

Evidence from a Time-Changing Regulated Agricultural Market: The Italian Tobacco Industry

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Abstract

Tobacco represents one of the most important crop within the European Common Agriculture Policy (CAP), with a total budget cost of 963 millions euros in 2002 and the highest ratio (6:1) between European financial support and gross saleable production (EC Commission Report, 2003). Nevertheless, the tobacco industry has never been analyzed in details except in the paper by Vernon, Rives, and Naylor (1969) which analyzed the American market. We started analyzing the Italian tobacco industry using fifty years of data and some of the latest economic models used for crops subjected to the European CAP regime. The effects of three different kind of public regulation were examined and interesting empirical evidence is reported. We then did a step further and we proposed a Vector Error Correction approach to take into account the latest developments in econometric estimation techniques together with the main economic determinants highlighted in the first step.

Keywords: Macro models, Micro models, Non-Structural models, Forecasting, Tobacco Industry

JEL classification: G12, G30, G32.

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