

STUDENTS BRIEF

THE TOBACCO INDUSTRY IN SCOTLAND

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Although tobacco was used as early as 2,000 years ago by the ancient civilisations of Central America, the commodity did not appear in Great Britain until the mid-16th century. Originally it was used as a medicine prior to becoming a fashionable social habit among the wealthy when its selling price was fixed by "its wayte in silver". Even in those early times however, the fragrant plant had its staunch supporters and its fierce detractors with perhaps the most notable of the latter group being King James VI of Scotland who declared in 1604 in his famous "Counterblaste to Tobacco" that smoking was,

"a custome loathesome to the eye, hateful to the nose,
harmful to the braine."

Later, he was easily persuaded that the revenue to be raised by the State from tobacco duties was more important than any physical damage to his subjects. Indeed, during the last four centuries, innumerable kings and governments throughout the world have variously and inconsistently sought to stifle tobacco consumption on the one hand only later to develop economies or fight wars with the massive revenues obtainable from it. Now, of course, we have returned full circle to a situation where although grown, manufactured, consumed and taxed in almost every country, tobacco has become a very emotive product subject to extensive vigorous condemnation.

There are many species of tobacco plant and tobacco is not a homogeneous commodity. The group of plants supplying the world with its raw tobacco varies considerably in quality and flavour not only between varieties but also within any given variety according to soil and climatic conditions in the growing area. Moreover, after harvesting, further differentiation may be produced by different curing processes. Raw tobacco is grown extensively throughout the world including Western and Eastern Europe although the UK is a notable exception. That is not to say, however, that it is impossible to grow tobacco in the UK. In the 16th century tobacco was grown in many English counties, in Ireland and in Scotland but according to Francis Bacon the end product was "dull and earthy". Interestingly, tobacco growing was banned in Scotland in 1660 and British production did not gain legal status until 1910 since which time it has been confined to a handful of amateur growers. By far the largest producer is the People's Republic of China with the USA a close second, while the third largest producer is India growing approximately half as much as the USA.

Tobacco products, particularly cigarettes, are manufactured in about 114 countries. The major producers and all European producers are shown in Table 1 from which it can be seen that the UK is the fourth largest after the Peoples Republic of China, the USA and the USSR. Interestingly, Scotland figures quite prominently also. However, out of the 114 countries 24, including the USA, reported a drop in cigarette production between 1976 and 1977 with a further 24 reporting unchanged production between the same two years.

TABLE 1
PRODUCTION OF RAW TOBACCO AND CIGARETTES IN SELECTED COUNTRIES

Country	Tobacco (thousand tonnes)	Cigarettes (billion)	Country	(thousand tonnes)	Cigarettes (billion)
Albania	13	5.9	North Korea	N/A	12.0
Argentina	82	36.9	South Korea	145	60.0
Australia	13	30.4	Mexico	64	47.5
Austria	Zero	14.5	Morocco	N/A	10.6
Bangladesh	64	11.7	Netherlands	Zero	34.8
Belgium	2	25.5	New Zealand	3	6.5
Brazil	360	129.0	Nigeria	10	11.2
Bulgaria	118	78.0	Norway	Zero	0.7
Canada	104	65.5	Pakistan	73	30.0
China	999	1538.0	Philippines	84	51.4
Colombia	58	18.5	Poland	87	89.6
Cuba	45	26.0	Portugal	N/A	12.8
Czechoslovakia	5	24.0	Romania	47	32.0
Denmark	Zero	9.4	SCOTLAND	Zero	18.0
Egypt	N/A	25.0	South Africa	42	22.6
Eire	Zero	9.0	Spain	22	59.4
Finland	Zero	6.6	Sweden	Zero	9.8
France	46	80.1	Switzerland	Zero	30.5
West Germany	9	141.2	Thailand	69	23.5
East Germany	5	20.0	Turkey	223	59.3
Greece	119	23.8	UK	Zero	165.0
Hungary	24	24.9	USA	869	665.9
India	414	67.8	USSR	302	378.0
Indonesia	76	67.6	Venezuela	N/A	20.3
Iran	N/A	12.0	Vietnam	N/A	22.0
Italy	110	75.2	Yugoslavia	71	43.7
Japan	173	297.0	WORLD TOTAL	5530	4140

