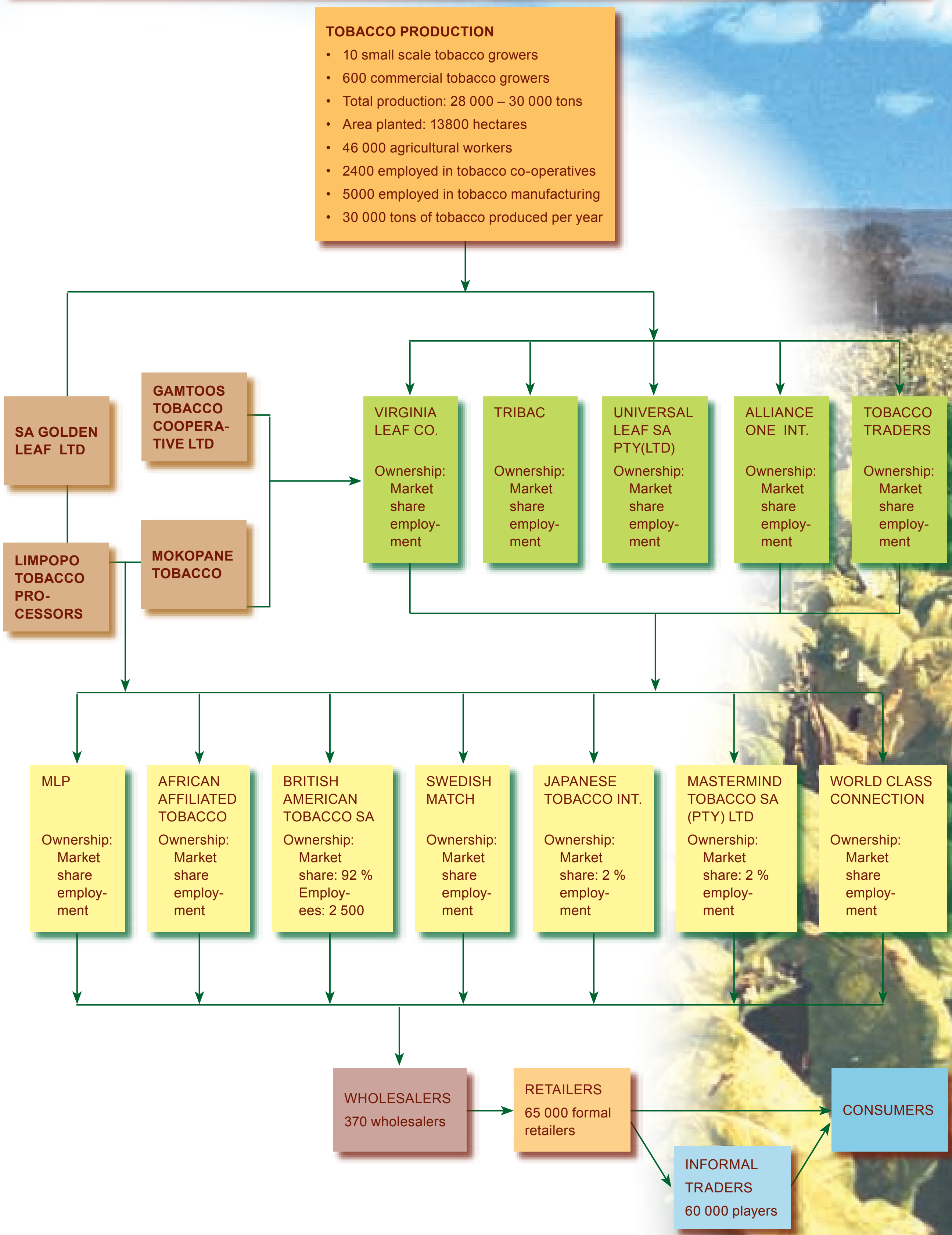
Tobacco

CONTENTS

NOTES

- **Gallaher Manufacturers**: is a new tobacco manufacturing company in South Africa which is still setting up its operations in the country.
- **Swedish Match**: specialises in the manufacture of pipe tobacco and snuff.
- **JT International SA**: specialises in the manufacture of brands such as Camel and Winston.
- **Phillip Morris SA**: is another tobacco company that only imports tobacco brands into SA such as Marlboro, Marlboro Lights, and Marlboro Menthol. The company is considering to venture into cigarette manufacturing at a later stage.
- **African Affiliated Tobacco**: is manufacturing for Gold Leaf Tobacco Corporation and mainly manufactures tobacco for the export market in the US.
- **British American Tobacco SA (Pty) Ltd**: manufactures ten cigarette brands such as Peter Stuyvesant, Rothmans, Benson & Hedges, Courtleigh, Dunhill, Camel, Chesterfield, Princeton, Royals and Craven A..

