A PROFILE OF THE SOUTH AFRICAN TOBACCO MARKET VALUE CHAIN

2012

Directorate Marketing
Private Bag X 15
Arcadia
0007
Tel: 012 319 8455
Fax: 012 319 8131
E-mail: MogalaM@daff.gov.za
www.daff.gov.za

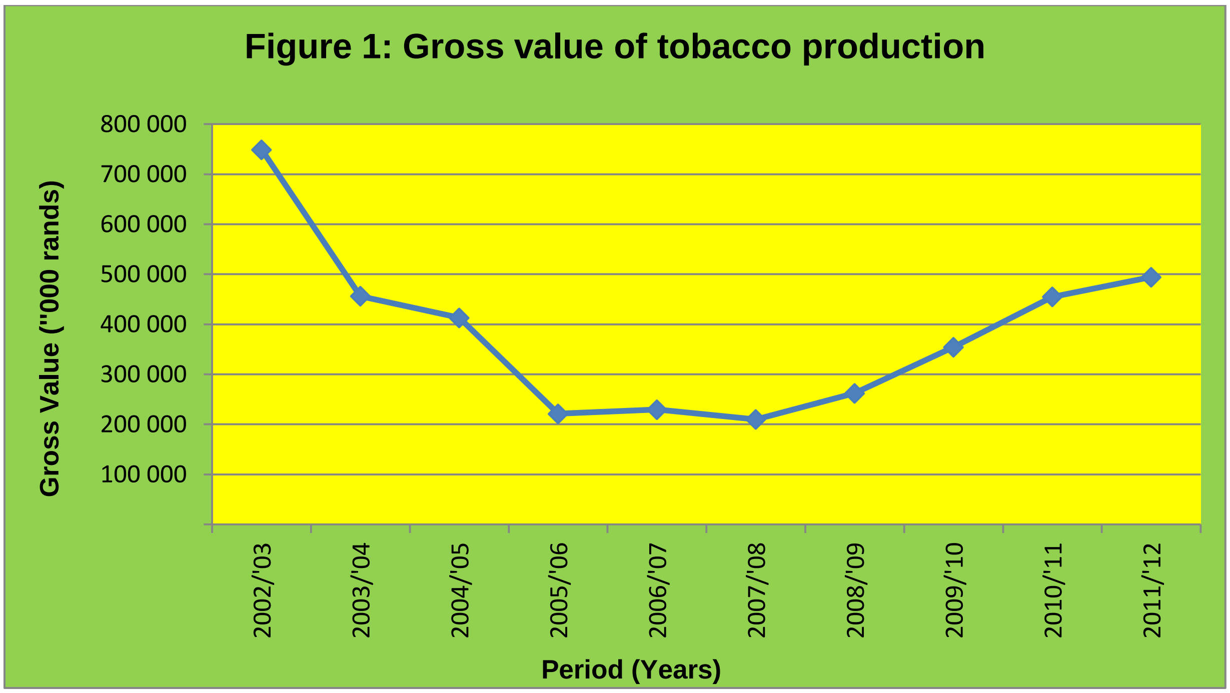
agriculture,
forestry & fisheries

Department:
Agriculture, Forestry and Fisheries
REPUBLIC OF SOUTH AFRICA

Table of Contents

1. DESCRIPTION OF THE INDUSTRY

The tobacco industry contributes more than R11 billion in excise duty and VAT to the government (excise duties) in 2011/12 marketing season. Private consumer spending on tobacco is approximately R12 billion per annum. Two classes of tobacco are produced in South Africa – flue-cured and air-cured tobacco. Flue-cured tobacco is mainly used for cigarettes and air-cured tobacco is mainly used as pipe tobacco, snuff and RYO (roll your own) cigarettes. The contribution of the tobacco industry to the Gross Value of Agricultural Production has been summarized in Figure 1.



Source: Statistics & Economic Analysis, DAFF

Figure 1 indicates tobacco industry's contribution to the gross value of agricultural production in South Africa. The graph further indicates that industry contribution to the gross value of agricultural production started to increase considerably between 2002/03 and at the same time attained a peak at approximately R750 000. The graph also indicates that gross value of agricultural production experienced a decline between the period 2003/04 and 2005/06 at approximately R450 000 and R210 000. In 2006/07 and 2007/08 period, the gross value of tobacco production slightly declined until an increase in the gross value of agricultural production was experienced again 2008/09 period. Between 2008/09 and 2010/11 period, the industry contribution to the gross value of agricultural production experienced a substantial increase until a small but significant peak was attained in 2011/12 at approximately R490 000. The substantial decrease in tobacco's contribution to the gross value of agricultural production started in 2003/04 up to 2007/08 and this can be attributed to the introduction and implementation of tobacco control regulations within the country during that period.

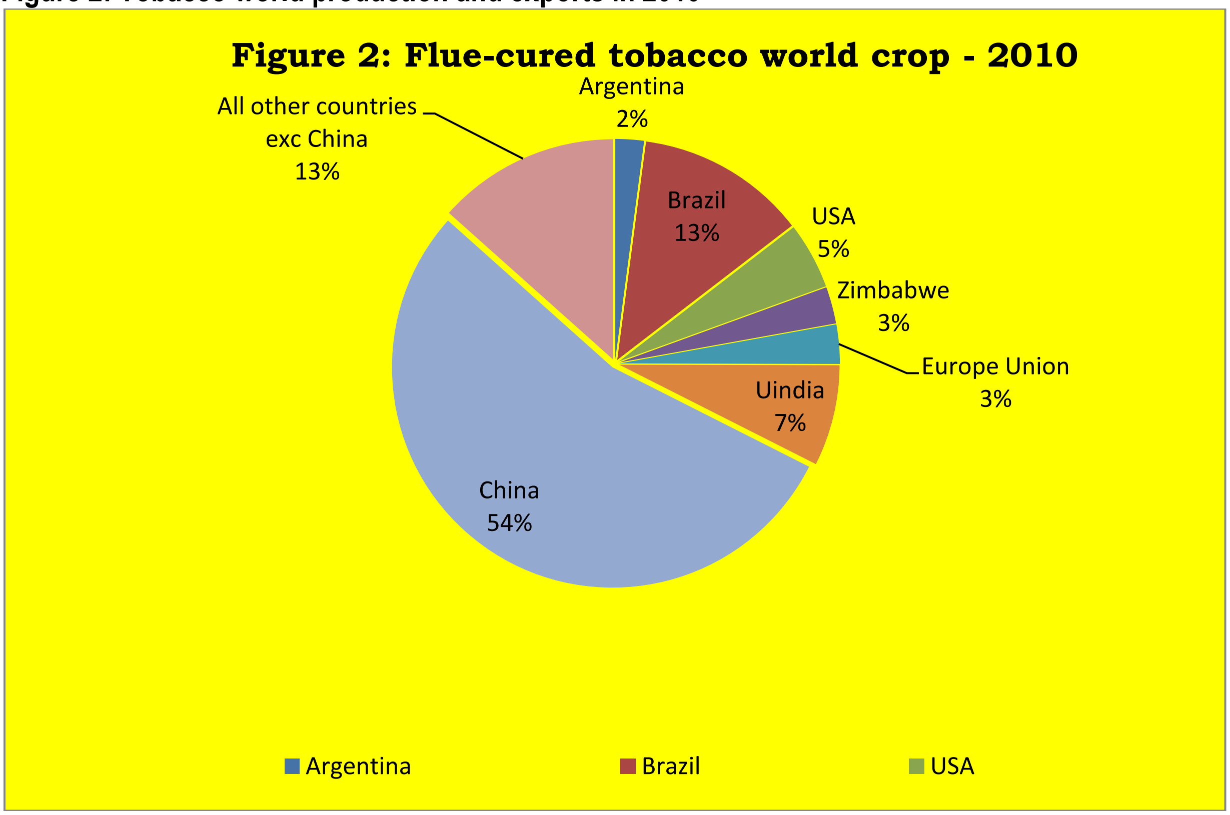
1.1 Producing Areas

In South Africa tobacco is grown in five provinces: flue-cured tobacco is produced in three provinces namely the Loskop/Groblersdal and the Lowveld (Nelspruit and Barberton) in Mpumalanga; the Vaalwater and Sterkrivier areas of Limpopo as well as the North West Province Brits, Rustenburg and Marico areas. Air-cured tobacco is produced in the Eastern and Western Cape provinces, Limpopo and North West Provinces.

1.2 Production

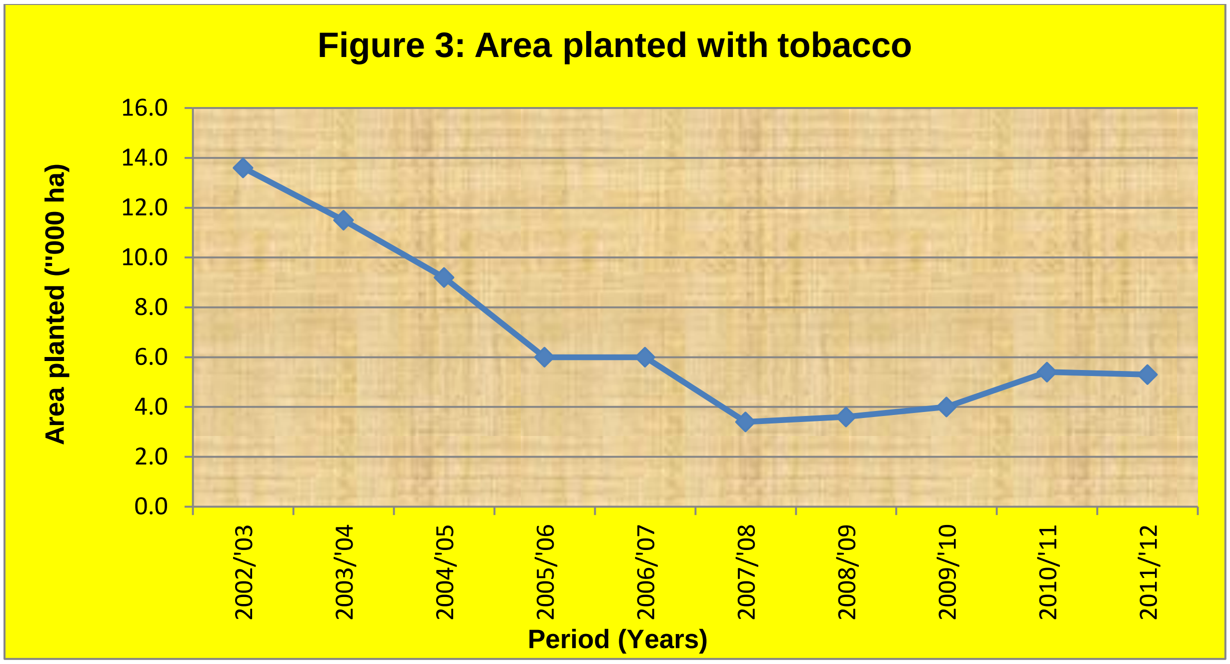
The total production of tobacco in South Africa is estimated at 15 tons comprising of 12 million kilograms of flue-cured tobacco and 3 million kilograms of air-cured tobacco. The total production of tobacco has decreased by 5000 tons between 2005 and 2008. There are 170 tobacco growers in South Africa operating on approximately 5000 hectares of land. Similarly the number of tobacco growers has increased from 140 in 2010 to the current 170.

Figure 2: Tobacco world production and exports in 2010



Source: Tobacco Institute of SA

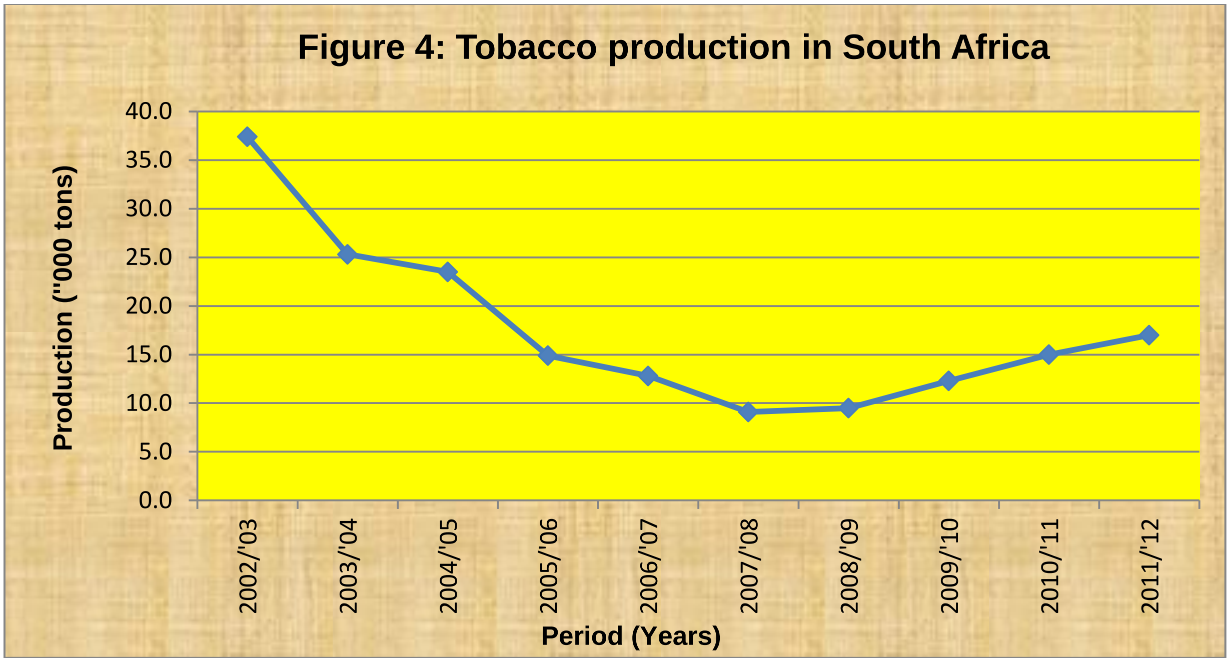
Figure 2 indicates flue-cured tobacco world crop in 2010. China was the biggest producer and exporter of tobacco during the period under review. World production and exports of tobacco originated in China with 54%followed by Brazil and all other countries excluding China sitting on 13% respectively, India with 7%, USA with 5% Zimbabwe and European Union at 3% each.



Source: Statistics & Economic Analysis, DAFF

Figure 3 shows the area planted with tobacco in South Africa between 2002/03 and 2011/12. The graph further shows that over the past decade, the area planted with tobacco started to increase in 2002/03 and at the same time attained a peak at approximately 13 600 ha, and then between 2003/04 and 2007/08 the area planted decreased consistently until it reached 3 500 ha. It is evident that between 2005/06 and 2006/07 the area planted was constant and started to further decline marginally in 2007/08. Between 2008/09 and 2010/11, the area planted with tobacco slightly increased up to approximately 5000 ha. The graph generally shows that there was a continuous decline in the area planted with tobacco in South Africa during the period under review, mainly due to the implementation of legislative mandates by the state. The graph also shows that in 2011/12 marketing season of the period under review, the area planted with tobacco in South Africa declined to lower levels of about production 5300 hectares.

Figure 4 illustrates tobacco production in South Africa between 2002/03 and 2011/12 marketing season. The graph further illustrates that tobacco production started to increase considerably in 2002/03, and at the same time attained a peak at approximately 37 400 tons. The graph also illustrates tobacco production experienced a decline between 2003/04 and 2007/08 to lower levels of approximately 9100 tons in 2007/08. The graph further illustrates that between 2007/08 2008/09, tobacco production in South Africa reached the lowest levels at approximately 7000 and 9000 tons until there was a consistent increase in 2008/09 to 2011/12. In 2011/12, the graph also illustrates that tobacco production experienced a dramatic increase and a small peak of approximately 17000 tons as compared to 2010/2011 period.



Source: Statistics & Economic Analysis

Table 1 depicts total tobacco production trends in tons as against the area planted to tobacco in hectares between 2002/03 and 2011/12 period. The table further depicts that in 2002/03 the area planted decreased by 400 ha to 13600 hectares as compared to 2001/02 and the total production increased from 33100 tons to 37400 tons of tobacco. The table further depicts that there were fluctuations in both the area that was planted and the total production of tobacco during the period under scrutiny.

Table 1: Tobacco: area planted and total production trends.

Year	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Area Planted (ha)	13600	11500	9200	6000	6000	3400	3600	4000	5400	5300
Total Production in (000 tons)	37.4	25.3	23.5	14.9	12.8	9.1	9.5	12.3	15.0	17.0

Source: Statistics & Economic Analysis, DAFF

In 2007/08 the area planted with tobacco decreased further leading to a drastic decline in production. Table 1 further indicates that area planted with tobacco is generally declining over time and could be as a result of a decline in demand which must have been caused by a ban that has been put on promotion of all tobacco products in South Africa. However, it is evident that in 2011/12 period, the area planted with tobacco experienced a decrease of 100 ha as compared to 2010/11. The decrease in the area planted with tobacco in 2011/12 led to an increase in tobacco production of about 17000 tons over the same period. The total tobacco production in 2010/11 also experienced an increase as compared to 2009/10 period at approximately 4 500 tons. Furthermore, over the past 13 years the government has increased excise duties on cigarettes by more than 750%, culminating in the rapid growth of illicit trade mostly through smuggled tobacco products. This contributed to a decline in the crop of more than 60% over the past ten years, which resulted in an exponential increase in processing costs resulting from very low capacity utilization.

In the SADC region tobacco is also produced in countries such as Zimbabwe, Uganda, Kenya, Tanzania, Malawi and Mozambique. Zimbabwe has 250 tobacco farmers producing 6 000 tons of tobacco, Uganda has 100 000 farmers producing 35 000 tons of tobacco, Kenya produces 2000 tons of tobacco, Tanzania's 71 000 farmers produce 49 000 tons while Mozambique's 100 000 farmers produce 28 000 tons of tobacco.

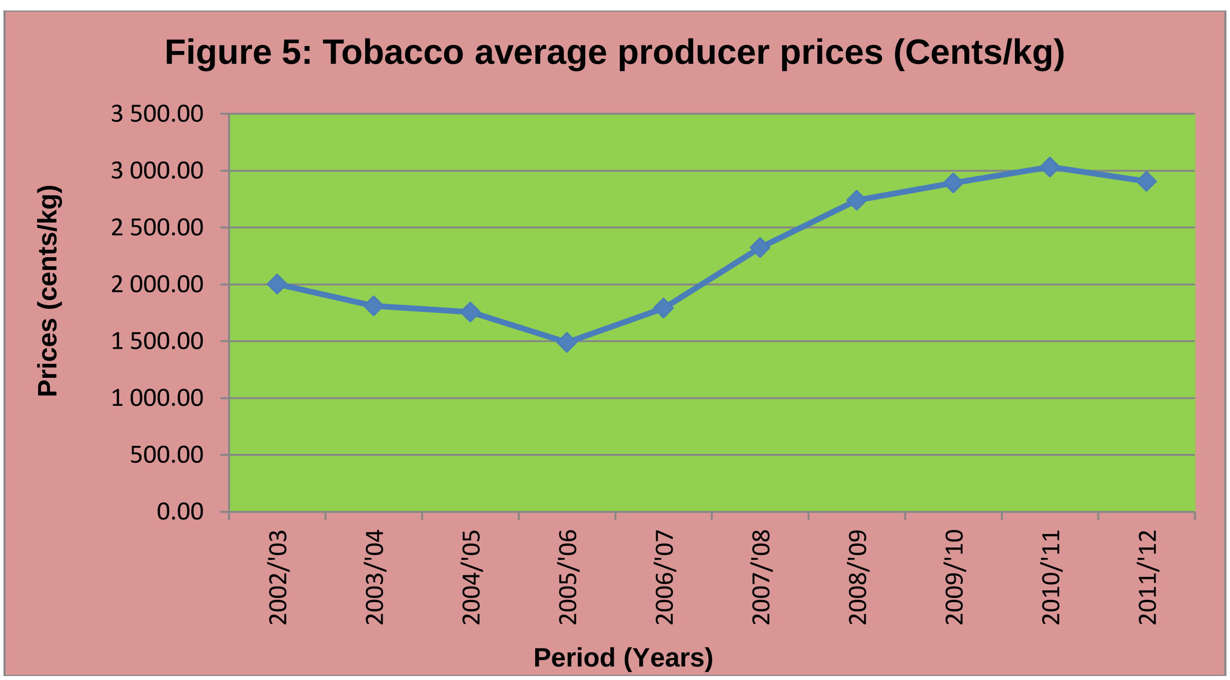
1.3 Employment

The primary tobacco industry in South Africa employs about 8000 agricultural farm workers which is a decline by 200 workers as compared to 2010/11 marketing season. Tobacco producer organizations employ 800 people, whilst the manufacturing industry employs 2500 employees. Tobacco product wholesalers employ 364, formal retailers of tobacco products employ 55 000 people while there is an estimated 60 000 informal traders of tobacco products countrywide. These figures show a decline in employment in the primary tobacco industry from the 2003 figure of 22 840 agricultural workers. In total 40 000 people are dependent on the tobacco industry, mostly in the rural areas of South Africa.