Source: Tobacco Quarterly and Imperial Tobacco Ltd

Today the UK tobacco industry is dominated by four multinational companies, viz BAT Industries, the Imperial Group, Rothmans International and Gallaher now a wholly owned subsidiary of the US multinational, American Brands. This market structure, which economists describe as oligopoly, has arisen out of intensive merger activity which began in 1901 when thirteen British tobacco companies, including three Scottish firms, amalgamated to form the Imperial Tobacco Company in order to counteract the threat of the American Tobacco Company, a giant US monopolist, which had just made an all out bid for the British market. A year later, after a costly trade war, American and Imperial agreed not to trade in each other's domestic spheres and to assign each other's brand rights to the other for use in their respective home markets. In addition a new company, the British American Tobacco Co (BAT) was formed to acquire the two rivals' recipes, trademarks and export businesses and to run their overseas subsidiaries. This BAT agreement had to be modified in 1972 to comply with EEC regulations the result being that each company now has full ownership of its original brands in the UK and Western Europe. Interestingly, BAT Ltd is the third largest company in the UK, the thirteenth largest in Europe and the twenty-eight largest in the world outwith the USA, while the Imperial Group Ltd, is the seventy-first largest in the world outwith the USA. Some interesting,

relevant company statistics are shown in Table 2.

TABLE 2
MAJOR TOBACCO COMPANIES OPERATING IN UK: SELECTED STATISTICS FOR 1978

	British American Tobacco	Gallaher	Imperial Group	Rothmans
Total Sales (£m)	6,676	1,523	3,433	1,964
Total Profits (£m)	499	55	144	94
Sales of Tobacco				
Products (£m)	4,474	1,206	1,951	1,910
Profits from Tobacco Products (£m)	350	43	66	84
Total Employees				
UK	34,911	25,058	87,000	7,236
Scotland	Zero	N/A	3,000	Zero
Advertising Expend- iture (1977)				
£m	N/A	8	14	6
pence/pack	N/A	0.32	0.29	1.04
UK Cigarette Market Share (1977) %	Negligible	28.3	61.5	9.5

Source: Company Annual Report and Accounts; de Zoete and Bevan

Profits are before interest and tax. Sales and profits are worldwide figures not solely those arising from UK business. Total employees in Scotland refers to tobacco business only.

Although all four companies distribute their full range of products in Scotland, only Imperial actually produces north of the border at Alexandra Parade in Glasgow, where it operates three manufacturing units producing cigarettes, cigars and pipe tobacco, and at Stirling, where it produces cigarettes. Gallaher, while not actually manufacturing in Scotland, does have a main sales and distribution depot in Glasgow. Formerly the Scottish Co-operative Wholesale Society manufactured cigarettes and pipe tobacco at its factory in Shieldhall, Glasgow, selling on average about £3 million of its products per annum. However, a steadily shrinking market share and its inability to match the advertising and promotional pressure of the multinationals forced it to withdraw from the market although it did merge its tobacco interests with its English counterpart the CWS to develop a synthetic material.

Any tobacco product has no direct legal substitute except other types of tobacco product principally because of the extraordinary and complex nature of the needs which it fulfils. Despite the high degree of dependency which consumers tend to develop, tobacco consumption has become rather static in many developed countries. Table 3 shows UK consumption by weight over a number of years and a static if not decreasing trend is quite visible. Tobacco consumption has been found to be subject to two major factors, viz health publicity and price.

TABLE 3

UK TOBACCO CONSUMPTION (MILLION LBS. MANUFACTURED WEIGHT)

Year	Cigarettes			Tobacco		Cigars & Snuff		
	Plain	Tipped	Total	Pipe	Hand-Rolling	Cigars	Snuff	Total
1950	178.6	3.1	181.7	25.3	13.0	0.8	0.7	221.5
1960	206.6	32.6	239.2	17.5	15.7	1.6	0.6	274.6
1961	201.9	41.2	243.1	16.4	16.0	1.6	0.6	277.7
1962	178.1	52.8	230.9	17.2	15.8	1.9	0.6	266.4
1963	168.7	69.1	237.8	16.1	16.7	2.1	0.5	273.2
1970	55.8	159.6	215.4	12.7	14.4	4.5	0.4	247.4
1971	49.8	154.3	204.1	13.2	13.1	6.0	0.4	236.8
1972	48.1	168.1	216.2	12.5	13.6	6.4	0.4	249.1
1973	46.6	182.3	228.9	12.3	13.5	7.2	0.4	262.3
1974	42.1	183.5	225.6	11.9	13.5	7.1	0.4	258.5
1975	34.6	178.0	212.6	11.1	14.2	7.4	0.4	245.7
1976	30.3	175.1	205.4	11.0	14.4	7.1	0.3	238.2
1977	23.7	174.1	197.8	10.9	14.3	6.7	0.3	230.0

