



RESEARCH ARTICLE

SOME ASPECTS OF GLOBALIZATION OF WORLD TOBACCO INDUSTRY

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ABSTRACT

Chondrosyngoma Globalization and consolidation lead to very rapid and big change in various fields of industry and in various countries, as well. Tobacco industry does not stand aside from these changes and is deeply involved in the process. Globalization and consolidation are based on the principle of marketing rationalization and effectiveness (tendencies on the market, create and open new markets), the reduction of operating cost in general and by increase of profit and investments. The aim is to improve the effectiveness of production and its quality, accompanied by scientific investigations in tobacco industry, in order to reduce as much as possible the hazardous effect of cigarettes to humans health, in conditions of increased antismoking campaign. In the spirit of these basic globalization principles, tobacco companies start to integrate by which there are less and less multinational corporations and on to other hand, those that are globalized become bigger and bigger. National tobacco producing companies must see their advantage and chance for development in this process and each of them will have to find its own way and form how to include in it. Our aim in this paper is to conceive the needs and perspectives arising from globalization, as well as possible consequences from the failure to adapt to these worldwide trends.

INTRODUCTION

Globalization process in tobacco industry refers to privatization of state monopolies in production, manufacture and processing of tobacco and tobacco products. In late 20th and early 21st century implementation of this process started in Eastern European countries with dissolution of the Soviet Union and the creation of a multi-party system in almost all countries of the socialist bloc. The social and economic system has changed and its development has been left to the private capital and initiatives. Almost all state monopolies in the tobacco industry are privatized, both in the countries of Eastern Europe and in Western Europe. Tobacco monopolies have been privatized and purchased by well-established tobacco companies which have large financial potential but not sufficient space for self-expansion of capital and for creation of greater profits. Privatization of tobacco companies is still an ongoing process and many of them are merged or purchased by private tobacco companies. Globalization of tobacco industry means reducing the number of small companies and creation of a small number of large companies that exceed national borders of their countries.

These big companies appropriately organize the tobacco industry, its manufacture and development and spread it in almost all countries in the world, creating large productional and market potentials and conditions for profitable employment of their capital. This creates new incentives for investment and development of tobacco industry in the countries where the capital moved and provides conditions for its further increase.

Multinational companies that create globalization in tobacco industry

At world level, four multinational companies differentiated themselves as leaders in cigarette production and are present in almost all major countries in Eastern Europe, Asia, Africa and South America. These companies are making direct investments in cigarette production in these countries, by building new production facilities and by purchase of state-owned tobacco monopolies. Beside direct investments, they open joint-stock companies in the field of marketing, increasing thereby their market potentials. The world production of cigarettes is dominated by four multinational and one national, state-owned company – China's Tobacco Monopoly. The companies Philip Morris, BAT (British American Tobacco), JTI (Japan Tobacco International) and Imperial Tobacco Company are controlling 40% of the global

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cigarette market, while China's Monopoly accounts for 37% of the world market. All these companies together control 82% of the global cigarette market and the remaining 18% goes to small companies in many countries of the world. The most dominant global cigarette and tobacco companies are:

Philip Morris: with the largest cigarette production of around 900.000 t (in 2016), of which only the production of premium cigarette brand Marlboro accounts for 500.000 t, Philip Morris is a major player in world globalization of tobacco industry, present in over 180 countries in the world, where it has investments in purchase of tobacco companies and in establishment of joint-stock enterprises. It controls over 18% of the global cigarette market and is immediately after China's Tobacco Monopoly which controls 37% of the market. Philip Morris is the first leading international tobacco company which entered the Chinese cigarette market and produced its premium Marlboro brand in China, exclusively for the Chinese market. In cooperation with China National Tobacco Company (CNTC), PMI established a joint venture in the field of marketing with the aim to promote cigarette brands of both companies on the markets outside China. Another successful venture of this company was buying the private company Sampoerna by which it expanded on Indonesian cigarette market - the fifth largest market in the world. The most recognized and best selling product of the company is Marlboro and other famous brands are L&M, Basic, Bond Street, etc. From the aspect of price, the marketing strategy of Philip Morris International includes three price categories: premium, mid-price and low-price brands of cigarettes. In 2010 PMI reached a revenue of 67.7 billion dollars and a profit of 7.3 billion.