2. MARKET STRUCTURE

2.1 Domestic market and Prices

Approximately 40-45% of flue-cured tobacco and 60-70% of air-cured tobacco is used for local consumption. Finished tobacco products are distributed through 364 wholesalers, 55 000 retailers and approximately 60 000 small players in the informal market (street vendors, spaza shops, etc).



Source: Statistics & Economic Analysis, DAFF

Figure 5 illustrates average producer prices of tobacco in South Africa between 2002/03 and 2011/12 marketing season. The graph further illustrates that average producer prices during the same period fluctuated between 1500 and 3000 cents per kilogram. From 2003/04 tobacco production experienced a continuous decrease until the lowest level was attained in 2005/06; one of the reasons why there was a decrease is because of the tobacco legislation that was passed during that period which led to age restrictions in terms of tobacco usage, restrictions on advertising and a ban on public smoking. As depicted on the graph, average producer prices experienced a steady increase from 2006/07 to 2009/10 in response to declining domestic supply situation. The graph further illustrates that in 2011/12 of the period under review, there was a slight decline in tobacco average producer prices in South Africa from 3000 cents/kg to2900 cents/kg.

3. EXPORTS VOLUMES

South Africa exports an average of 16 000 tons of leaf tobacco per annum. This represents between 50-60% of leaf tobacco that is produced annually. Flue-cured tobacco that is not used for local consumption is exported mainly to Europe, the Middle East, the Far East and other African countries. Tobacco qualifies for duty free access to the USA under the Africa Growth and Opportunities Act. The volumes of exports of tobacco are shown in Figure 6.

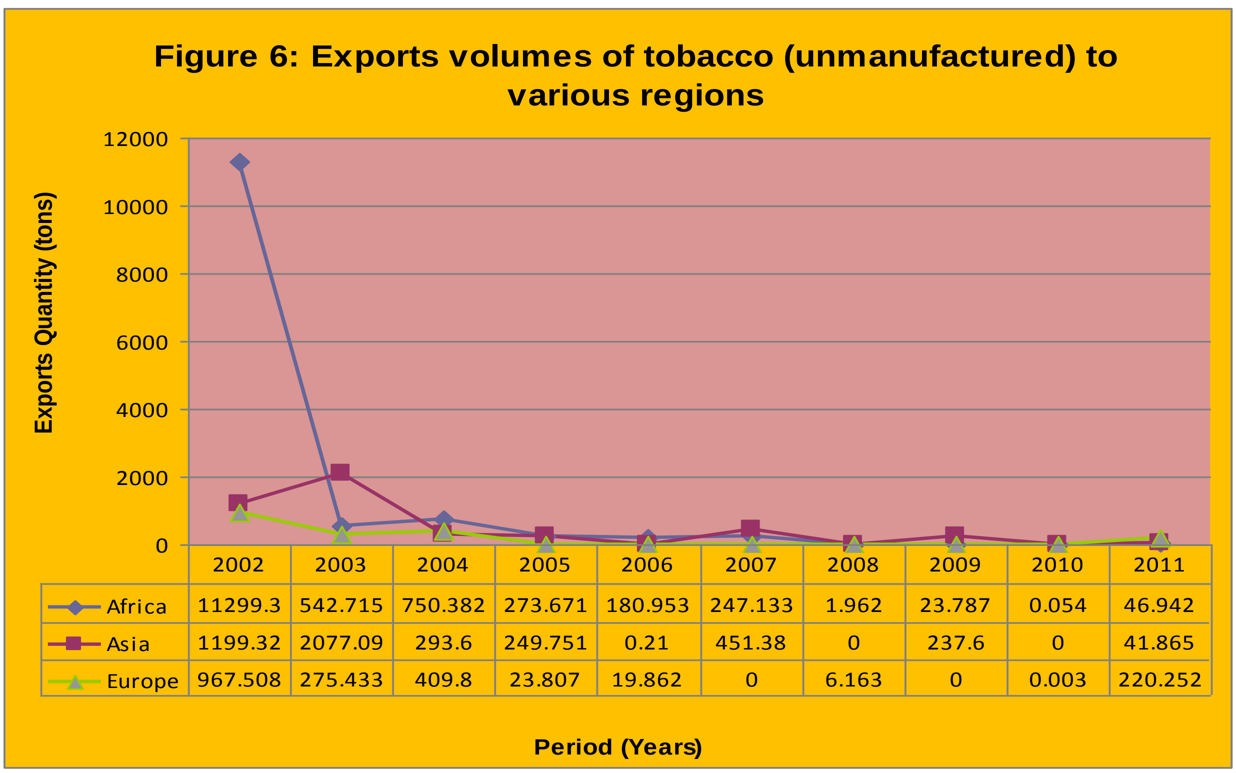
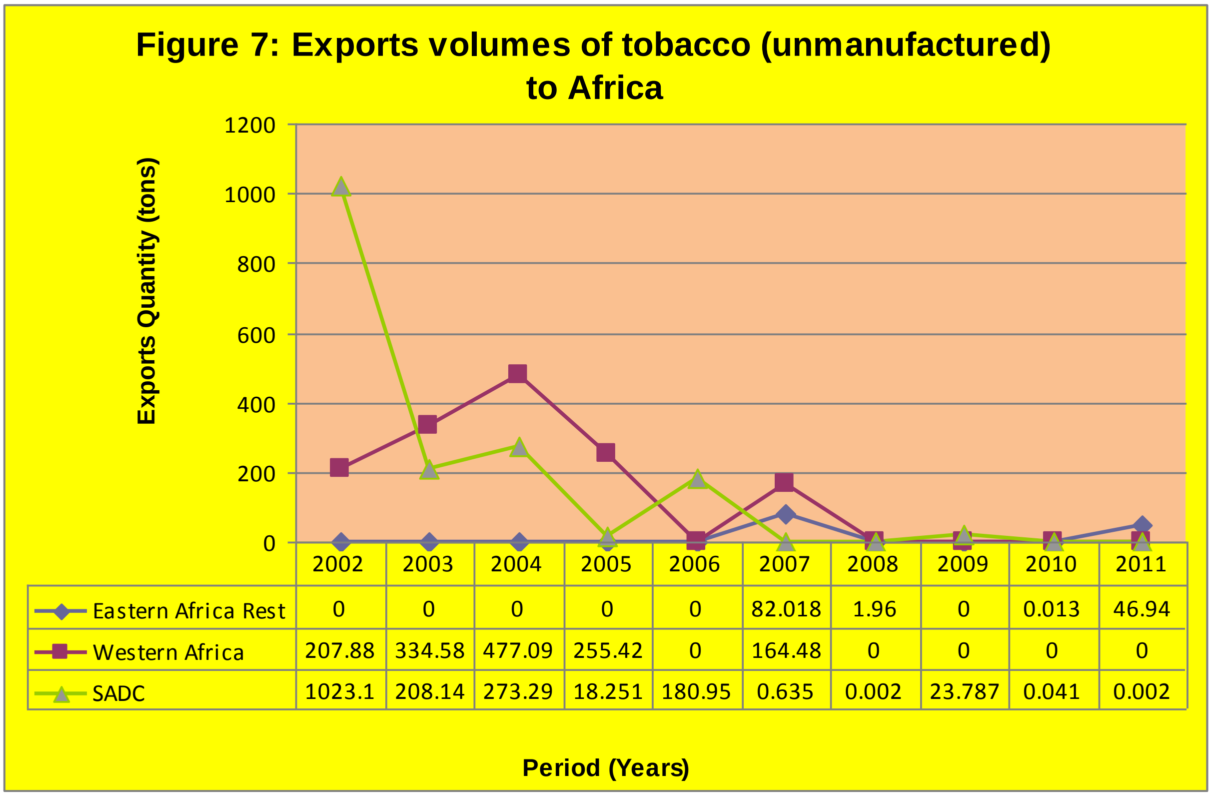


Figure 6: Exports volumes of tobacco (unmanufactured) to various regions

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Africa	11299.3	542.715	750.382	273.671	180.953	247.133	1.962	23.787	0.054	46.942
Asia	1199.32	2077.09	293.6	249.751	0.21	451.38	0	237.6	0	41.865
Europe	967.508	275.433	409.8	23.807	19.862	0	6.163	0	0.003	220.252

Source: Quantec Easy Data

Figure 6 indicates volumes of tobacco exports from South Africa to various regions of the world between 2002 and 2011 period. The graph further indicates that in 2002, tobacco exports volumes from South Africa to Africa experienced a surge and a peak at approximately 11 299 tons. Between 2003 and 2011, tobacco exports from South Africa to Africa declined dramatically to lower levels of below 800 tons per annum. The graph also indicates that tobacco exports from South Africa to Asia started to increase in 2002, until a peak was attained in 2003 at approximately 2077 tons. Between 2004 and 2011, tobacco exports volumes from South Africa to Asia declined dramatically to lower levels of below 500 tons per annum. The graph further indicates that there was 91.9% increase in tobacco exports volumes from South Africa to Africa in 2011 as compared to 2010.

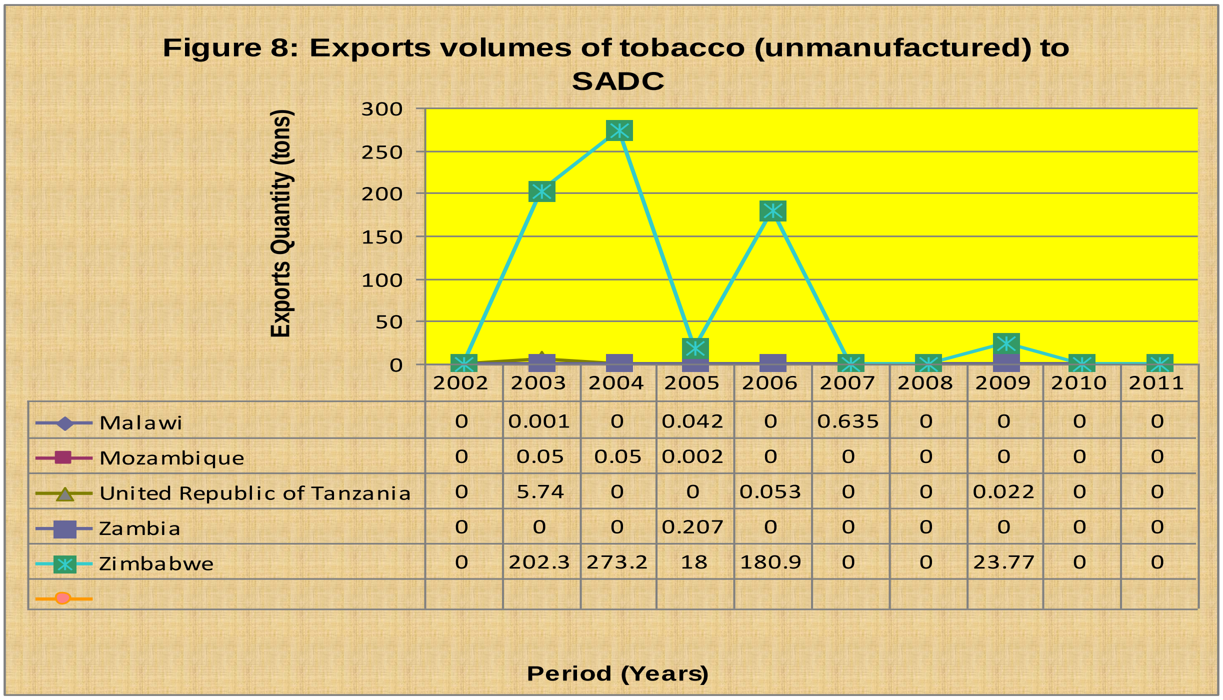


	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Eastern Africa Rest	0	0	0	0	0	82.018	1.96	0	0.013	46.94
Western Africa	207.88	334.58	477.09	255.42	0	164.48	0	0	0	0
SADC	1023.1	208.14	273.29	18.251	180.95	0.635	0.002	23.787	0.041	0.002

Source: Quantec Easy Data

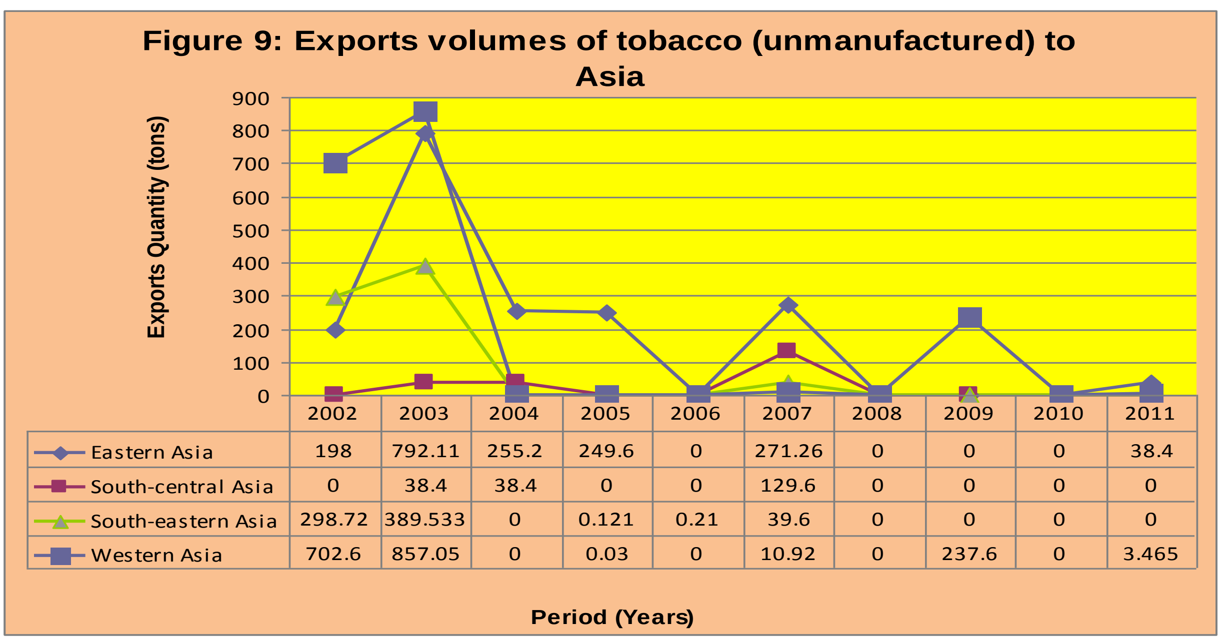
Figure 7 illustrates exports volumes of tobacco from South Africa to Africa between 2002 and 2011 period. The graph further illustrates that over the past decade, the major export market for tobacco from South Africa to Africa was the SADC region, particularly from Zimbabwe. Eastern and Western Africa had very low volumes of tobacco exports during the period under examination. The graph also illustrates that exports volumes of tobacco from South Africa to SADC region started to increase in 2002, and at the same time attained a peak at approximately 1023.10 tons. The graph further illustrates that exports of tobacco from South Africa to Western Africa started to increase in 2002, until a peak was attained in 2004 at approximately 477.09 tons. The graph also illustrates that between 2006 and 2011, tobacco exports from South Africa to SADC, Eastern and Western Africa were very low at approximately less than 200 tons per annum. The graph further illustrates that between 2002 and 2006, there were no tobacco exports from South Africa to Eastern Africa, while between 2008 and 2011, there were no tobacco exports from South Africa to Western Africa. The graph also illustrates that there was 95.1% decline in tobacco exports volumes from South Africa to SADC in 2011 as compared to 2010.

Figure 8 depicts volumes of tobacco exports from South Africa to the SADC region between 2002 and 2011 period. The figure further depicts that over the past ten years, the major export market for tobacco from South Africa to the SADC region was Zimbabwe, with very intermittent exports to Malawi, Mozambique, United Republic of Tanzania and Zambia. The figure also depicts that tobacco exports volumes from South Africa to Zimbabwe started to increase in 2003, until a peak was attained in 2004 and 2006 at approximately 273.24 tons and 180.90 tons. The figure further depicts that over the past decade, there were no exports volumes of tobacco from South Africa to Zimbabwe in 2002, 2007, 2008 and again between 2010 and 2011period. The figure also depicts that there was 100% decline in tobacco exports volumes from South Africa to Zimbabwe in 2010 and 2011 as compared to 2009.



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Malawi	0	0.001	0	0.042	0	0.635	0	0	0	0
Mozambique	0	0.05	0.05	0.002	0	0	0	0	0	0
United Republic of Tanzania	0	5.74	0	0	0.053	0	0	0.022	0	0
Zambia	0	0	0	0.207	0	0	0	0	0	0
Zimbabwe	0	202.3	273.2	18	180.9	0	0	23.77	0	0

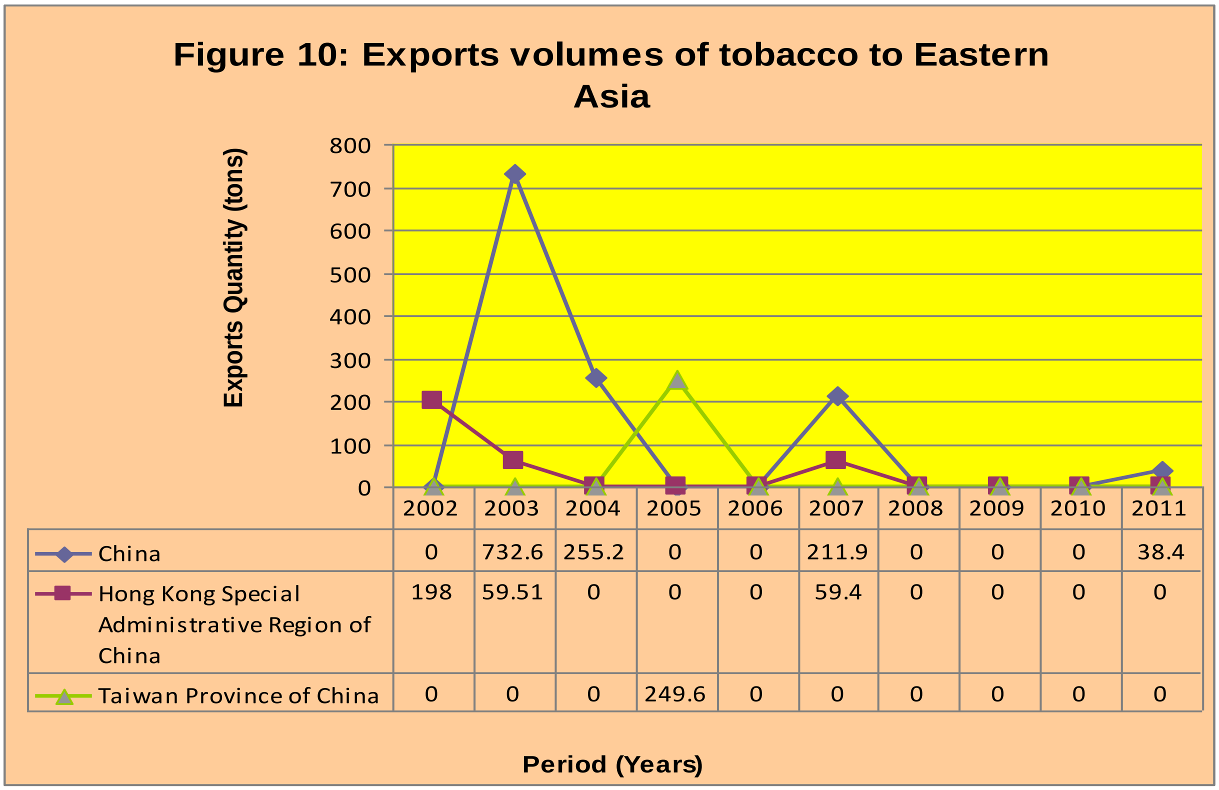
Source: Quantec Easy Data



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Eastern Asia	198	792.11	255.2	249.6	0	271.26	0	0	0	38.4
South-central Asia	0	38.4	38.4	0	0	129.6	0	0	0	0
South-eastern Asia	298.72	389.533	0	0.121	0.21	39.6	0	0	0	0
Western Asia	702.6	857.05	0	0.03	0	10.92	0	237.6	0	3.465

Source: Quantec Easy Data

Figure 9 shows exports volumes of tobacco from South Africa to Asia between 2002 and 2011 period. The graph further shows that over the ten year period, the major export market for tobacco from South Africa to Asia was Western Asia, followed by Eastern Asia and South-Eastern Asia. The graph also shows that South Africa exported less quantities of tobacco to South-central Asia between 2002 and 2011 of not more than 150 tons per annum. The graph further shows that exports of tobacco from South Africa to Western Asia started to increase in 2002, until a peak was attained in 2003 at approximately 857.05 tons, while tobacco exports volumes from South Africa to Eastern Asia started to increase in 2002, until a peak was attained also in 2003 at approximately 792.11 tons. The graph also shows that exports of tobacco from South Africa to South-eastern Asia attained a peak in 2003 at approximately 389.53 tons. The graph also shows that there was 100% increase in tobacco exports volumes from South Africa to Western Asia in 2011 as compared to 2010.