Source: de Zoete and Bevan

Despite the intensive advertising expenditure by the tobacco companies, which they claim is not directed at encouraging more people to smoke but merely to persuade them "to smoke our brands in preference to those of our competitors" (Sir David Nicolson, Chairman, Rothmans International), this has not been sufficient to neutralise the very powerful, increasingly persuasive scientific evidence that tobacco consumption is implicated in many dangerous diseases. Although the anti-smoking organisations such as the Scottish Health Education Unit and Action on Smoking and Health (ASH) spend approximately £1 million per annum trying to dissuade consumers, perhaps the most significant impact must be accredited to the Royal College of Physicians whose reports published in 1962, 1971 and 1977 resulted in significant falls in consumption during those three years. Partly in consequence there are now 6.5 million ex-smokers in the UK as opposed to 18 million current smokers.

The responsiveness of demand for tobacco to changes in its price, the so-called price elasticity of demand for tobacco, is difficult to measure precisely for a number of technical reasons but has been estimated at around 0.5. This means that a 1% rise in price will only result in a 0.5%

reduction in demand. Therefore as long as this elasticity is less than one, a price rise, while producing a fall in demand, will always be compensated by the extra revenue raised. Thus, to the extent that a decline in smoking is brought about by increased duty, the amount of revenue is unlikely to be reduced. This information is important since tobacco sales have become a major mechanism for raising public finance principally via excise duties as shown in Table 4. Up until 1974 there had been only ten manufacturers' price increases this century as opposed to nineteen duty increases. Between 1974 and 1978 there were nine manufacturers' increases totalling 8p per pack and five duty increases totalling 23p per pack. Corporation Tax is of course applicable to subsequent profits. Duty increases in the future seem inevitable in order to stop Government revenue falling in real terms but, despite pressure from some quarters for a "Health Tax", it is believed that this would be politically counterproductive. However, given the propensity of the present Conservative Government to enact electorally unpopular policies, this cannot be easily discounted.

While the tobacco companies still commit new capital expenditure to improve their existing tobacco manufacturing facilities and, indeed, Rothmans reported in December 1978 that they are to open a new cigarette factory costing £20 million and employing 800 people in the Durham area, considerable capital investment is directed towards diversification. In fact so extensive has Imperial's diversification programme been that now less than half of its profits comes from tobacco. To reflect their increasing spread of interests, the companies have tended to change their names, ie BAT Ltd is now BAT Industries Ltd, Imperial Tobacco Ltd is The Imperial Group Ltd, while the US giant American Tobacco Company is now American Brands. In general, there has been a tendency for the companies to concentrate on diversifying into products which require the same proven marketing techniques and expertise acquired through their tobacco business. The Imperial Group for example has major interests in fast moving consumer goods such as beer and foodstuffs (Courage Brewing, HP Sauce, Golden Wonder snack foods) while BAT has extensive interests in cosmetics and retailing (Yardley, Morny, Lenthéric). Interestingly one of Imperial's most recent investments is a new whisky blending, bottling and distribution plant at East Mains in Edinburgh. In addition the tobacco companies being major consumers of paper and packaging as shown in Table 5 have important interests there also. BAT owns Wiggins Teape, which had a mill at Fort William and 50% of Mardon International, the remaining 50% being owned by Imperial.

Perhaps the most disappointing investment project undertaken by the industry in recent years has been the attempt to introduce synthetic tobacco to the market. Research in this field was not confined to the tobacco industry itself and originated during the 1950s when tobacco consumption throughout the world was growing and there were fears that there would be severe shortages of natural tobaccos. The subsequent rising tide of medicinal evidence against tobacco of course spurred on the research. Accordingly, the Imperial Group and ICI developed their so-called New Smoking Material (NSM) while Gallaher and Rothmans opted for Cytrel developed by the US Celanese Corporation. Both of these were derived from woodpulp which is indigenous and plentiful so offering substantial savings on the UK balance of payments. Thus, on 1 July 1977, eleven different brands were launched simultaneously, six by Imperial, three by Gallaher and two by Rothmans with a £4 million advertising campaign in the first month. Three months later, 6 million of the cigarettes were destroyed and a £70 million investment including a £14 million factory at Ardeer in Ayrshire was lost. Why? The excise duty was the same as for natural tobacco so that there was no price advantage; the consumer was confused by the array available; and the companies were not allowed to claim that the new cigarettes were safer.