British American Tobacco (Bat): After association with American companies Reynolds American Inc. and Brown & Williamson, BAT became the second largest multinational company, especially with acquisition of cigarette factories of the Italian Monopoly. Its cigarette production of 670.000.000 tonnes makes it the second cigarette maker in the world market. The activities of the company are concentrated on cigarette production in many countries and on development of distribution network. Its subsidiaries in Russia, e.g., have a network of over 100 large warehouses to supply 200 cities in the country. From 10 small networks it seeks to create one large distribution operator with widespread network. Premium cigarette brand of this company is Pall Mall, which was launched on the market back in 1899. It belongs to Virginia brand of cigarettes - English blend. Lately, this brand has approached the American blend and is among Top 12 best cigarette brands in the world. The last huge purchase of the company was made in 2015, when BAT acquired the Croatian cigarette manufacturer Tvornica Duhana Rovinj for over 500 million euros. The factory can produce around 15.000.000 tonnes of cigarettes per year, of which 7.000 tonnes are intended for export. Famous brands of the company are Lucky Strike and Pall Mall - one of the top selling brands in the world, side by side with Marlboro. The company is present in 180 countries throughout the world, in Asia-Pacific, American, West and East European and African region. The company has 45 cigarette factories in 35 countries and many branches in the sphere of marketing. In 2010 it achieved 23 billion dollars revenue and 4.4 billion dollars profit.

Japan Tobacco International (jti): This company is the successor to the former state tobacco monopoly of Japan, with the purchase of 35% of its shares. It makes important venture when it acquired the British company Gallaher, which boosted twice the sales of its cigarettes, making it the third largest cigarette manufacturer in the world. By this merger the company claims to reach a production of 600.000 tonnes of cigarettes per year. JTI operates in 16 key markets of Asia, Europe and especially in Russia, where it produces and distributes 100.000 tonnes of cigarettes. For expansion of cigarette sales, the company built 46 food booths and 70 smoking cabins at 15 international airports in 2009. The company is considered very aggressive and is expected to occupy 34% of cigarette market in Russia, by which it will overtake Philip Morris. Popular premium brands of this company are Camel, Winston etc. The company is spread in 274 locations worldwide, both in the sphere of manufacture and marketing. It is present in domestic and global cigarette market and owns 31 tobacco plantations. The company has a market share of over 70% percent in Japan and direct investments in global cigarette market, the last of which was made in 2011 in Tajikistan. In 2011 the company achieved a revenue of 7.5 billion dollars and a profit of 1,7 billion dollars.

Imperijal Tobacco

The company is present in 160 countries worldwide, with manufacturing facilities in 51 countries. It is the world's fourth-largest international cigarette company. By acquisition of Altadis one of the biggest companies in Europe, Imperial Tobacco expanded its cigarette market. The company also acquired shares of the German company Reemstma, which earlier acquired the Slovenian tobacco company Tobacna Ljubljana (a part of which was Tutunski Kombinat-Skopje, Macedonia). Thus, this company became the first international corporation present in the market of former Yugoslavia.