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
China	0	732.6	255.2	0	0	211.9	0	0	0	38.4
Hong Kong Special Administrative Region of China	198	59.51	0	0	0	59.4	0	0	0	0
Taiwan Province of China	0	0	0	249.6	0	0	0	0	0	0

Source: Quantec Easy Data

Figure 10 indicates exports volumes of tobacco from South Africa to Eastern Asia between 2002 and 2011 period. The figure further indicates that over the past decade, the major export market for tobacco from South Africa to Eastern Asia was China, followed by low export volumes of tobacco from South Africa to Taiwan Province of China and Hong Kong Special Administrative Region of China. The figure also indicates that exports volumes of tobacco from South Africa to China started to increase in 2003, and at the same time attained a peak at approximately 732.60 tons. The figure further indicates that exports volumes of tobacco from South Africa to Taiwan Province of China experienced a peak in 2005 at approximately 249.60 tons. The figure also indicates that over the past ten years, there were no tobacco exports volumes from South Africa to China in 2002, between 2005 and 2006 and again between 2008 and 2010. The figure also indicates that between 2002 and 2004, and again between 2006 and 2011, there were also no tobacco exports from South Africa to Taiwan Province of China. The figure further indicates that there was 100% increase in tobacco exports volumes from South Africa to China in 2011 as compared to 2010.

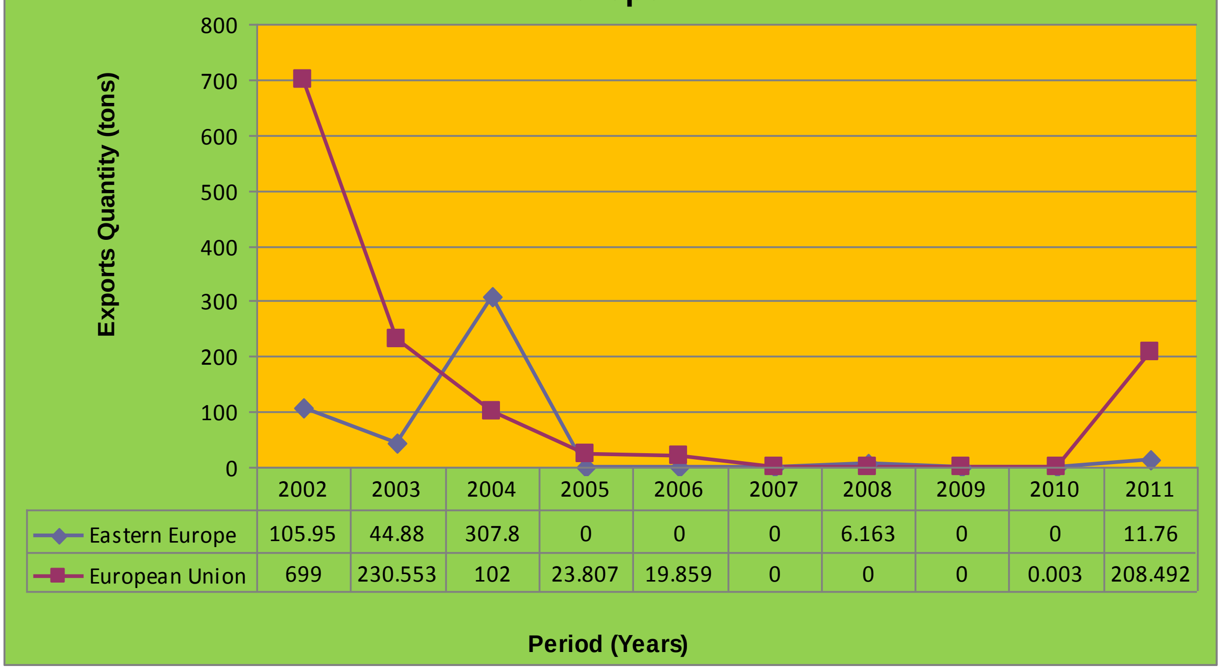


Figure 11: Exports volumes of tobacco (unmanufactured) to Europe

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Eastern Europe	105.95	44.88	307.8	0	0	0	6.163	0	0	11.76
European Union	699	230.553	102	23.807	19.859	0	0	0	0.003	208.492

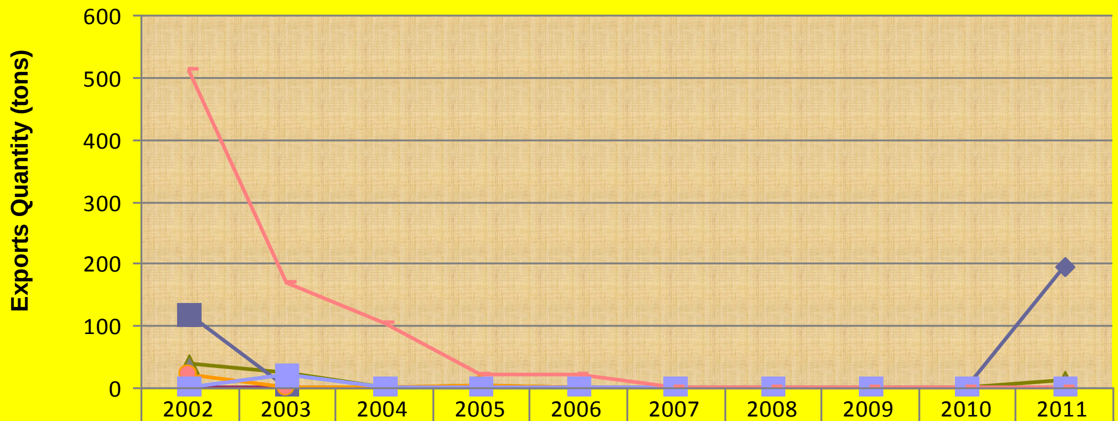
Source: Quantec Easy Data

Figure 11 illustrates exports volumes of tobacco from South Africa to Europe between 2002 and 2011 period. The graph further illustrates that over the past decade, the major export market for tobacco exports from South Africa to Europe was European Union, followed by Eastern Europe. The graph also illustrates that exports volumes of tobacco from South Africa to the European Union started to increase in 2002, and at the same time attained a peak at approximately 699 tons. The graph also illustrates that exports of tobacco from South Africa to Eastern Europe experienced a peak in 2004 at approximately 307.80 tons. The graph further illustrates that tobacco exports from South Africa to the European Union declined substantially from 2003 to 2010 to lower levels of below 250 tons. In 2011, exports volumes of tobacco from South Africa to the European Union slightly increased to upper levels of about 208.49 tons. The graph also illustrates that there was 6.9% increase in tobacco exports volumes from South Africa to the European Union in 2011 as compared to 2010.

Figure 12 illustrates exports volumes of tobacco from South Africa to the European Union between 2002 and 2011 period. The graph further illustrates that over the past ten years, the major export market for tobacco exports from South Africa to Europe was Sweden, followed by low exports volumes to Belgium and Greece. The graph also illustrates that exports volumes of tobacco from South Africa to Sweden started to increase in 2002, and at the same time attained a peak at approximately 511.80 tons. The graph also illustrates that exports volumes of tobacco from South Africa to Belgium experienced a peak in 2011 at approximately 196.20 tons. The figure further illustrates that tobacco exports from South Africa to

Sweden saw a substantial decline from 2003 to 2011 to lower levels of below 170.00 tons per annum. The figure also illustrates that there was 100% decline in tobacco exports volumes from South Africa to Sweden in 2011 as compared to 2006.

Figure 12: Exports volumes of tobacco (unmanufactured) to the European Union



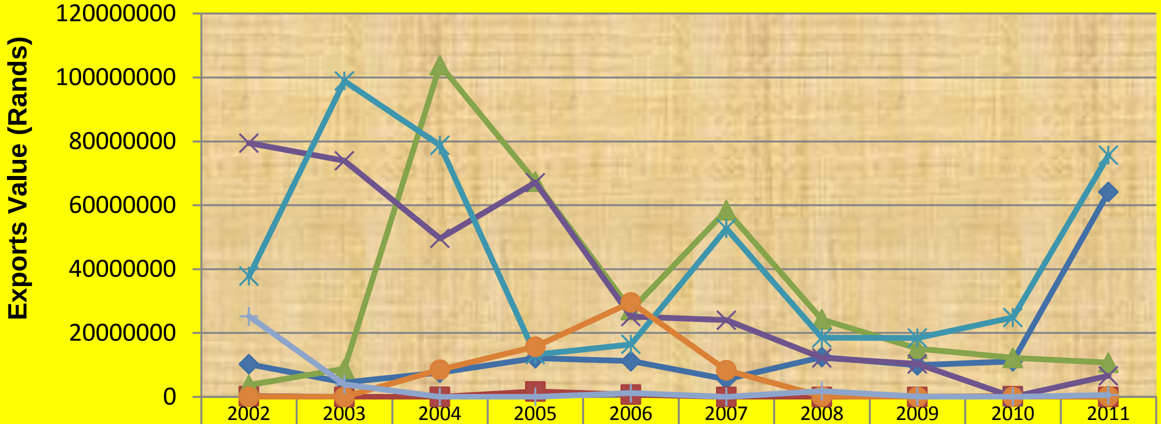
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Belgium	0	0.035	0	0	0	0	0	0	0	196.2
Bulgaria	0	0.4	0	0.025	0	0	0	0	0.003	0
Germany	39	23.44	0	1.511	0	0	0	0	0	12.292
Greece	118.8	0	0	0	0	0	0	0	0	0
Ireland	0	19.8	0	0	0	0	0	0	0	0
Netherlands	19.8	0	0	2.03	0	0	0	0	0	0
Poland	0	19.8	0	0	0	0	0	0	0	0

Period (Years)

Source: Quantec Easy Data

Figure 12 below indicates values of tobacco exports by provinces of the Republic of South Africa to the world between 2002 and 2011. The figure further indicates that during the period under review, tobacco exports from South Africa to the world were mainly from KwaZulu-Natal Province, followed by Gauteng and North West Provinces. The figure also indicates that tobacco exports from KwaZulu-Natal province to the world started to increase in 2003, until a peak was attained in 2004 at approximately R104 million, followed by exports of tobacco from Gauteng province to the world attained a peak in 2003 at approximately R98.9 million. The figure also indicates that tobacco exports from North West province to the world attained its peak in 2002 at approximately R79.4 million. The figure further indicates that Limpopo, Mpumalanga, Western and Eastern Cape provinces had very low exports values of tobacco during the period under scrutiny of not more than R38 million per annum. The figure also indicates that there was 16.7% decline in exports values of tobacco from KwaZulu-Natal province to the world in 2011 as compared to 2010.

Figure 12: Value of tobacco exports (unmanufactured) by Provinces

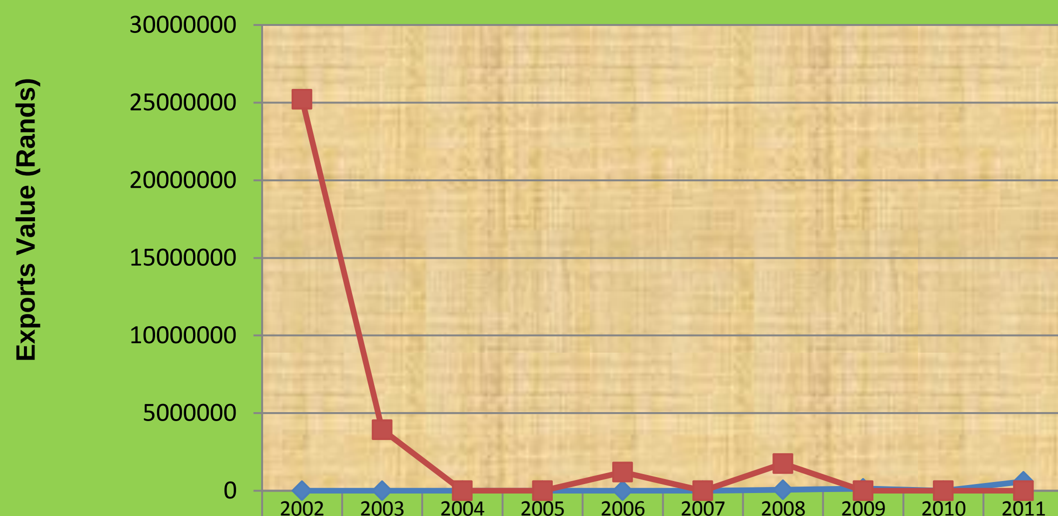


	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Western Cape	10256625	4530265	7589355	12123240	11182583	5553848	12475999	9891311	11166029	64169973
Eastern Cape	230400	3061	38456	1701730	744150	6761	365	0	201372	13445
Kwazulu-Natal	3760766	8786083	1.04E+08	67384075	27193505	58444827	24275616	15107394	12206496	10708871
North West	79448693	73923208	49637826	67091251	25150913	24005724	12193746	10322730	1187	6594177
Gauteng	37823520	98929770	78778217	13257928	16474889	52717973	18507228	18459657	24851204	75681732
Mpumalanga	0	0	8544649	15710107	29598192	8357373	200521	0	0	199639
Limpopo	25217103	3926753	0	137	1199227	0	1803663	147628	0	600819

Period (Years)

Source: Quantec Easy Data

Figure 13: Value of tobacco exports (unmanufactured) by Limpopo Province



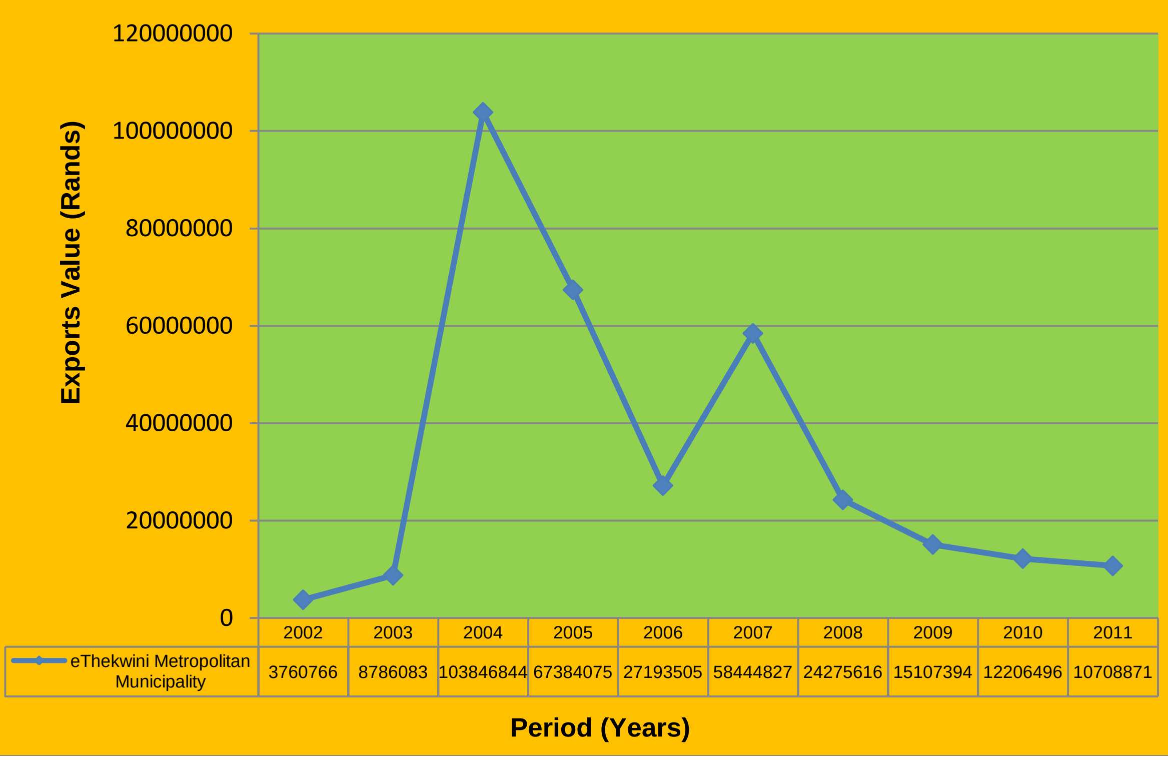
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Vhembe District municipality	0	0	0	0	0	0	58529	147628	0	600819
Waterberg District municipality	25217103	3926753	0	137	1199227	0	1745134	0	0	0

Period (Years)

Source: Quantec Easy Data

Figure 13 depicts values of tobacco exports by Limpopo Province of South Africa to the world between 2002 and 2011 period. The graph further depicts that Waterberg District Municipality commanded the greatest share of tobacco exports from Limpopo province to the world during the period under review with no competition from other districts. The graph also depicts that tobacco exports from Waterberg District Municipality started to increase in 2002, and at the same time attained a peak at approximately R25 million. The graph further depicts that there were no tobacco exports from Waterberg District in 2004, 2007, and again between 2009 and 2011. The graph also depicts that during the period under review, Vhembe district only managed to export tobacco to the world in 2008, 2009 and 2011. The graph further depicts that there was a substantial decline in tobacco exports from Waterberg District Municipality to the world between 2003 and 2011. The graph also depicts that there was 100% decline in exports values of tobacco from Waterberg District Municipality to the world in 2011 as compared to 2008.

Figure 14: Value of tobacco exports (unmanufactured) by KwaZulu-Natal Province

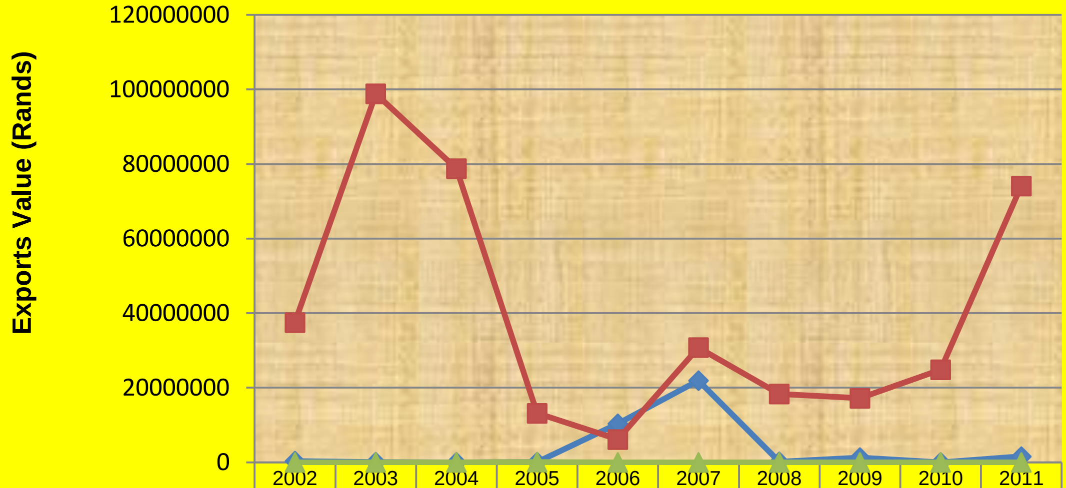


Source: Quantec Easy Data

Figure 14 shows values of tobacco exports by KwaZulu-Natal Province to the world between 200 and 2011 period. The figure further shows that over the past ten years, eThekwini Metro Municipality commanded the greatest share of tobacco exports from KwaZulu-Natal Province during the period under review with no competition from other KwaZulu-Natal Municipalities. The figure also shows that tobacco exports from eThekwini Metro Municipality to the world started to increase 2003 at approximately R8.7 million, until a surge and a peak was attained in 2004 at approximately R103 million. The figure further shows that tobacco exports from eThekwini Metro Municipality to the world declined in 2005 and 2006 to lower levels of about R27.1 million. The figure also shows that there was a slight increase in tobacco exports from eThekwini Metro to the world in 2007, until a consistent decline was experienced between

2008 and 2011 to levels below 10.8 million. The figure further shows that there was 12.3% decline in exports values of tobacco from eThekwini Metro to the world in 2011 as compared to 2010.