TABLE 4
TOBACCO AS A SOURCE OF GOVERNMENT REVENUE

Year	Consumer Expenditure on Tobacco in UK (£m)	Average Household Expenditure on Tobacco In Scotland (£ per week)	Total UK Customs & Excise Revenue (£m)	Tobacco Duty	Tobacco Duty as Proportion of total (%)
1968/69	1694	1.44	4611.2	1103.7	23.9
1969/70	1720	1.58	4952.7	1141.5	23.0
1970/71	1691	1.61	4710.8	1141.1	24.2
1971/72	1808	1.48	5327.6	1123.8	21.1
1972/73	1945	1.72	5740.9	1182.9	20.6
1973/74	2238	2.00	6240.4	1084.8	17.4
1974/75	2748	2.03	7416.3	1337.4	18.0
1975/76	3107	2.44	9240.9	1676.6	18.1
1976/77	3632	3.01	10873.7	1871.9	17.2
1977/78	3933	3.30	12273.1	2054.3	16.7

Source: Monthly Digest of Statistics and Financial Statistics HMSO

Note: Figures are not adjusted for inflation.

TABLE 5
SOURCE OF INPUTS FOR SCOTTISH TOBACCO INDUSTRY (1973)

Sector	%
Aluminium	1
Packaging, Paper and Board	19
Raw Tobacco (all imported)	24
Wages	17
Other	39

Source: Fraser of Allander Institute

With respect to the tobacco industry as a source of employment in Scotland and indeed the UK as a whole, there has been a steady reduction over the years reflecting the increased mechanisation which has taken place. Government statistics indicate that during 1973, the industry employed 3,728 full-time employees - 1,300 males and 2,428 females - in Scotland. Pinpointing exact employment in Scotland today has proved a little difficult. The Tobacco Workers Union Scottish membership at the present time is 2,831 but they estimate that approximately 500 more are employed as salesmen, supervisors, clerical workers and other craftsmen who are members of their separate unions. Imperial Tobacco, the only tobacco manufacturer in Scotland, provided an independent estimate of 3,000 so that we can be reasonably sure that the industry employs between 3,000 and 3,500 people in Scotland. These figures do not include the retailers and wholesalers who derive all or part of their living from the sale of tobacco products. The Tobacco Advisory Council estimates that there are some 350,000 retail tobacco outlets in the UK at present and that about half a million people are dependent upon tobacco to a greater or lesser extent for their income.

Given that the UK tobacco industry undoubtedly took a severe hammering during the 1970s what can we say of the future prospects facing it? A spokesman for Imperial said in Bristol,

"It would be silly for me even to attempt to deny that employees throughout the industry are worried about their future. We are finding it very hard to cope with the almost fanatical anti-smoking lobby and we realise only too well that tobacco is no longer a growth area in Europe." (Sunday Mail 9/12/79)

In these circumstances the companies are placing increasing emphasis on their export business. Already UK exports by weight have shown a 65% increase between 1971 and 1977 much of which has been directed to the Middle East and other developing countries where population growth coupled with steadily increasing affluence have resulted in increasing tobacco consumption both in absolute and per capita terms. However, the fact remains that anti-smoking pressure is likely to continue unabated both in the UK and other developed countries. Recently Russell Fairgrieve, the Scottish Health Minister stated that,

"The Scottish Secretary has written to COSLA and the Scottish clearing banks urging them to discourage smoking in offices which are open to the general public....We are extending the initiative to include various bodies in further and higher education in Scotland to try and enlist their support." (Evening Times, 6/11/79)

While there has been considerable research into the medical aspects of smoking, little quantitative assessment of the overall economic impact of reduced smoking has been undertaken. Two economists, who sought to estimate the net effect of a policy to reduce smoking by 40% to the equivalent level of that prevailing in 1920, suggest that this would result in a net increase to the Exchequer of £85 million per annum between 1980 and 2000. Essentially their findings are based on a comparison of the costs of reduced smoking (increased expenditure on retirement pensions, health education programmes) with the corresponding benefits (reduced demand for

medical services, reduced expenditure on widows benefits, reduced sickness benefits). These are, of course, estimates but do indicate the urgency of further economic research to establish whether the economic consequences of reduced smoking, already well under way, will be as unfavourable as some would have us believe.

¹Ironically, the American Tobacco Co now called American Brands acquired full control of Gallaher in 1975.

²The SCWS was formerly involved in this research producing, via their Shaws Smokers Products, a synthetic tobacco based on alginate from seaweed.

³"The Economic Aspects of Reduced Smoking" by A B Atkinson and J L Townsend. The Lancet, 3 September 1977.