STRATEGY*** ***Creating the sector's statement regarding the outstanding role of tobacco with the collaboration of the whole sector*** ***Collaboration of the sector's members, better exploitation of possibilities in growers' organizations of the respective country and beyond the border***

THREATS The reform of the payment system of EU may result in the decline of the sector The general quality parameter of tobacco products declines by using cheap tobacco available in the world market (e.g. China) The spread of black market and imports from third countries causes difficulties in the tobacco sector More frequent occurrence of extreme weather phenomena (global climate change) High consumer's price due to constantly growing excise taxes Legal tobacco consumption per capita decreases Continuous increase of energy prices The efforts of WTO and health care organizations lead to further decline of the sector Replacement of production in certain regions is not possible without serious social and economic damage Aging of the rural population in some districts	***DIVERSIFICATED STRATEGY*** ***Preventing the influx of cheap Chinese and other third country tobaccos, grown under unknown circumstances, into the European market*** ***Urging the creation of an independent and self-propelled payment system (Swiss example)***	***DEFENSIVE STRATEGY*** ***Application of energy-saving technology (e.g. using alternative energy sources)*** ***Market protection against lower quality imported tobacco (within the scope of legal devices)*** ***Products should be labeled with the place of origin***