Figure 15: Value of tobacco exports (unmanufactured) by Gauteng Province



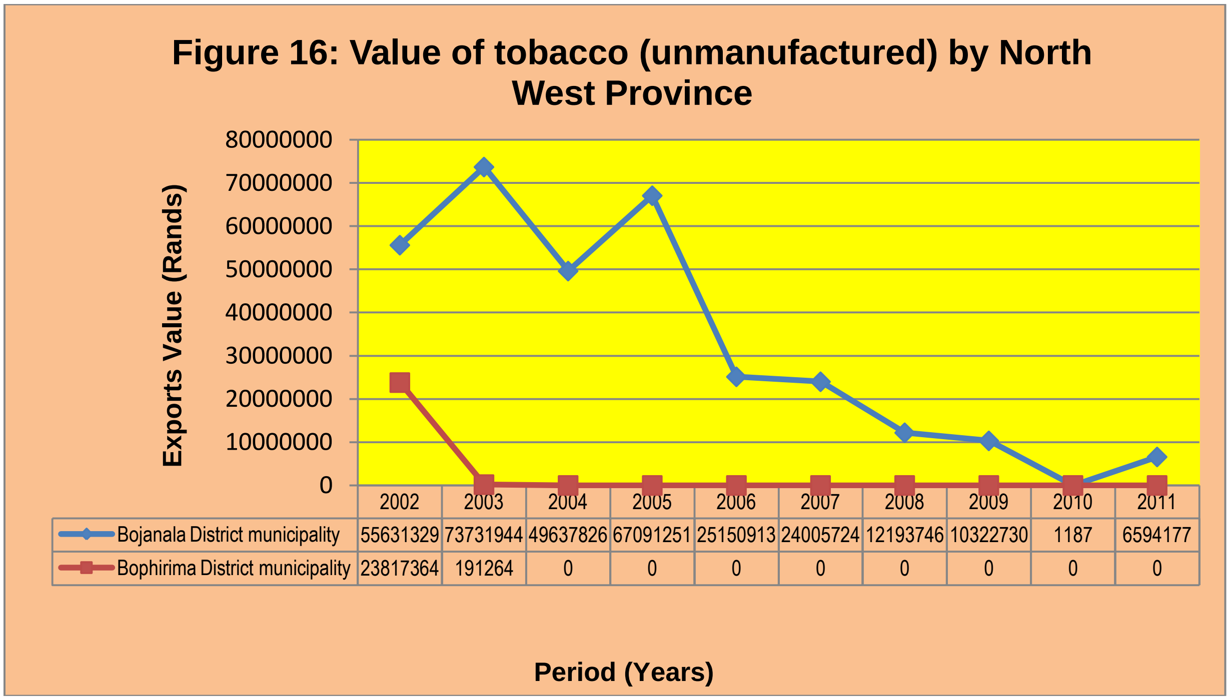
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Ekurhuleni Metropolitan Municipality	331486	66432	2050	51783	10350436	21927030	157937	1287005	1329	1562448
City of Johannesburg Metropolitan Municipality	37492035	98863339	78776167	13147635	6124453	30790932	18349291	17172653	24849875	74119284
City of Tshwane Metropolitan Municipality	0	0	0	58511	0	10	0	0	0	0

Period (Years)

Source: Quantec Easy Data

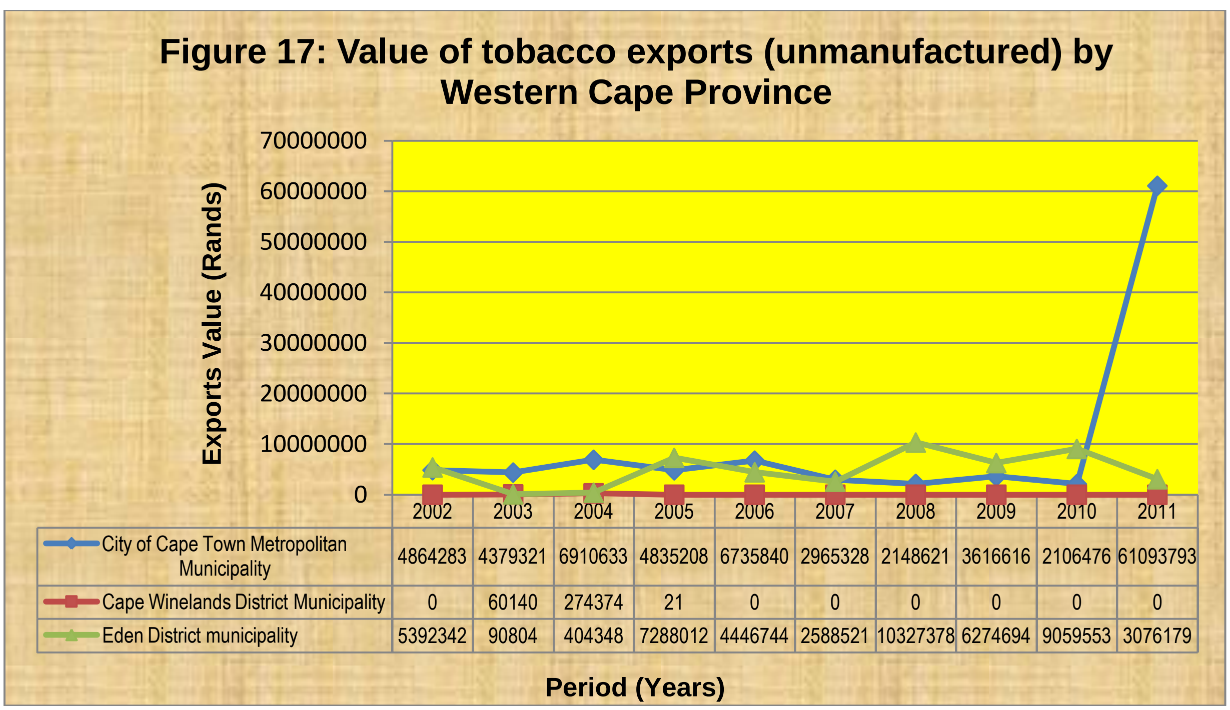
Figure 15 indicates values of tobacco exports by Gauteng Province of South Africa to the world between 2002 and 2011 period. The graph further indicates that the City of Johannesburg Metro Municipality commanded the greatest share of tobacco exports from South Africa to the world during the period under review, followed by minimal tobacco exports from Ekurhuleni Metropolitan Municipality. Tobacco exports from the City of Johannesburg Metropolitan Municipality started to increase in 2002 at approximately R37.4 million. The graph also indicates that tobacco exports from the City of Johannesburg Metro to the world experienced a surge and a peak in 2003 at approximately R98.8 million, whilst tobacco exports from Ekurhuleni Metropolitan Municipality to the world experienced its peak in 2007 at approximately R21.9 million. The graph further indicates that tobacco exports from the City of Johannesburg to the world declined substantially in 2005 and 2006 to lower levels of approximately R6.1 million. The graph also indicates that there was 199% increase in exports values of tobacco from the City of Johannesburg Metro to the world in 2011 as compared to 2010.

Figure 16 below illustrates values of tobacco exports by North West Province of South Africa to the world between 2002 and 2011 period. The figure further illustrates that tobacco exports Bojanala District Municipality to the world started to increase in 2002, until a peak was attained in 2003 and 2005 at approximately R73 million and R67 million respectively. The figure also illustrates that tobacco exports from Bojanala District to the world experienced a dramatic decline from 2006 to 2010 at approximately R1187 in 2010. The graph also illustrates that tobacco exports from Bophirima District Municipality to the world started to increase in 2002 and at the same time attained a peak at approximately R23.8 million, whilst between 2004 and 2011 there were no tobacco exports from Bophirima District to the world due to less production in the domestic market and that resulted to a short supply of tobacco. The graph also illustrates that there was 555% increase in exports values of tobacco from Bojanala District Municipality to the world in 2011 as compared to 2010.



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Bojanala District municipality	55631329	73731944	49637826	67091251	25150913	24005724	12193746	10322730	1187	6594177
Bophirima District municipality	23817364	191264	0	0	0	0	0	0	0	0

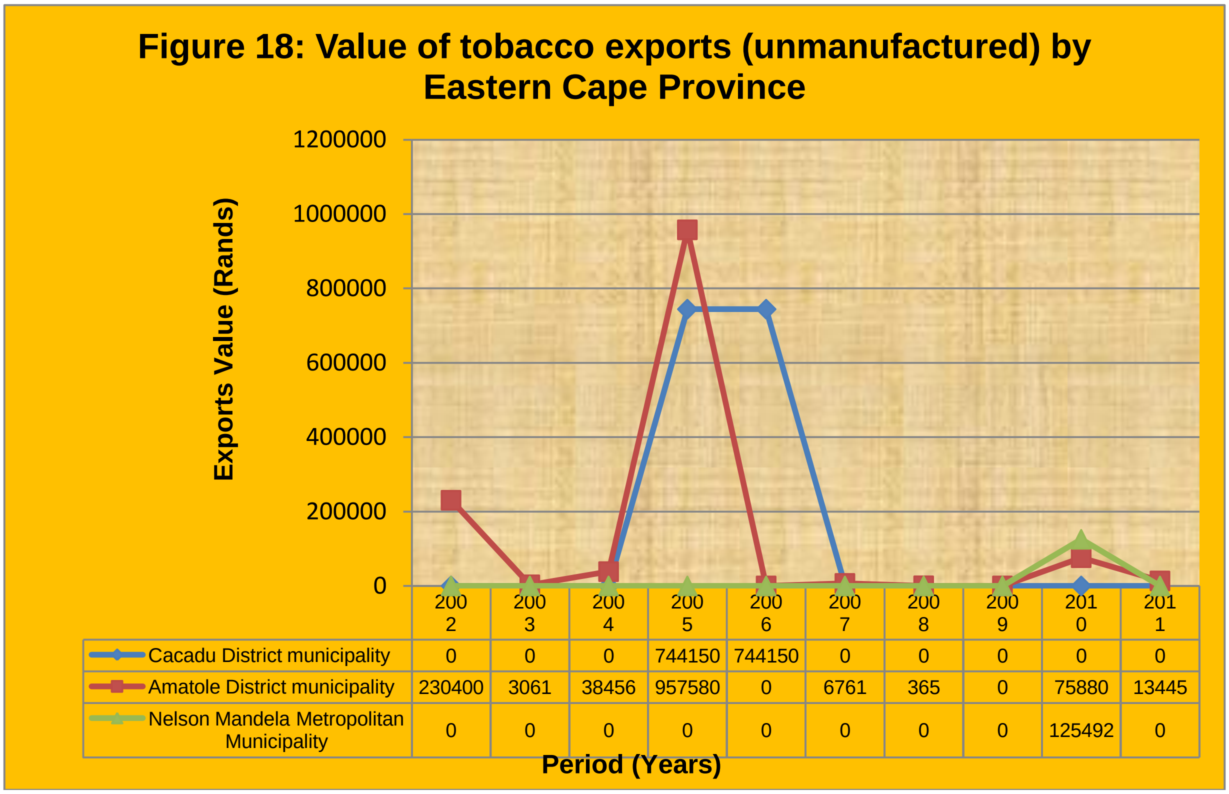
Source: Quantec Easy Data



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
City of Cape Town Metropolitan Municipality	4864283	4379321	6910633	4835208	6735840	2965328	2148621	3616616	2106476	61093793
Cape Winelands District Municipality	0	60140	274374	21	0	0	0	0	0	0
Eden District municipality	5392342	90804	404348	7288012	4446744	2588521	10327378	6274694	9059553	3076179

Source: Quantec Easy Data

Figure 17 depicts values of tobacco exports from the Western Cape Province to the world between 2002 and 2011 period. The graph further depicts that over the past ten years, the City of Cape Town Metro Municipality commanded the greatest share of tobacco exports from the Western Cape Province to the world during the period under review. The graph also depicts that tobacco exports from the City of Cape Town Metro started to increase in 2011, and at the same time attained a peak at approximately R61 million. The graph further depicts that Cape Winelands and Eden District Municipalities had very low levels of tobacco exports throughout the period under examination. The graph also depicts that there was 3% increase in exports values of tobacco from the City of Cape Town Metro to the world in 2011 as compared to 2010.



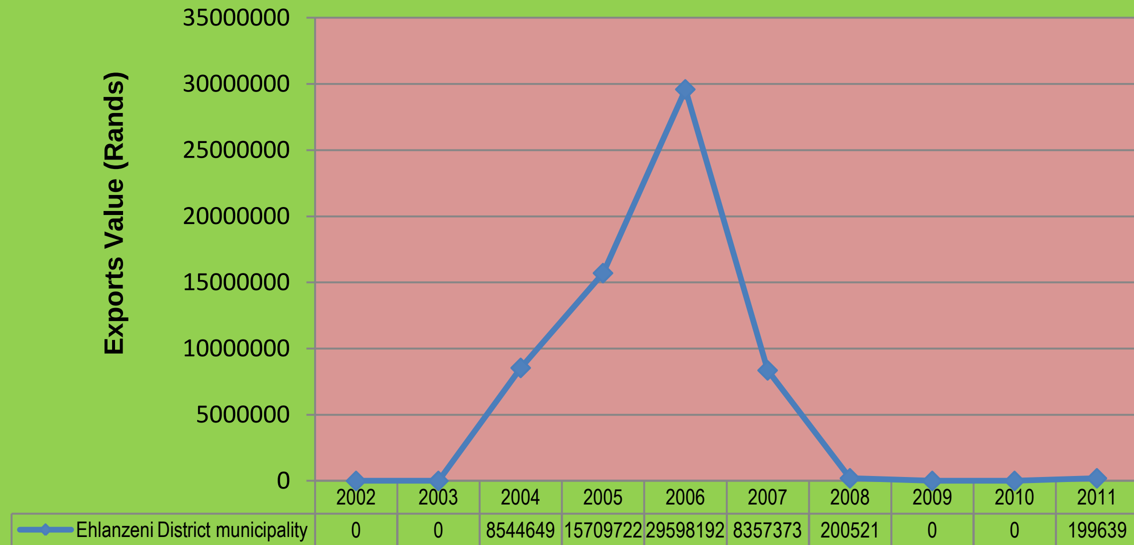
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Cacadu District municipality	0	0	0	744150	744150	0	0	0	0	0
Amatole District municipality	230400	3061	38456	957580	0	6761	365	0	75880	13445
Nelson Mandela Metropolitan Municipality	0	0	0	0	0	0	0	0	125492	0

Source: Quantec Easy Data

Figure 18 shows values of tobacco exports from Eastern Cape Province to the world between 2002 and 2011 period. The figure further shows that over the past decade, Amatole District Municipality commanded the greatest market share of tobacco exports from the Eastern Cape Province to the world. The figure also shows that tobacco exports from Amatole District Municipality to the world started to increase in 2002, and experienced a decline in 2003 and 2004. The figure further shows that tobacco exports from Amatole District Municipality to the world attained a peak in 2005 at approximately R957 580. The figure further shows that in 2002, tobacco exports from Amatole District to the world experienced a sharp decline from 2006 to 2009 of approximately R365.00. The figure also shows that tobacco exports from Cacadu District Municipality to the world started to increase from 2005 to 2006, and at the same time attained a peak at approximately R744 150 respectively. The figure further shows that there were no tobacco exports from Cacadu District Municipality to the world between 2002 and 2004, and again between 2007 and 2011. South Africa only exported tobacco from Nelson Mandela Metro in

2010 over the past decade. The figure also indicates that there was 82.3% decline in exports values of tobacco from Amathole District Municipality to the world in 2011 as compared to 2010.

Figure 19: Value of tobacco exports (unmanufactured) by Mpumalanga Province



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Ehlanzeni District municipality	0	0	8544649	15709722	29598192	8357373	200521	0	0	199639

Source: Quantec Easy Data

Figure 19 illustrates values of tobacco exports from Mpumalanga Province to the world between 2002 and 2011 period. The figure further illustrates that Ehlanzeni District Municipality commanded the greatest market share of tobacco exports from Mpumalanga province during the period under examination. The figure also illustrates that tobacco exports from Ehlanzeni District Municipality to the world started to increase in 2004 at approximately R8.5 million, and experienced a surge in 2005 until a peak was attained in 2006 at approximately R29.5 million. The figure further illustrates that between 2002 and 2003,and again between 2009 and 2010, there were no tobacco exports from Ehlanzeni District Municipality to the world. The figure also illustrates that tobacco exports from Ehlanzeni District to the world declined consistently from 2007 until 2011 to lower levels of about R199 639 in 2011.

The figure further illustrates that there was 100% increase in exports values of tobacco from Ehlanzeni District Municipality to the world in 2011 as compared to 2010.

3.1 Share Analysis

Table 2 above indicates that the Gauteng Province commanded the greatest share of tobacco exports during the period under review, followed by KwaZulu-Natal Province. This trend indicates that the greatest percentages of tobacco exports were recorded as originating from both Gauteng and KwaZulu-Natal provinces with small values recorded for other provinces.

Table 2: Share of provincial tobacco exports to the total South African tobacco exports (%)

Year Province	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Western Cape	6.54	2.38	3.05	6.84	10.0	3.73	18.0	18.3	23.1	40.6
Eastern Cape	0.15	0.00	0.02	0.96	0.67	0.00	0.00	0.00	0.42	0.01
KwaZulu-Natal	2.39	4.62	41.8	38.0	24.4	39.2	35.0	28.0	25.2	6.78
North West	50.7	38.9	20.0	37.8	22.5	16.1	17.6	19.1	0.00	4.17
Gauteng	24.1	52.0	31.7	7.61	14.8	35.4	26.6	34.2	51.3	47.9
Mpumalanga	0.00	0.00	3.44	8.73	26.5	5.61	0.28	0.00	0.00	0.13
Limpopo	16.1	2.07	0.00	7.73	1.08	0.00	2.60	0.27	0.00	0.38

Source: Calculated from Quantec

In the Western Cape Province tobacco exports occur mainly through the City of Cape Town (see table 3), followed by Eden District with menial exports recorded from the Cape Wine lands over the past decade.

Table 3: Share of the district tobacco exports to the total Western Cape tobacco exports (%)

Year Districts	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
City of Cape Town	47.4	96.7	91.1	39.9	60.2	53.4	17.2	36.6	18.9	95.2
Cape Winelands	0.00	1.33	3.62	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Eden District	52.6	2.00	5.33	60.1	39.8	46.6	82.8	63.4	81.1	4.79

Source: Calculated from Quantec

Table 4 illustrates that in the Eastern Cape Province tobacco exports occurred mainly through the Amatole District, followed by low tobacco exports from Cacadu District during the period under scrutiny.

Table 4: Share of district tobacco exports to the total Eastern Cape tobacco exports (%)

Year Districts	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Cacadu District	0.00	0.00	0.00	43.7	100	0.00	0.00	0.00	0.00	0.00
Amatole District	100	100	100	56.3	0.00	100	100	0.00	100	100

Source: Calculated from Quantec

Table 5 depicts that in Limpopo province exports of tobacco originated mainly from the Waterberg District throughout the period under review.

Table 5: Share of district tobacco exports to the total Limpopo tobacco exports (%)

Year Districts	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Vhembe District	0.00	0.00	0.00	0.00	0.00	0.00	3.25	100	0.00	100

Year / Districts	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Waterberg District	100	100	0.00	100	100	0.00	96.8	0.00	0.00	0.00

Source: Calculated from Quantec

In the KwaZulu-Natal province tobacco exports originated mainly from the eThekwini Metro with no competition from other districts over the past ten years (see Table 6).

Table 6: Share of district tobacco exports to the total KwaZulu-Natal tobacco exports (%)

Year / Districts	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
eThekwini Metro	100	100	100	100	100	100	100	100	100	100

Source: Calculated from Quantec

Table 7 depicts that in North West province exports of tobacco originated mainly from the Bojanala District throughout the period under review.