The essence of world's globalization

Globalization and the increasing concentration of capital make the multinational companies richer and the poor companies where they invest less poor, improving the social position and helping the authorities in development of infrastructure. At the end – everyone is a winner. Enlargement of these companies is based on the rule “money should be multiplied and allowed to move freely, without obstructions by inadequate laws and regulations”. This is a good way for the money to end up in the pockets of the poor by social and infrastructural development. This is price that globalization in tobacco industry should pay to maintain continuous development of this industry. By the process of globalization, multinational companies influence the development of production in direction of improving the techniques and technology, concentration of the most capable managers in management of the companies, especially in the field of marketing, science and development as a whole. The scenario for the future of tobacco industry and globalization process, through the eyes of famous tobacco analysts, predicts that only three multinational cigarette companies will survive after the 20ies of this century, two of which in Asia. From the aspect of global industry, international corporations realize the highest revenues in the world. According to official literature data, in 2012 the revenue of the total tobacco industry was over 500 billion euros, with a profit of 35 billion euros. The above

profit of tobacco industry is equal to the profits reached by the three corporations Coca-Cola, Microsoft and Mc Donald's together. Benefits that tobacco industry brings to the countries are manifested in creation of new jobs and increase of government budgets. Despite constant worldwide anti-smoking propaganda on the risks of tobacco products to human health, countries still follow and compare actual costs for treatment of smoking-related diseases. This relationship is crucial for the countries to respond and position themselves regarding the future development of this branch. Success and profitability of this industry allow successful management of tobacco companies and their adaptation to occurring changes. Financial sources of tobacco companies give them a possibility of lobbying and slowing the consumption of its products. Во прилог табеларно го прикажуваме остварениот приход на вкупната тутунска индустрија (обработката и преработката на тутун и производството на цигари). Revenues of world's tobacco industry (treatment and processing of tobacco and cigarette manufacture) are presented in Table 1 and Table 2.

Table 1. Total revenues of the largest international tobacco companies

Year	in \$	Index	in EUR	Index
2006	622.007	100	468.417	100
2007	644.155	103	485.096	103
2008	666.919	107	502.239	107
2009	692.944	111	521.808	111
2011	720.797	116	542.813	116

Table 2. Tobacco production by world regions

Region	Year 2011	
	in billion tons	in %
Near East	520	8%
West-European	588	9%
East-European	910	14%
American	780	12%
Asia-Australian	3710€	57%
Total	6508	100%

Data in the above tables indicate that, despite anti-smoking propaganda, tobacco industry is dynamic branch with a tendency of growth. Besides global corporations in cigarette manufacture, there were three major international companies in the sphere of production, procession and sale of leaf tobacco: Dimon corporation, Standard Commercial Corporation and Universal corporation. Leading tobacco merchant and processor of raw tobacco is the American company Universal Corporation. On May 13, 2005, Standard Commercial Corporation merged with DIMON Incorporated to create Alliance One International a new global company with large capital and increased opportunities for expansion. This newly created company and Universal Corporation control the production of leaf tobacco in the world and supply international cigarette manufacturers with raw tobacco.

In 1998, Universal also joined with Socotab LLC, the leading oriental leaf tobacco dealer in the world with operations in Turkey, Greece, Bulgaria and Macedonia, the major sources of oriental style tobacco. The above companies now control the entire world production of tobacco. Data on this production in 2009 are presented in Table 3.

Table 3. Tobacco production by countries

Country	in 000 t	in %
China	3.193	45%
Brasil	846	12%
India	834	12%
USA	351	5%
Malawi	228	3%
Others	1648	23%
Total	7100,0	100%

Conclusion

The practice of almost all multinational companies is to close the old and unprofitable factories in the countries where they are located and to build new sophisticated plants with optimal size and capacity. Another practice is buying and selling of licenses and the right to use well-known brands of the competitive companies. In the purchase of certain cigarette factories it was noticed that the achieved value was even higher than the one estimated by the owners and authorities in their offer. In the spirit of basic principles of globalization in tobacco and cigarette industry, there is a tendency of unification(integration) of tobacco companies due to which the number of new multinational companies reduces, but those that have already been globalized become stronger and stronger. In the trend of global changes, national tobacco manufacturers should recognize their advantage and a chance for development and they must choose the best model and form to join this inevitable process.

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