Table 7: Share of district tobacco exports to the total North West tobacco exports (%)

Year / Districts	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Bojanala District	70.0	99.7	100	100	100	100	100	100	100	100
Bophirima District	30.0	0.26	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Source: Calculated from Quantec

Table 8: Share of district tobacco exports to the total Gauteng tobacco exports (%)

Year / Districts	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Ekurhuleni Metro	0.88	0.07	0.00	0.39	62.8	41.6	0.85	6.97	0.01	2.06
City of Johannesburg	99.1	99.9	100	99.6	37.2	58.4	99.1	93.1	100	98.0

Source: Calculated from Quantec

Table 8 indicates that in Gauteng province, the City of Johannesburg Metro Municipality commanded the greatest share of tobacco exports over the past decade.

Table 9: Share of district tobacco exports to the total Mpumalanga tobacco exports (%)

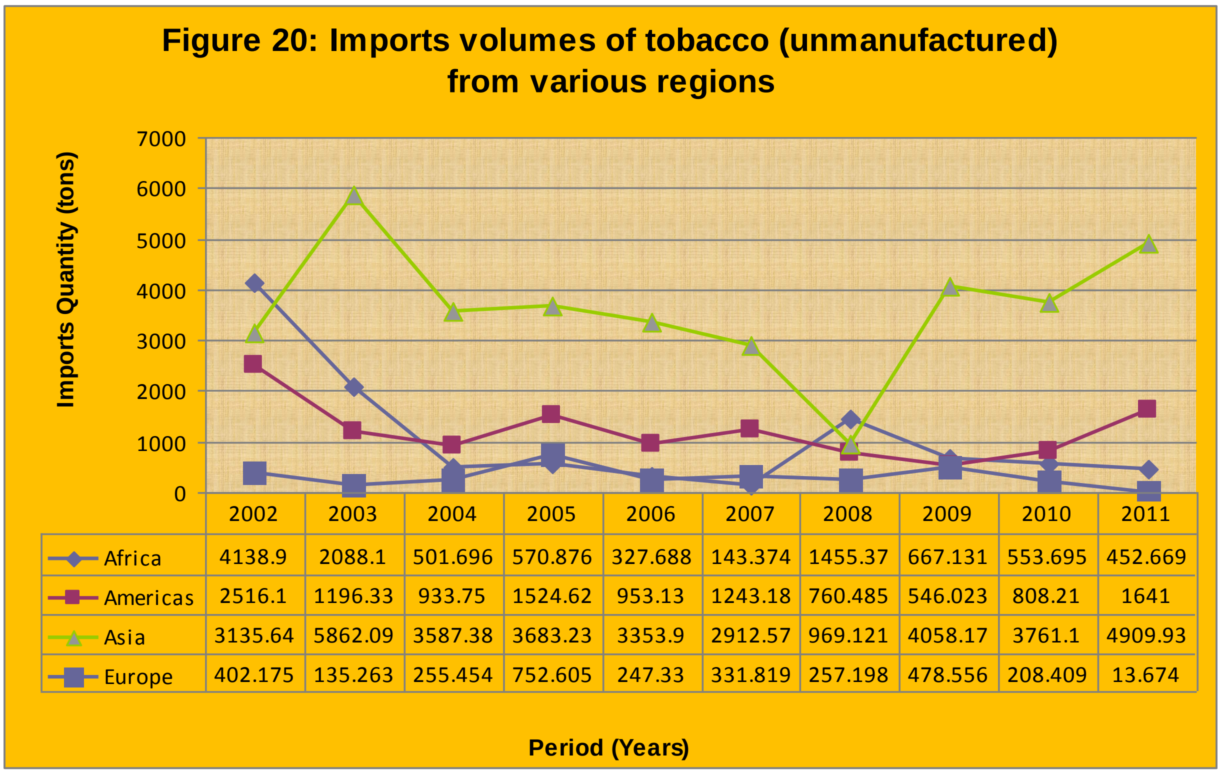
Year / Districts	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Ehlanzeni District	0.00	0.00	100	100	100	100	100	0.00	0.00	100

Source: Calculated from Quantec

Table 9 depicts that in Mpumalanga Province, Ehlanzeni District Municipality commanded the greatest share of tobacco exports during the period under review.

4. IMPORTS VOLUMES

On average, South Africa imports approximately 17 000 tons of tobacco (unmanufactured) per annum. The volumes of imports of tobacco (unmanufactured) are shown in Figure 20. Imports have increased above exports since 2002 because the tobacco manufacturers are importing more tobacco due to a substantial decline in domestic production and some tobacco manufacturers have begun importing finished tobacco products.

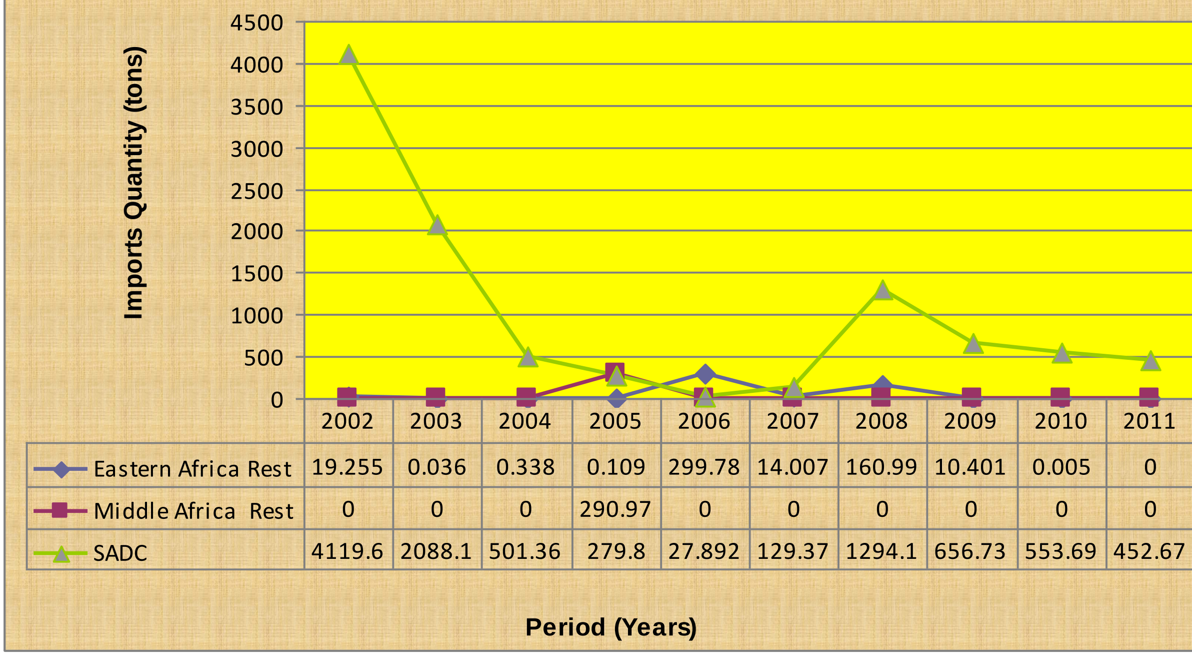


	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Africa	4138.9	2088.1	501.696	570.876	327.688	143.374	1455.37	667.131	553.695	452.669
Americas	2516.1	1196.33	933.75	1524.62	953.13	1243.18	760.485	546.023	808.21	1641
Asia	3135.64	5862.09	3587.38	3683.23	3353.9	2912.57	969.121	4058.17	3761.1	4909.93
Europe	402.175	135.263	255.454	752.605	247.33	331.819	257.198	478.556	208.409	13.674

Source: Quantec Easy Data

Figure 20 indicates tobacco (unmanufactured) imports volumes from the world into South Africa between 2002 and 2011 period. The figure further indicates that tobacco imports volumes from Asia into South Africa commanded the greatest share in the market, followed by Africa and Americas during the period under scrutiny. The figure also indicates that tobacco imports volumes from Asia into South Africa started to increase in 2002 at approximately 3135 tons, until a peak was attained in 2003 at approximately 5862 tons. The figure further indicates that there was a dramatic decline of tobacco imports from Asia into South Africa in 2008, due to low levels of production worldwide at about 699 tons. The figure also indicates that imports volumes of tobacco from Asia into South Africa experienced a dramatic increase in 2009 at about 4058 tons. In 2011, imports volumes of tobacco from Asia into South Africa further increased to upper levels and a peak of about 4909 tons. Imports volumes of tobacco from Africa into South Africa attained a peak in 2002 at approximately 4138.90 tons. The figure also indicates that tobacco imports from Americas experienced a peak in 2002 at approximately 2516.10 tons. Generally, South Africa received low volumes of tobacco imports between 2004 and 2011 from various regions of the world.

Figure 21: Imports volumes of tobacco (unmanufactured) from Africa

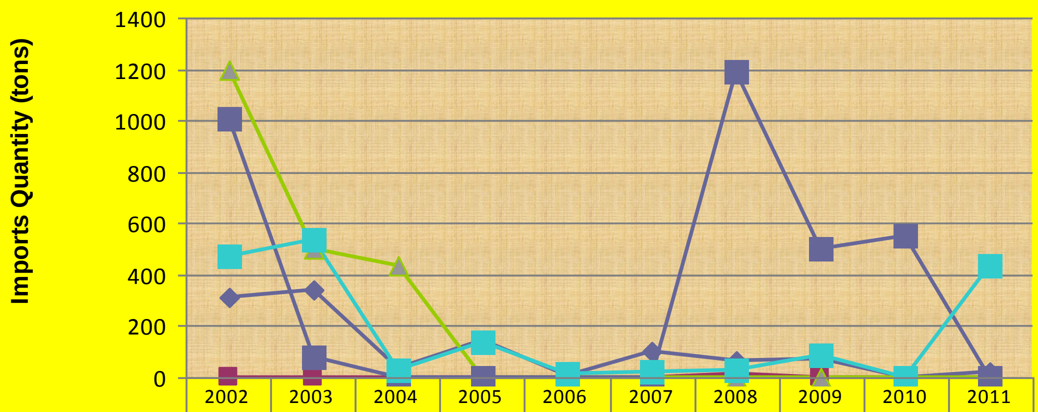


	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Eastern Africa Rest	19.255	0.036	0.338	0.109	299.78	14.007	160.99	10.401	0.005	0
Middle Africa Rest	0	0	0	290.97	0	0	0	0	0	0
SADC	4119.6	2088.1	501.36	279.8	27.892	129.37	1294.1	656.73	553.69	452.67

Source: Quantec Easy Data

Figure 21 shows tobacco (unmanufactured) imports volumes from the African region into South Africa between 2002 and 2011 period. The graph further shows that tobacco imports from Africa into South Africa were mainly from the SADC region, with very minimal volumes from Eastern Africa and Middle Africa. The graph also shows that tobacco imports from SADC region into South Africa started to increase in 2002, and at the same time attained a peak at approximately 4119 tons. The graph further shows that between 2004 and 2007, there was a dramatic decline in imports of tobacco from the SADC region to South Africa to lower levels of about 27.9 tons. In 2008, tobacco imports from SADC region into South Africa experienced a slight increase of up to 1294 tons. The graph also shows that imports volumes of tobacco originating from Eastern Africa were intermittently low between 2002 and 2011 period not more than 300 tons per annum. Between 2009 and 2011 period, there was a consistent decline in tobacco imports from SADC region into South Africa, due to high demand of the product in Asia.

Figure 22: Imports volumes of tobacco (unmanufactured) from SADC

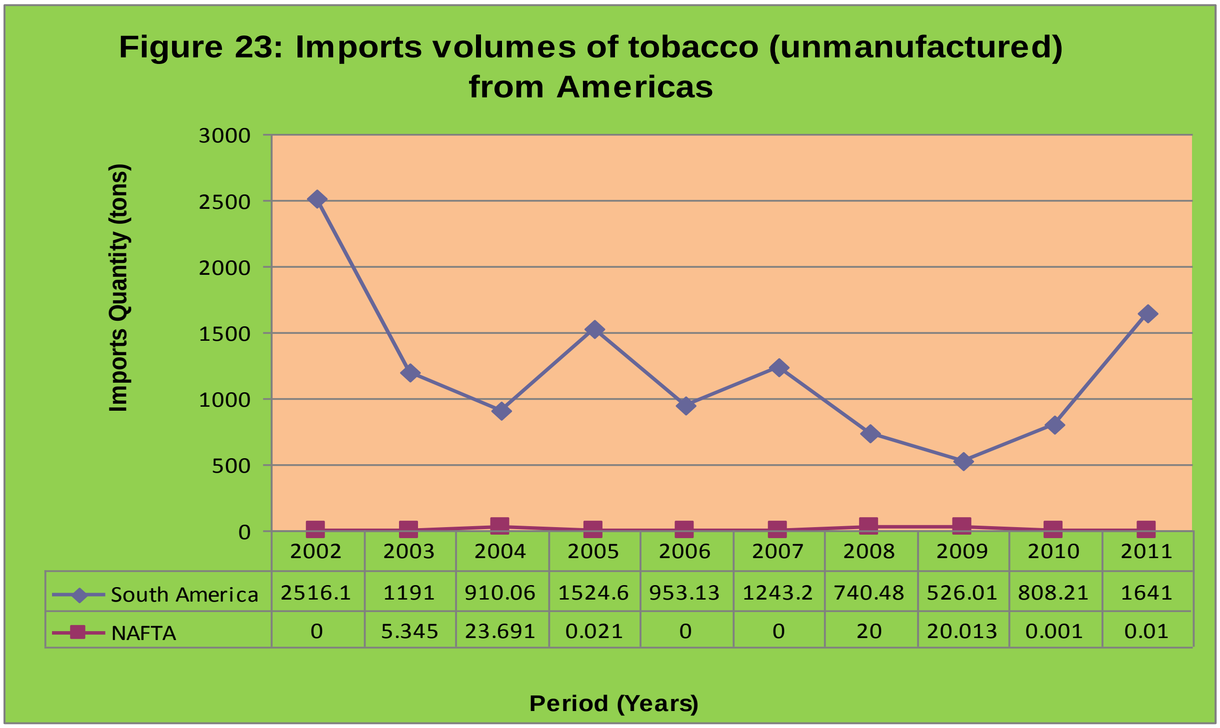


	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Malawi	312.73	338.444	34.079	143.282	10.799	104.282	65.864	70.313	0	20.166
Mozambique	0	0	0	0	0.029	0	13.7	0	0	0
United Republic of Tanzania	1194.4	500	437	0.029	0.179	0.002	0	0.4	0.023	0
Zambia	1008.8	80	0	0.015	0.017	0	1187.95	499.548	553.605	0.03
Zimbabwe	474.71	536.017	30.279	136.471	16.868	25.075	26.562	86.469	0.002	432.473

Source: Quantec Easy Data

Figure 22 illustrates tobacco imports volumes from the SADC region into South Africa between 2002 and 2011 period. The graph further illustrates that over the past decade, tobacco imports from SADC into South Africa were mainly from United Republic of Tanzania, followed by Zambia and Zimbabwe. The graph also illustrates that tobacco imports from United Republic of Tanzania to the world started to increase in 2002, and at the same time attained a peak at approximately 1194 tons. The graph further illustrates that between 2005 and 2011, there was a dramatic decline in imports of tobacco from United Republic of Tanzania into South Africa. The graph also illustrates that imports volumes of tobacco originating from Zambia into South Africa started to increase in 2002, and attained a peak in 2002 and 2008 at approximately 1194 and 1187 tons respectively. Between 2009 and 2011, there was a slight decline in tobacco imports from Zambia into South Africa, due to high demand for tobacco imports from the other regions.

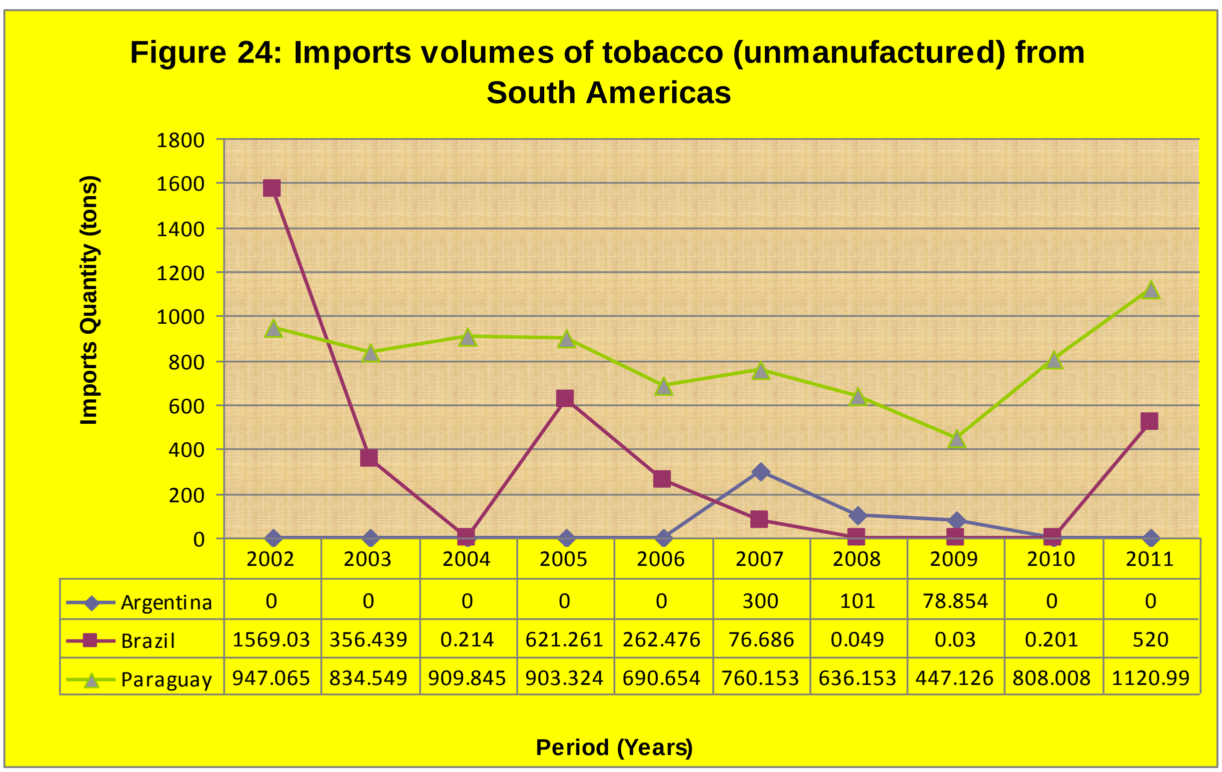
Figure 23 below indicates volumes of tobacco imports from the Americas to South Africa between 2002 and 2011 period. The graph further indicates that over the period under review, South America commanded the greatest share of tobacco imports from Americas into South Africa. The graph also indicates that NAFTA had very low levels of tobacco imports from Americas into South Africa of not more than 25 tons per annum during the period under examination. The graph further indicates that tobacco imports from South America into South Africa started to increase in 2002, and at the same time attained a peak in at approximately 2516 tons. It is evident in the graph that tobacco imports from NAFTA into South Africa during the period under scrutiny only managed a peak of 23.7 tons in 2004.



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
South America	2516.1	1191	910.06	1524.6	953.13	1243.2	740.48	526.01	808.21	1641
NAFTA	0	5.345	23.691	0.021	0	0	20	20.013	0.001	0.01

Source: Quantec Easy Data

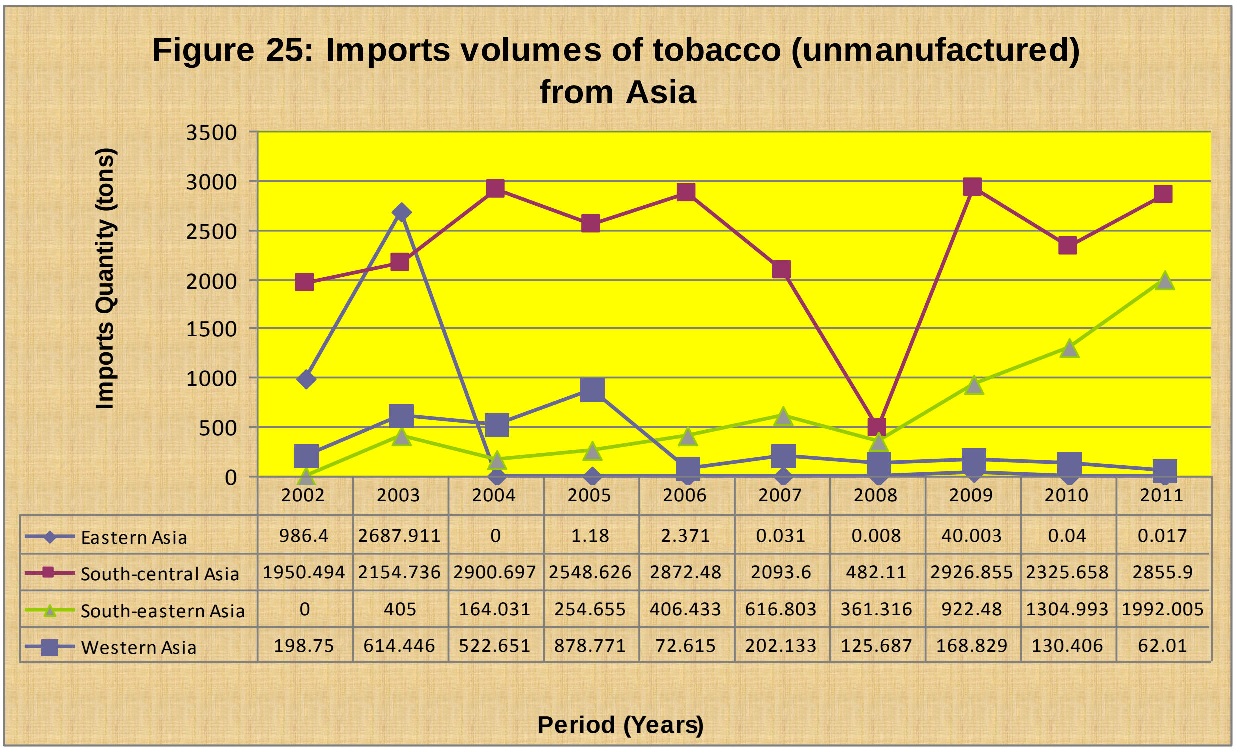
Figure 24 shows volumes of tobacco imports from South America into South Africa between 2002 and 2011 period.



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Argentina	0	0	0	0	0	300	101	78.854	0	0
Brazil	1569.03	356.439	0.214	621.261	262.476	76.686	0.049	0.03	0.201	520
Paraguay	947.065	834.549	909.845	903.324	690.654	760.153	636.153	447.126	808.008	1120.99

Source: Quantec Easy Data

Figure 24 shows that over the past decade, the greatest share of tobacco imports from South America into South Africa originated mainly from Brazil, followed by Paraguay and minimal volumes of imports from Argentina. The figure also shows that tobacco imports from Brazil started to increase in 2002, and at the same time attained a peak at approximately 1569 tons as compared to tobacco imports from Paraguay into South Africa that attained a peak in 2011 at approximately 1120 tons. Tobacco imports from Brazil into South Africa experienced a substantial decline in 2003 and 2004 at approximately 356 and 0.21 tons. Tobacco imports from Argentina into South Africa attained a peak in 2007 at approximately 300 tons. The figure also shows that imports volumes of tobacco from Brazil into South Africa saw a slight increase in 2011 of about 520 tons.



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Eastern Asia	986.4	2687.911	0	1.18	2.371	0.031	0.008	40.003	0.04	0.017
South-central Asia	1950.494	2154.736	2900.697	2548.626	2872.48	2093.6	482.11	2926.855	2325.658	2855.9
South-eastern Asia	0	405	164.031	254.655	406.433	616.803	361.316	922.48	1304.993	1992.005
Western Asia	198.75	614.446	522.651	878.771	72.615	202.133	125.687	168.829	130.406	62.01

Source: Quantec Easy Data

Figure 25 illustrates volumes of tobacco imports from Asia into South Africa between 2002 and 2011 period. The graph further illustrates that South-central Asia commanded the greatest share of tobacco imports from Asia into South Africa, followed by Eastern Asia, South-eastern Asia and Western Asia respectively. The graph also illustrates that tobacco imports from South-central Asia into South Africa attained a peak in 2004, 2006, 2009 and 2011 at approximately 2900, 2872, 2926 and 2855tons respectively. Tobacco imports from Eastern Asia into South Africa attained a peak in 2003 at approximately 2687 tons, while tobacco imports from South-eastern Asia into South Africa attained a peak in 2011 at approximately 1992 tons. The graph further illustrates that tobacco imports from Western Asia into South Africa attained a peak in 2005 at approximately 878 tons during the period under scrutiny.

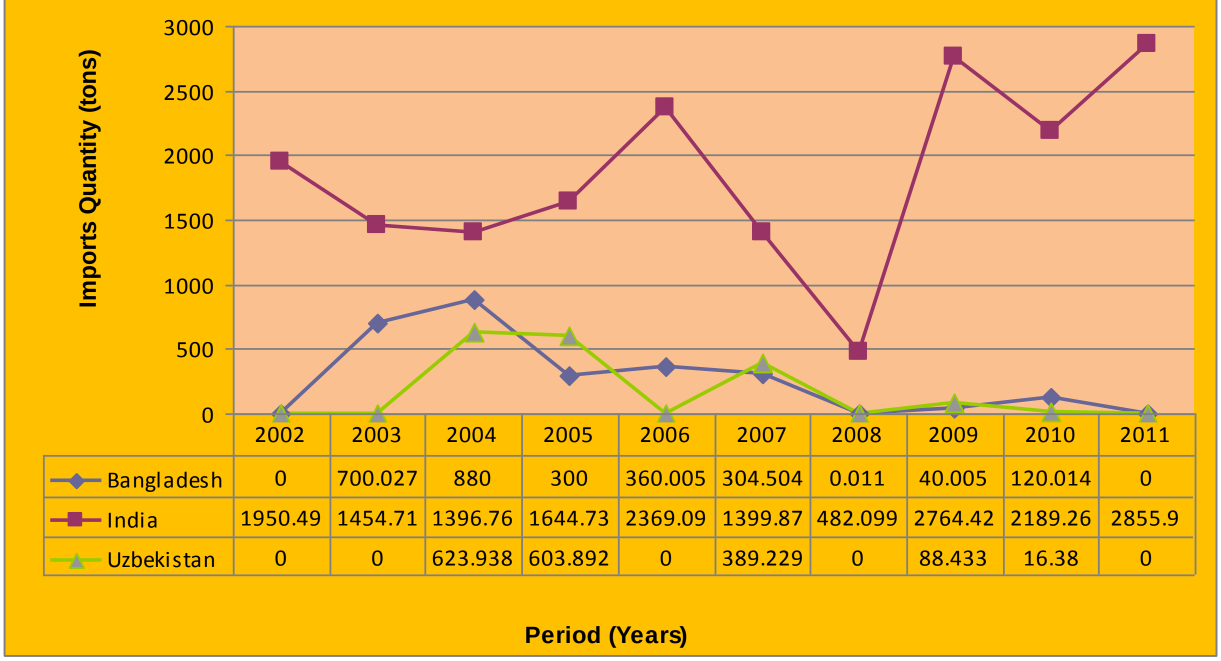


Figure 26: Imports volumes of tobacco (unmanufactured) from South-central Asia

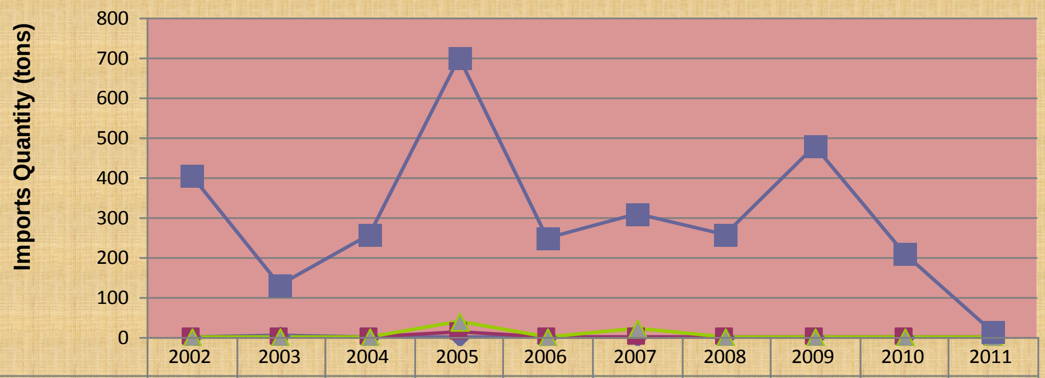
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Bangladesh	0	700.027	880	300	360.005	304.504	0.011	40.005	120.014	0
India	1950.49	1454.71	1396.76	1644.73	2369.09	1399.87	482.099	2764.42	2189.26	2855.9
Uzbekistan	0	0	623.938	603.892	0	389.229	0	88.433	16.38	0

Source: Quantec Easy Data

Figure 26 depicts volumes of tobacco imports from South-central Asia into South Africa between 2002 and 2011 period. The graph further depicts that during the period under review, India commanded the greatest share of tobacco imports from South-central Asia into South Africa, followed by Bangladesh and Uzbekistan. The graph also depicts that tobacco imports from India into South Africa started to increase in 2002, and a slight decline occurred in between 2003 and 2004 at approximately 1396 and 1454 tons respectively. The graph further depicts that tobacco imports from India attained a peak in 2006, 2009 and 2011 at approximately 1399 tons, 2764 and 2855 tons respectively. The graph further depicts that in 2008, tobacco imports from India into South Africa experienced a dramatic decline of approximately 482 tons. Tobacco imports from Bangladesh into South Africa attained a peak in 2004 at approximately 880 tons, while tobacco imports from Uzbekistan into South Africa attained a peak also in 2004 at approximately 623.94 tons.

Figure 27 below depicts volumes of tobacco imports from Europe into South Africa between 2002 and 2011 period. The graph further depicts that over the past ten years, European Union commanded the greatest share of tobacco imports from Europe into South Africa. During the period under review, imports volumes of tobacco from European Union into South Africa started to increase in 2002, and then a decline occurred in 2003. The graph further depicts that imports volumes of tobacco from European Union into South Africa saw an increase in 2004, until a peak was attained in 2005 at approximately 698.48 tons. Tobacco imports from the European Union into South Africa experienced a decline between 2006 and 2008 to lower levels of 247 tons. The graph further depicts that between 2002 and 2004 and again between 2006 and 2008, there were no tobacco imports from Northern and Southern Europe. The graph also depicts that tobacco imports from European Union into South Africa experienced a slight increase of 478 tons, and then a consistent decline occurred between 2010 and 2011.

Figure 27: Imports volumes of tobacco (unmanufactured) from Europe

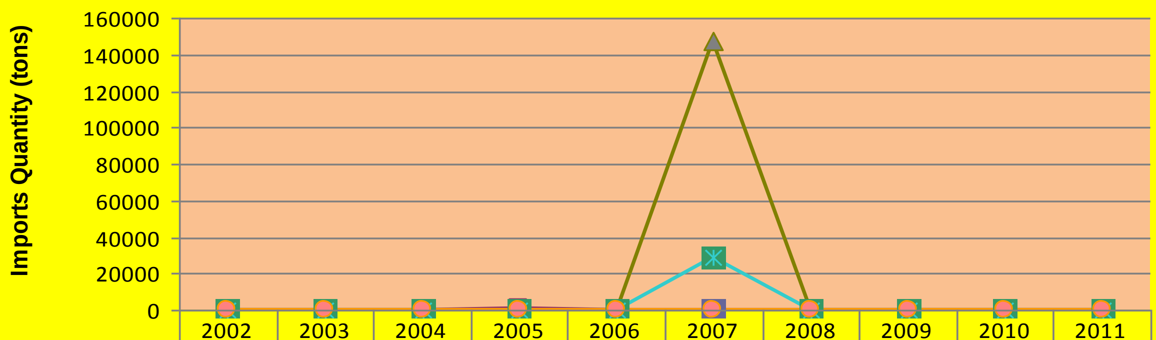


	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Northern Europe	0	4.975	0	0	0	0	0	0	0	0
Southern Europe	0	0	0	14.125	0	0	0	0.033	0	0
Western Europe Rest	0	0	0	40	0.012	21.145	0.021	0	0.001	0.016
European Union	402.175	130.288	255.454	698.48	247.318	310.674	257.177	478.523	208.408	13.658

Source: Quantec Easy Data

Figure 28 depicts volumes of tobacco imports from European Union into South Africa between 2002 and 2011 period.

Figure 28: Imports volumes of tobacco (unmanufactured) from European Union



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Belgium	0	0	0	0	0.064	40	0.028	15.809	0.006	13.44
Bulgaria	0	97.396	142.922	485.1	127.703	0	0.001	0	0	0
Germany	14.454	0	0.153	0	0.002	147294	93.857	35.333	137.414	0
Greece	0	32.87	92.977	176.529	42.519	0	71.144	137.9	70.98	0
Italy	387.72	0	19.399	0.85	68.619	28817	0.03	0.002	0.002	2
Netherlands	0	0	0	0	0.015	0	92.102	287.945	0.001	0.216

Source: Quantec Easy Data

Figure 28 shows that over the past ten years, Germany commanded the greatest share of tobacco imports from the European Union into South Africa, followed by Italy. During the period under review, imports volumes of tobacco from Germany into South Africa started to increase in 2007, and at the same time attained a peak at approximately 147 294 tons. Tobacco imports from the Italy into South Africa started to increase in 2007, and at the same time attained a peak at approximately 28 817 tons. The graph also depicts that tobacco imports from the Germany declined dramatically between 2002 and 2006 to lower levels of about 14.5 tons, between 2008 and 2011 imports volumes of tobacco from Germany ranged between 35 and 137 tons.

5. MARKET ACCESS

Table 10 shows the highest import tariffs applied by other countries to tobacco (unmanufactured) exported by South Africa in 2011. Malawi and China markets are highly protected with 10% to 25% applied tariffs due to domestic industry protection while tobacco markets in Hong Kong are opened with 0% tariffs.

Table 10: Tariffs applied by other countries to tobacco (unmanufactured) exported by South Africa (2011)

No.	Country.	Trade Regime Description.	Applied Tariffs.	Total Ad Valorem Equivalent Tariff
1	Zimbabwe	MFN duties (Applied)	10.00%	10.00%
		Preferential tariff for RSA	0.00%	0.00%
2	Mozambique	MFN duties (Applied)	2.50%	2.50%
		Preferential tariff for RSA	0.00%	0.00%
3	Malawi	MFN duties (Applied)	25.00%	25.00%
4	Zambia	MFN duties (Applied)	15.00%	15.00%
		Preferential tariff for RSA	0.00%	0.00%
5	China	MFN duties (Applied)	10.00%	10.00%
6	Hong Kong	MFN duties (Applied)	0.00%	0.00%
7	Sweden	MFN duties (Applied)	18.40%	18.40%
		Preferential tariff for RSA	0.00%	0.00%
8	Belgium	MFN duties (Applied)	18.40%	18.40%
		Preferential tariff for RSA	0.00%	0.00%
9	Greece	MFN duties (Applied)	18.40%	18.40%
		Preferential tariff for RSA	0.00%	0.00%

Source: ITC (Mac Map)

Table 11 below shows that the highest import tariffs applied by South Africa to tobacco (unmanufactured) during 2011 period. Tobacco products originating from France, USA, Argentina, Uganda, Nigeria, Brazil and India while tobacco imports from Zimbabwe, Zambia, Malawi and Tanzania face no tariffs.

Table 11: Tariffs applied by RSA for imports of tobacco (unmanufactured) in 2011

No.	Country.	Trade Regime Description.	Applied Tariffs.	Total Ad Valorem Equivalent Tariff
1	Tanzania	MFN duties (Applied)	172.11%	172.11%
		Preferential tariff for RSA	0.00%	0.00%
2	Zambia	MFN duties (Applied)	172.11%	172.11%
		Preferential tariff for RSA	0.00%	0.00%
3	Zimbabwe	MFN duties (Applied)	10.00%	10.00%
4	Malawi	MFN duties (Applied)	172.11%	172.11%
		Preferential tariff for RSA	0.00%	0.00%
5	India	MFN duties (Applied)	172.11%	172.11%
6	Bangladesh	MFN duties (Applied)	172.11%	172.11%
7	Uzbekistan	MFN duties (Applied)	172.11%	172.11%
8	Germany	MFN duties (Applied)	172.11%	172.11%
9	Italy	MFN duties (Applied)	172.11%	172.11%

Source: ITC (Mac Map)

6. PROCESSING

In South Africa the processing facilities partly belong to tobacco farmers in the form of companies or co-operatives. Farmers are paid for their tobacco at the point of delivery according to a valuation being placed on every bale of tobacco. After this, the tobacco is processed and packed according to specifications of manufacturers and/or leaf dealers. In South Africa the value added by processing the tobacco belongs to the farmers.

Tobacco merchants or leaf dealers are also part of the primary industry. These companies are known as intermediary buyers. They buy processed tobacco from processing plants according to specifications of their clients, who are manufacturers of tobacco products. In South Africa the leaf dealers mostly buy tobacco from grower co-operatives or companies, although some air cured tobacco is bought directly from contracted growers.

Two methods of drying the leaf are used-artificially dried tobacco and that which is dried under natural climatic conditions. After the drying process the leaf is graded according to color, size and texture. Flue-cured tobacco is used mainly for cigarette manufacture while air-cured tobacco is mainly used as pipe tobacco, snuff and Roll Your Own (RYO) cigarettes.

In May of 2005 British American Tobacco (BAT) launched a new product category called smokeless Snus (pronounced s-noo-s) in South Africa and Sweden simultaneously. Snus is a less harmful smokeless tobacco fully imported from Sweden and currently on trial at 241 tobacco outlets in Gauteng. It consists of small sachets of moist tobacco, which look a little like a tea bag and are about the size of a thumb nail. The sachet is placed under the upper lip; it is not lit or chewed but held in the mouth, typically for 30 minutes before being discarded.

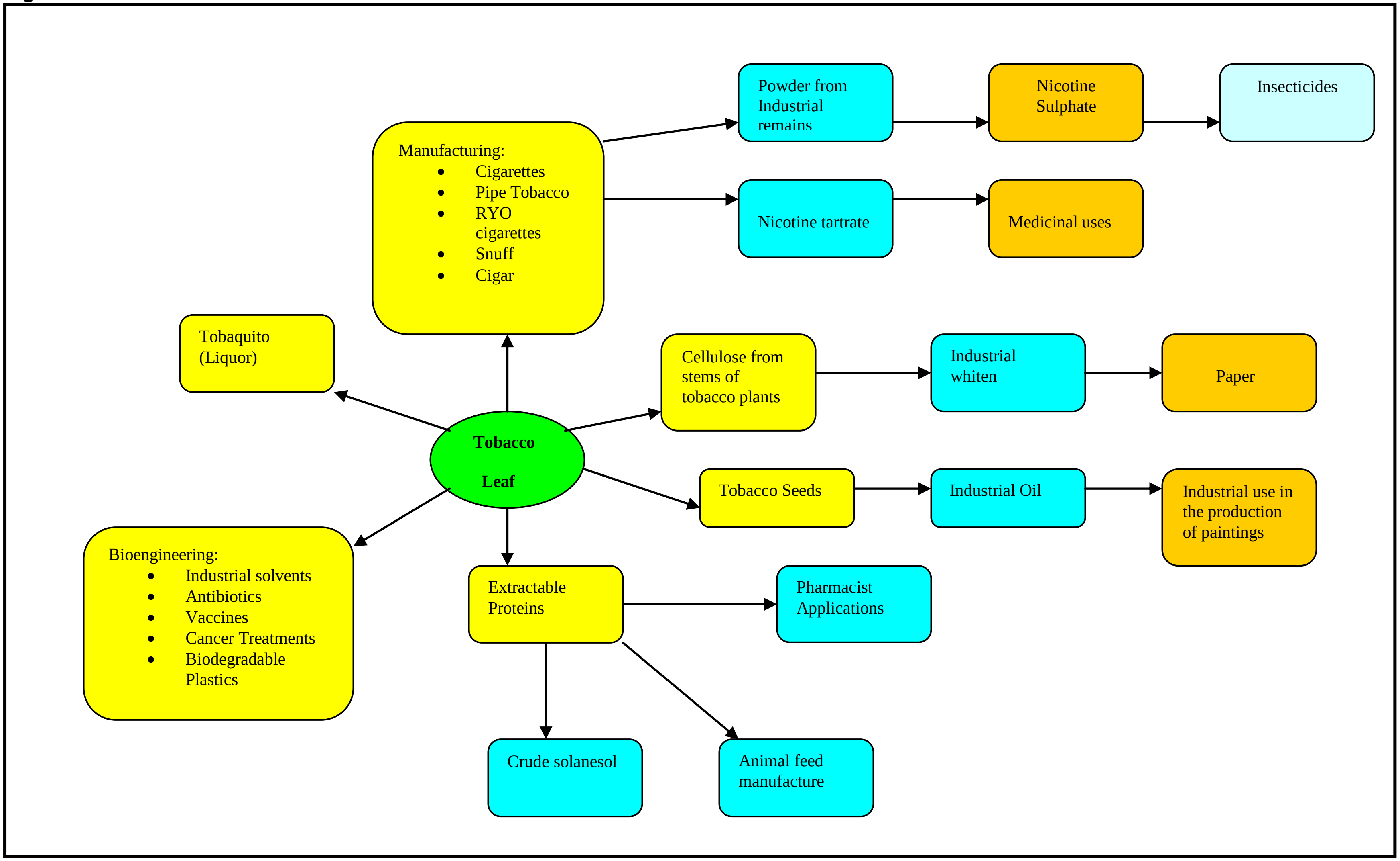
6.1 Tobacco Value Chain Tree

Leaf tobacco is popularly used by tobacco manufacturing companies across the world to manufacture tobacco products such as cigarettes, pipe tobacco, roll-your-own cigarettes, snuff and cigars. However the product also has many other alternative uses as depicted in Figure 18.

The nicotine in contained in the powder of industrial remains (tobacco waste) can be recovered as nicotine sulphate and used to manufacture insecticides that can be used against plant hoppers and leaf hoppers in crops. Being an insecticide of plant origin, it does not pollute the environment like other chemical insecticides and is less toxic compared to other chemical preparations. The nicotine tart rate from the manufacturing process can also be used in some medicines. Tobacco plants can further be used as hosts during bioengineering processes that could be used to produce antibiotics, vaccines, cancer treatments, other medicines biodegradable plastics and industrial solvents.

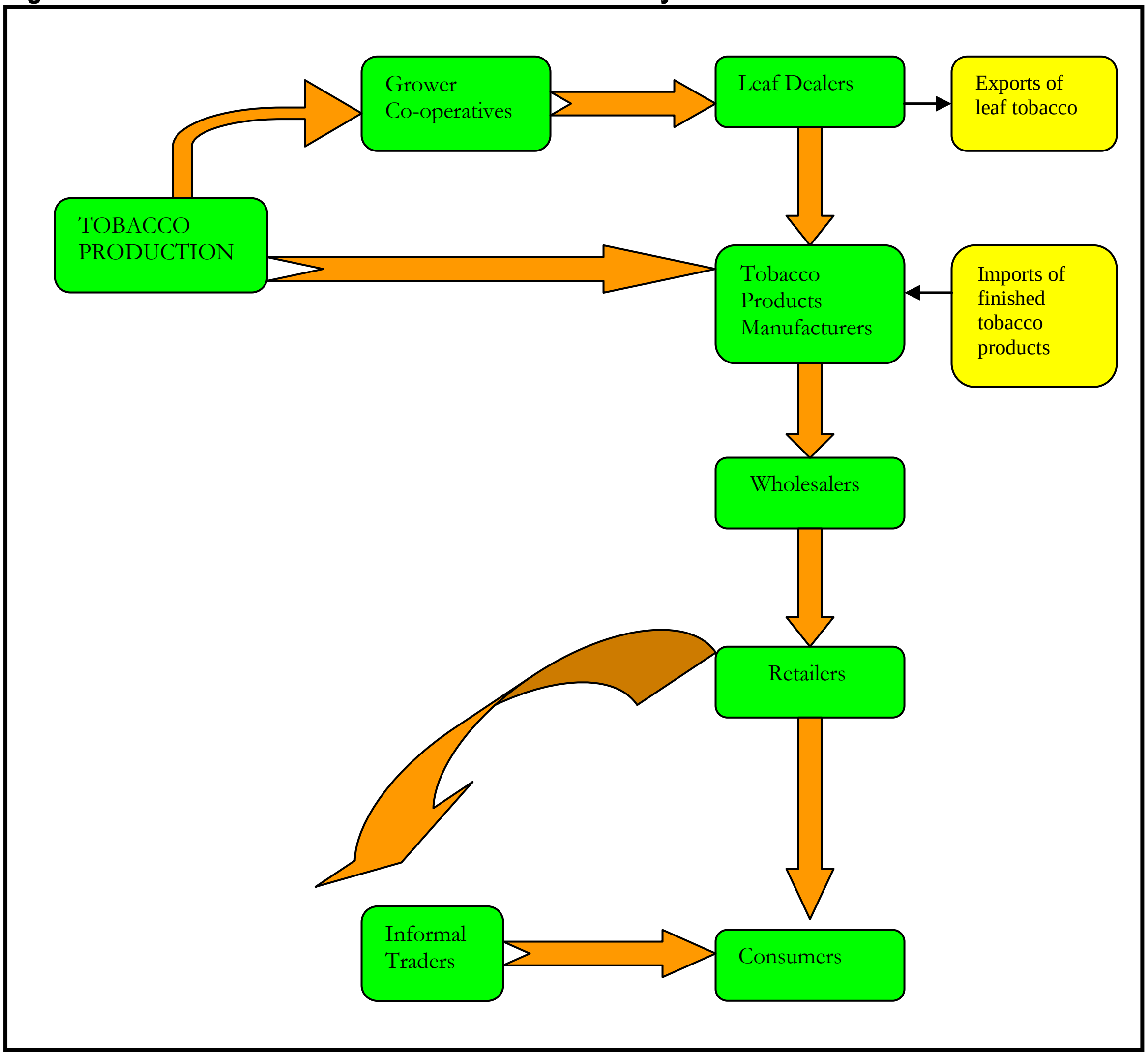
Green tobacco leaf can also be used to extract proteins for use in manufacturing animal feeds. The residue which remains after expelling the green liquid can be used for solvent extraction of solanesol, a high-value alcohol which can be used in the synthesis of cardiac drugs, anti-hemorrhagic vitamins and anti-sterility vitamins. The oil contained in the seeds of tobacco can be extracted and used in the production of paintings. Furthermore, the cellulose contained in the stems of the tobacco plant and its industrial whiten can be extracted and transformed into paper to print and to write.

Figure 25: Tobacco Value Chain Tree



6.2 Market value chain

Figure 26: Market value chain for the Tobacco Industry



Farmers produce leaf tobacco and, after curing the tobacco crop they grade the leaves into different leaf portions, qualities and colors and; packs them into grades as bales of 30-50kg. The packed tobacco leaves are then sold directly to tobacco manufacturers or to co-operative companies where the tobacco is evaluated and the farmer is paid. Leaf dealers (traders) buy the tobacco from the cooperatives and sell to tobacco manufacturers. As mentioned earlier, there are imports of leaf tobacco from various countries and exports of finished tobacco products by some tobacco manufacturers and traders.

7. MARKET INTELLIGENCE

Table 12: List of importing markets for tobacco (unmanufactured) exported by South Africa in 2011

Importers	Trade Indicators							Tariff (estimated) faced by South Africa (%)
	Exported value 2011 (USD thousand)	Share in South Africa's exports (%)	Exported quantity 2011 (tons)	Unit value (USD/unit)	Exported growth in value between 2007-2011 (%, p.a.)	Exported growth in quantity between 2007-2011 (%, p.a.)	Exported growth in value between 2010-2011 (%, p.a.)	
World	1700	100	345	4928	-33	-43	-9	
Belgium	1026	60.4	196	5235	38	29		0
Kenya	354	20.8	47	7532	286	27	-7	25
United States of America	126	7.4	20	6300				43.8
Germany	82	4.8	18	4556	-27	-31		0
Russian Federation	60	3.5	12	5000	-45	-51	-13	3.8
China	28	1.6	38	737	-83	-63		10
Turkey	14	0.8	3	4667				25

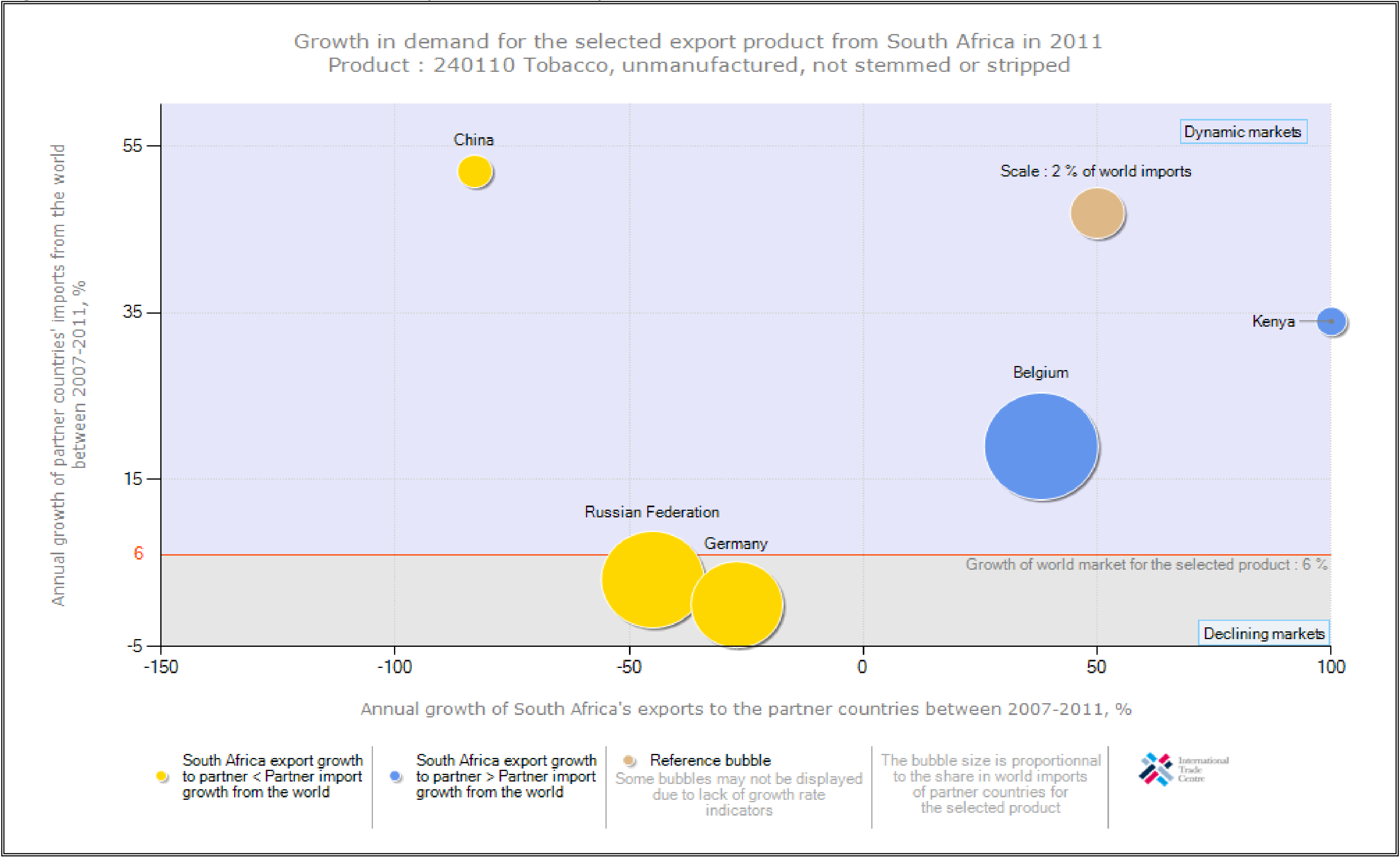
Source: ITC Trade Map

Table 12 indicates the list of importing countries of tobacco (unmanufactured) from South Africa in 2011 period. In the same period under review, South Africa exported a total of 345 tons of tobacco (unmanufactured) to the world of which the greatest quantities were exported to Belgium, followed by Kenya. As a result of the above statement, the table further indicates that South Africa was a net importer of tobacco (unmanufactured) during this period as the country exported 345 tons and imported 6739 tons over the same period. Belgium experienced high export value of 1026 US Dollars with export volumes of approximately 196 tons during 2011.

During the same period under examination, there was an increase in exports of tobacco from South Africa to Belgium by 38% in value and 29% in quantity. The table further indicates that Kenya saw an increase in tobacco exports from South Africa by 286% in value and 27% in quantity.

It is further evident in the table that during the same period under review, there was a decrease in exports of tobacco from South Africa to Germany, Russian Federation and China of between 27% and 83% in value and between 31% to 63% in quantity respectively.

Figure 27: Growth in demand for tobacco (unmanufactured) exported from South Africa in 2011

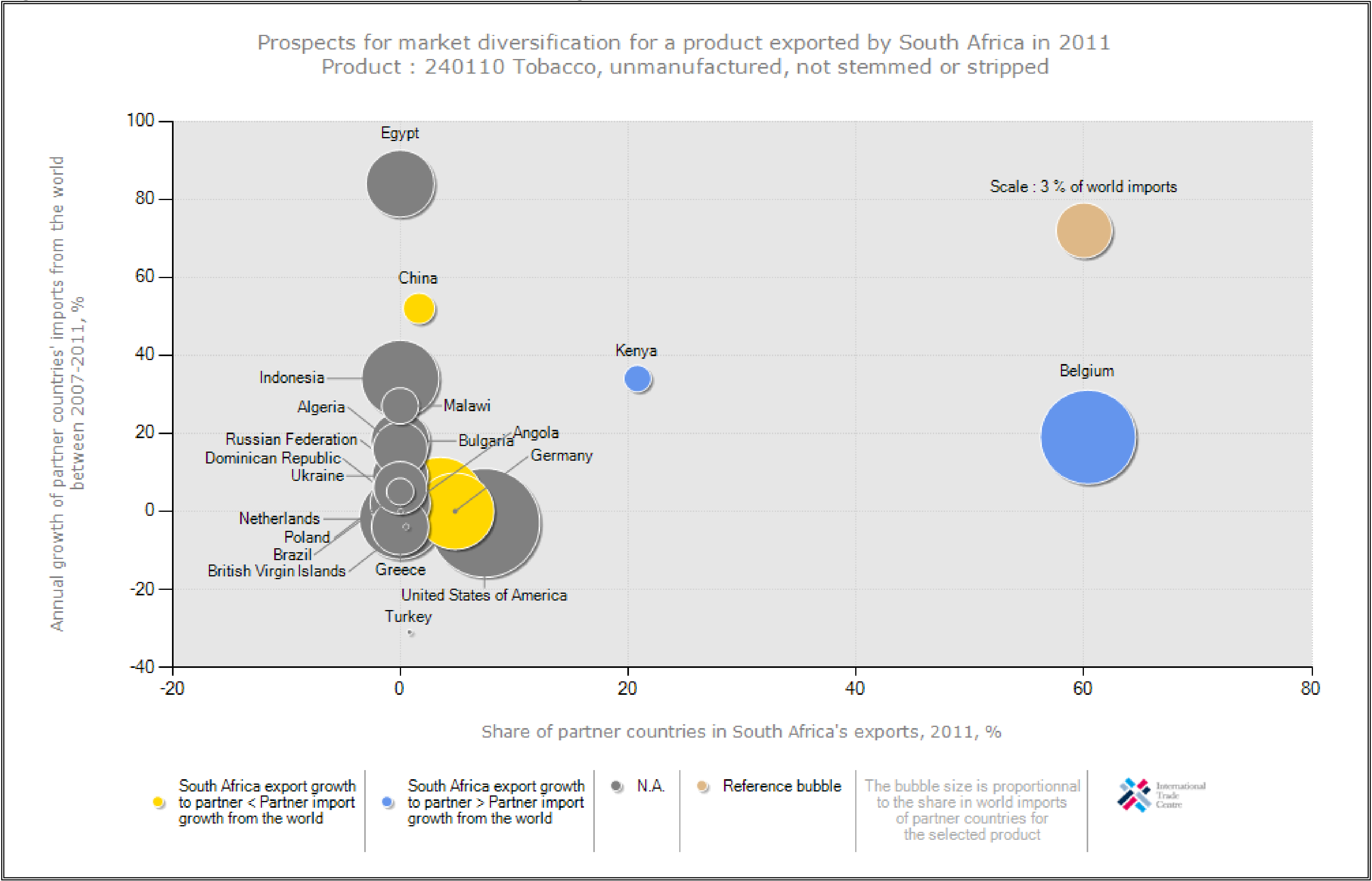


Source: ITC Trade Map

Figure 27 depicts growth and performance of tobacco (unmanufactured) exports by the South African tobacco industry in 2011 period. The bubble graph further depicts that Russian Federation and Germany are the biggest markets for tobacco (unmanufactured) between 2007 and 2011. The bubble graph also depicts that between 2007 and 2011, export markets such as Belgium and Kenya have experienced an increase in annual growth of South Africa's tobacco exports to the world. The bubble graph also depicts that countries such as Germany and Russian Federation, their imports of tobacco from South Africa have declined, their imports from the world have increased during the same period under scrutiny.

The graph further depicts that between 2007 and 2011 period, Belgium imported more tobacco from the South Africa than the world. Kenya also imported more tobacco from South Africa than the world during the period under scrutiny.

Figure 28: Prospects for market diversification for smoking tobacco exported from South Africa in 2011



Source: ITC Trade Map

Figure 28 shows prospects for market diversification for tobacco (unmanufactured) exported by South Africa in 2011. The bubble graph further shows that between 2007 and 2011 period, Belgium was the biggest market for tobacco from the world as they commanded approximately 60.4% share in South Africa's exports of tobacco. If South Africa had to diversify its tobacco export markets for diversification, potential markets would be Kenya, Egypt and Indonesia.

Belgium and Kenya's annual growth of partner countries imports of tobacco from the rest of the world grew by an average of more than 20% and 40% per annum between 2007 and 2011.

Table 13: List of supplying markets for tobacco (unmanufactured) imported by South Africa in 2011

Exporters	Trade Indicators							Tariff (estimated) applied by South Africa (%)
	Imported value 2011 (USD thousand)	Share in South Africa's imports (%)	Imported quantity 2011	Unit value (USD/unit)	Imported growth in value between 2007-2011 (%, p.a.)	Imported growth in quantity between 2007-2011 (%, p.a.)	Imported growth in value between 2010-2011 (%, p.a.)	
World	22642	100	6739	3360	30	11	14	
India	8482	37.5	2636	3218	51	26	10	85
Philippines	6994	30.9	1935	3614	82	46	72	85
Paraguay	2863	12.6	1080	2651	31	8	45	85
Brazil	2418	10.7	520	4650	66	61	120800	85
Zimbabwe	1058	4.7	432	2449	12	104		0
Turkey	501	2.2	62	8081	-10	-21	-64	85
Belgium	159	0.7	13	12231				0
Malawi	105	0.5	20	5250	-41	-34		0
Indonesia	51	0.2	38	132	34	17	-60	85
Thailand	11	0	2	5500	-21	-42		85

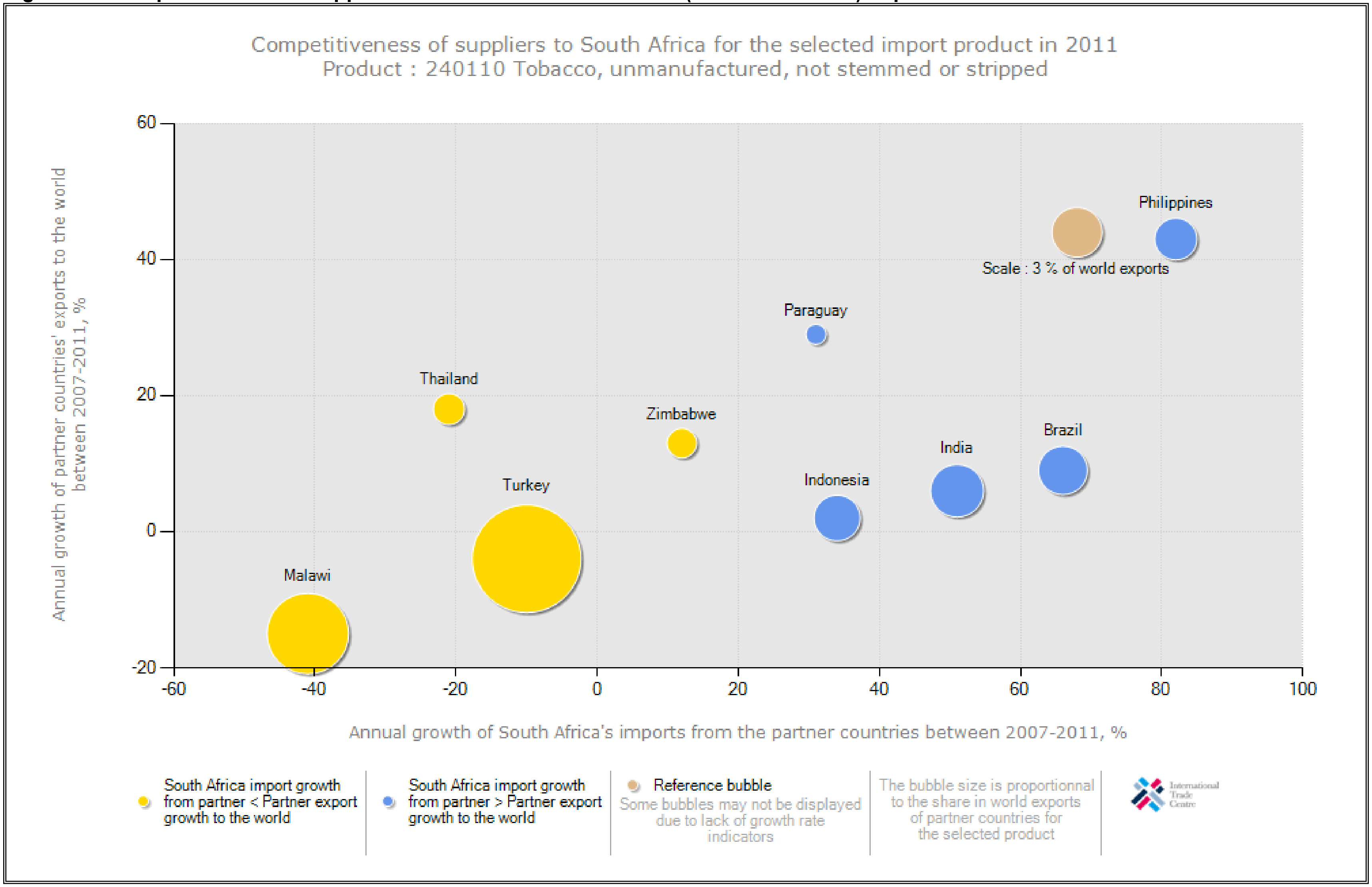
Source: ITC Trade Map

Table 13 illustrates list of supplying markets from the world for tobacco (unmanufactured) imported by South Africa from the world in 2011. The table further illustrates that during the same period under scrutiny, South Africa imported a total of 6739 tons of tobacco (unmanufactured) from the world and that means South Africa is a net importer of tobacco as the country exported only 345 tons in 2011. The greatest volumes of tobacco were imported from India, followed by Philippines and Paraguay.

The table also illustrates that India's share in South Africa's imports was 37.5%, Philippines was at 30.9% and Paraguay was at 12.6% during the period under examination.

The graph further illustrates that between 2007 and 2011, there was an increase in tobacco imports from India, Philippines, Paraguay, Brazil and Zimbabwe in value terms between 12% and 82%. Tobacco imports from the same countries also experienced an increase in quantity between 8% and 104% respectively.

Figure 29: Competitiveness of suppliers to South Africa for tobacco (unmanufactured) imports in 2011



Source: ITC (Trade Map)

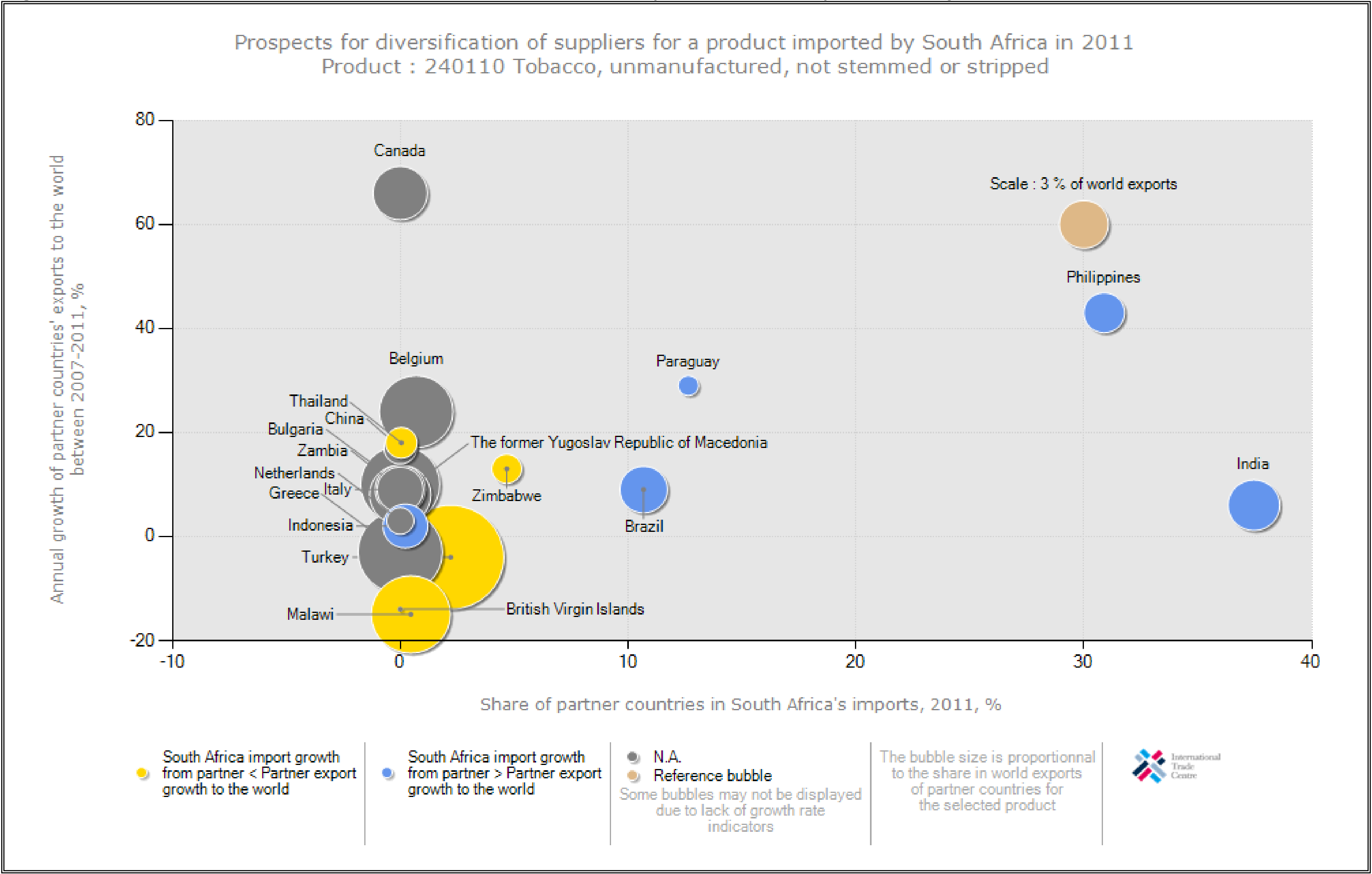
Figure 29 illustrates competitiveness of suppliers for tobacco (unmanufactured) imported by South Africa from the world in 2011. The bubble graph further illustrates that between 2007 and 2011, South Africa's tobacco imported from India, Brazil and Philippines were growing at a rate that is faster than their export growth to the rest of the world.

During the same period, South Africa's tobacco imports from India and Brazil were growing at a rate that is greater than their exports to the rest of the world, while Indonesia and Philippines were also growing at a rate that is faster than their exports to the rest of the world.

By adding a horizontal line representing the world market growth and a vertical line representing the average growth of South Africa's import of this product, the following conclusions can be made:

- South Africa's imports for tobacco from India were growing faster than world's imports.
- South Africa's imports for tobacco from Turkey and Malawi were declining faster than the world exports.
- South Africa's imports for tobacco from India, Indonesia, Brazil and Philippines were growing faster than world's exports during the period under examination.

Figure 30: Prospects for diversification of suppliers for tobacco (unmanufactured) imported by South Africa in 2011



Source: ITC Trade Map

Figure 30 indicates prospects for diversification of suppliers for tobacco (unmanufactured) imported by South Africa from the world in 2011. The bubble graph further indicates that Turkey and Malawi are the biggest suppliers of tobacco (unmanufactured) imported by South Africa in 2011. The bubble graph also indicates that if South Africa were to diversify its suppliers of tobacco, small markets exist in Philippines, Paraguay, India and Brazil. The very small markets of tobacco mentioned above are exporting less tobacco to South Africa but more to the world between 2007 and 2011 period.

8. EMPOWERMENT ISSUES AND TRANSFORMATION IN THE SECTOR

At **Honingklip** near Badplaas in the Mpumalanga Province three black farmers are currently producing tobacco. TISA (Tobacco Institute of South Africa) funds the bulk of the project manager's salary and provides extension services to the farmers. The Mpumalanga Agricultural Development Corporation is also closely involved with this project, funding all production costs and part of the project manager's salary.

9. ORGANIZATIONAL ANALYSIS

9.1 Challenges

The growth of illicit trade in tobacco products has gone from non-existent a decade ago to the current 15% of the entire industry. The alarming growth in illegal trade of tobacco products in South Africa is estimated to be between 1 – 2 billion sticks per annum. Various factors that include high excise duties, drought and the stronger rand also pose serious challenges to the industry's competitiveness. Excise duties have increased by 470% over the past ten years, and have resulted in the decline of the legal market by a third and a rapid growth in the illegal market. The illegal market could be as high as 15% countrywide and growing.

9.2 Opportunities and Strengths

In the tobacco industry there exist good relations between the growers and the manufacturers and/or the leaf dealers and, there is a potential to grow crop size and improve the quality. The grower organizations are technically well advanced and most of the major South African tobacco manufacturers are world players.

There has been an increase of 15% in the producer price of South African tobacco in 2007 over 2006, with the average producer price now being R18.50 per kg (in 2006 it was R16.00 per kg). Indications for the new season are positive and tobacco growers have been encouraged to increase production to fulfill expected orders both locally and from China.

China, the world's largest consumer of cigarette tobacco, has also indicated long term interest in South African tobacco, buying small quantities this year and indicating substantial future requirements at very competitive prices. All this positive factors have led to a producer price increase of 15% in 2007 and a positive outlook for the SA industry. A Protocol on Phytosanitary Requirements for the export of South African tobacco leaf to China has been signed on 06th February 2007. With the interest of the Chinese in South African tobacco leaf, this protocol creates huge potential for South African tobacco farmers and the greatest challenge will be to increase the crop size and ensure stable supply to China.

10. TOBACCO PRODUCER ORGANIZATIONS/CO-OPERATIVES

10.1 LIMPOPO TOBACCO PROCESSORS
PO Box 69
RUSTENBURG
0030

10.2 GAMTOOS TOBACCO CO-OPERATIVE
PO Box 5
PATENSIE
6335

10.3 MOKOPANE TOBACCO
PO Box 4819
MOKOPANE
0600

11. LEAF MERCHANTS/ LEAF DEALERS

11.1 UNIVERSAL LEAF SOUTH AFRICA
PO Box 7509
RUSTENBURG
0300

11.2 TOBACCO TRADERS
PO Box 487
CONSTANTIA
7848

11.3 ALLIANCE ONE INTERNATIONAL
PO Box 787
NORTHLANDS
2116

11.4 TRIBAC
Po Box 652799
BENMORE
2010

11.5 VIRGINIA LEAF COMPANY (Pty) LTD
PO Box 412796
HYDE PARK
2024

12. CIGARETTE MANUFACTURERS

12.1 BRITISH AMERICAN TOBACCO SOUTH AFRICA (PTY) LTD
PO Box 631

CAPE TOWN
8000
Head Office: Stellenbosch

12.2 JAPANESE TOBACCO INTERNATIONAL SOUTH AFRICA
Private Bag X 39
RIVONIA
2128

12.3 MASTERMIND TOBACCO SA (PTY) LTD
PO Box 7185
EAST LONDON
5200

12.4 GALLAHER SA
P O Box 14504
WADEVILLE
1422

12.5 PHILIP MORRIS SOUTH AFRICA
MILNERTON, CAPE TOWN

13. PIPE AND SNUFF TOBACCO MANUFACTURERS

13.1 SWEDISH MATCH SA: LEORNARD DINGLER (Pipe and Snuff)
PO Box 215
BENONI
1500

13.2 SWEDISH MATCH SA: BEST BLEND (Pipe)
PO Box 63
RUSTENBURG
0300

13.3 MLP DISTRIBUTORS (Medicated/treated snuff)
PO Box 9975
JOHANNESBURG
2000

13.4 VAN ERKOMS TABAKKE (EDMS) BPK (Pipe and Snuff)
PO Box 1889
MOKOPANE
0600

13.5 WORLD CLASS CONNECTION TRADING (PTY) LTD
(Roll Tobacco for export)
PO Box 46

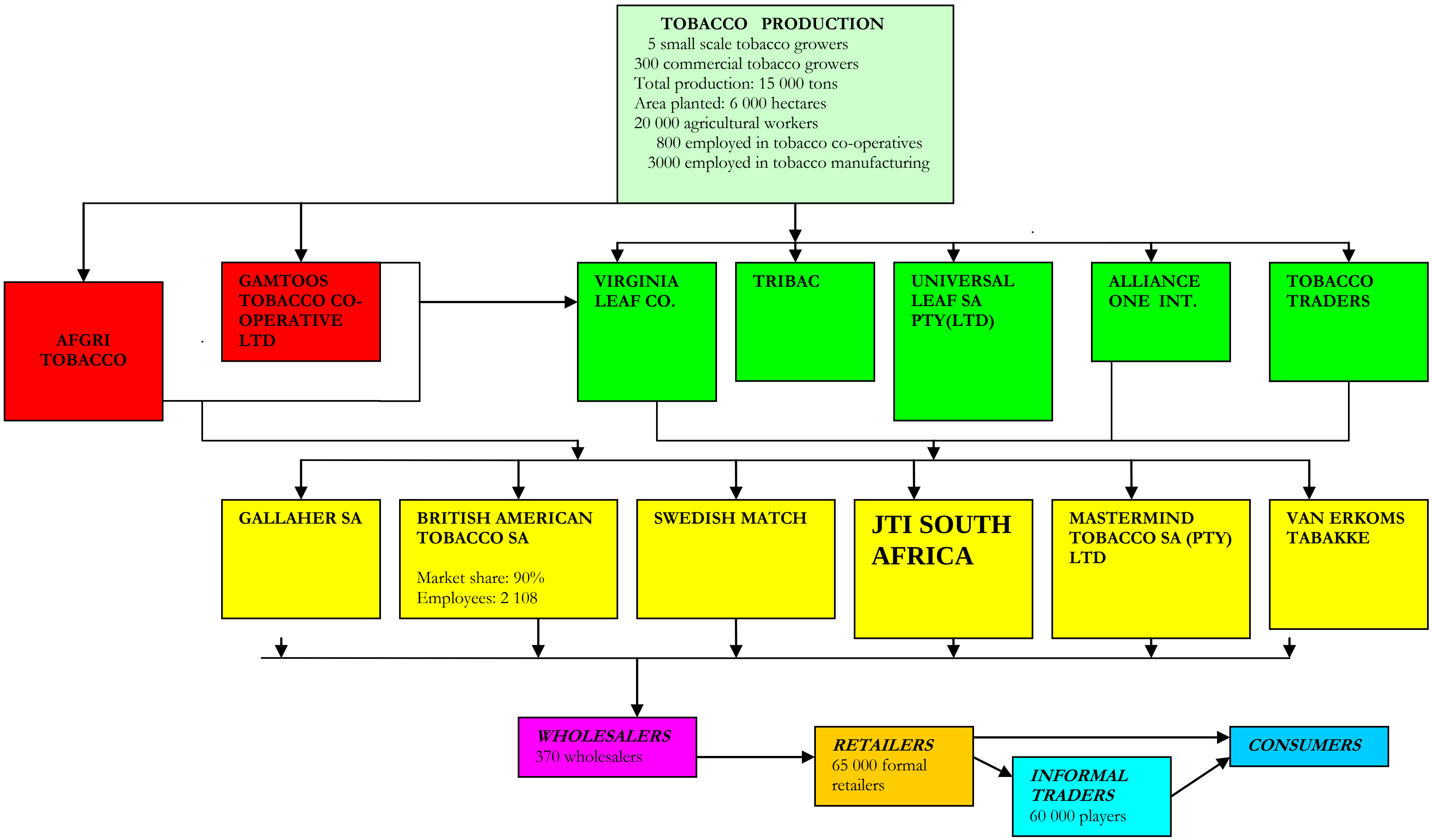
OUDTSHOORN
6620

13.6 AJ PADIA TOBACCO MERCHANTS
PO Box 2030
DURBAN
4000

13.7 KTC HS SPIES & BROERS
PO Box 46
OUDTSHOORN
6620

Although the companies listed above represent approximately 95% of the industry in RSA, there are a number of other tobacco companies and importers who are also operating in the country. These companies include amongst others the following:

- African Affiliated Tobacco
- Apollo Tobacco
- Brasant Enterprises (Affiliate of Swedish Match)
- Capital Tobacco
- Imperial Tobacco
- SA Nicecentury Trading CC
- Shutel Tobacco.


TOBACCO PRODUCTION
5 small scale tobacco growers
300 commercial tobacco growers
Total production: 15 000 tons
Area planted: 6 000 hectares
20 000 agricultural workers
800 employed in tobacco co-operatives
3000 employed in tobacco manufacturing
AFGRI TOBACCO
GAMTOOS TOBACCO CO-OPERATIVE LTD
VIRGINIA LEAF CO.
TRIBAC
UNIVERSAL LEAF SA PTY(LTD)
ALLIANCE ONE INT.
TOBACCO TRADERS
GALLAHER SA
BRITISH AMERICAN TOBACCO SA
Market share: 90%
Employees: 2 108
SWEDISH MATCH
JTI SOUTH AFRICA
MASTERMIND TOBACCO SA (PTY) LTD
VAN ERKOMS TABAKKE
WHOLESALERS
370 wholesalers
RETAILERS
65 000 formal retailers
INFORMAL TRADERS
60 000 players
CONSUMERS

NOTES:

Swedish Match:	specializes in the manufacture of pipe tobacco and snuff.
JT International SA:	manufactures and imports cigarette brands.
Phillip Morris SA:	is a tobacco company that currently imports cigarette brands including Marlboro into SA. The company is considering venturing into cigarette manufacturing at a later stage.
British American Tobacco SA (Pty) Ltd:	manufactures various cigarette brands such as Peter Stuyvesant, Rothmans, Benson & Hedges, Courtleigh, Dunhill, Camel, Chesterfield, Princeton, Royals and Craven A.

11. ACKNOWLEDGEMENTS

The following organizations are acknowledged:

The Tobacco Institute of South Africa (TISA)
P.O. Box 7648
ROGGEBAAI
8012
Tel: (021) 421 0011
Fax: (021) 421 0013
E-mail: tisa@tobaccosa.co.za
Website: www.tobaccosa.co.za

British American Tobacco South Africa (BATSA)
P.O. Box 631
Stellenbosch
7599
Tel: (021) 888 3973
Fax: (021) 888 3423
Website: www.batsa.co.za

Directorate: Statistics & Economic Analysis
Department of Agriculture, Forestry and Fisheries
Tel: (012) 319 8042, Fax: (012) 319 8031

Quantec Easydata
P.O.Box 35466
Menlo Park
Pretoria
0102
Tel: 012 361 5154
Fax: 012 348 5874
Website: www.quantec.co.za

International Trade Centre (ITC)
Palais des Nations
Geneva 10
Switzerland
Tel: +41 (0) 22 730 05 24
Fax: +41 (0) 22 730 05 77
Website: http://www.trademap.org

ITC Market Access Map
Website: http://www.macmap.org/South Africa

Disclaimer: This document and its content have been compiled by the Directorate: Marketing of the Department of Agriculture, Forestry and Fisheries for the purpose of detailing the tobacco industry. Anyone who uses the information as contained in this document does so at his/her own risk. The views expressed in this document are those of the Department of Agriculture, Forestry and Fisheries with regard to the industry, unless otherwise stated. The Department of Agriculture, Forestry and Fisheries therefore accepts no liability that can be incurred resulting from the use of this information.