TOBACCO INDUSTRY PROFILE



COMMODITY PROFILE

Tobacco

1. DESCRIPTION OF THE INDUSTRY

The tobacco industry contributes more than R7,5 billion in excise duty and VAT to the Government per annum. Private consumer spending on tobacco is approximately R11,9 billion per annum. Three classes of tobacco are produced in South Africa – flue-cured, air-cured tobacco and Oriental 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 can be summarised in Fig. 1 as follows:

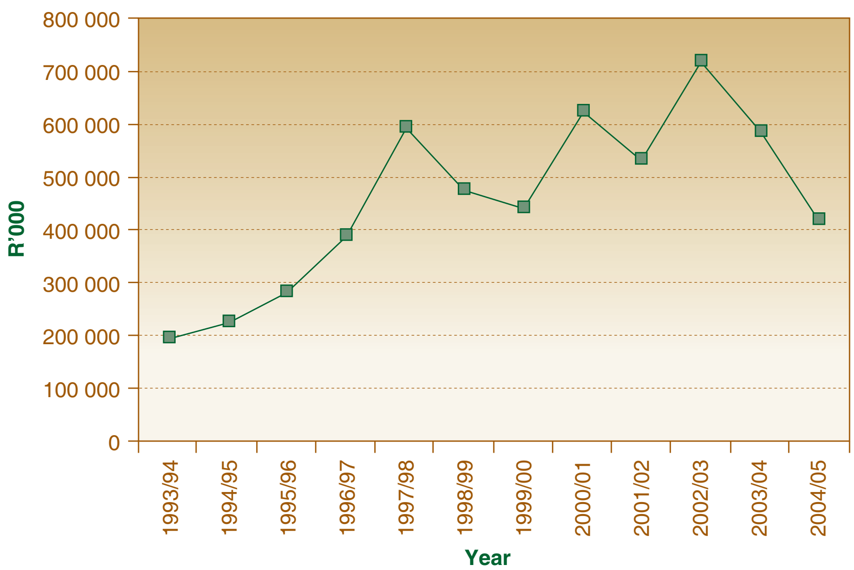


FIG. 1. Tobacco – gross value of production
Source: Directorate of Agricultural Statistics – Department of Agriculture

1.1 Production areas

In South Africa tobacco is grown in five provinces: the Eastern Cape in the Gamtoos Valley where 85 ha produce 160 tons of air-cured tobacco, the Western Cape in the Oudtshoorn district where 50 ha produce 100 tons of air-cured tobacco, Limpopo Province (Waterberg district) in the Ellisras area where 1 000 ha produce 3 150 tons of air-cured tobacco, the Marble Hall and Groblersdal area produces 7 300 tons of flue-cured tobacco on 3 300 ha, the Vaalwater area produces 7 800 tons of flue-cured tobacco on 2 400 ha.

In the Mpumalanga Province, 2 500 ha produce 7 000 tons of flue-cured tobacco while the North-West Province produces 5 500 tons of flue-cured tobacco on 2 200 ha.

1.2 Production

The total production of tobacco in South Africa is estimated to be between 28 000 to 30 000 tons, comprising 26 000 tons of flue-cured tobacco and 3 500 tons of air-cured tobacco. There are 630 tobacco growers in South Africa operating on approximately 12 000 ha of land. On average the Eastern Cape Province produces 160 tons, the Western Cape 100 tons, Limpopo Province 18 250 tons, Mpumalanga Province 7 000 tons while the North West Province produces 5 500 tons of tobacco per annum. Tobacco production in the provinces of South Africa is depicted in Fig. 2.

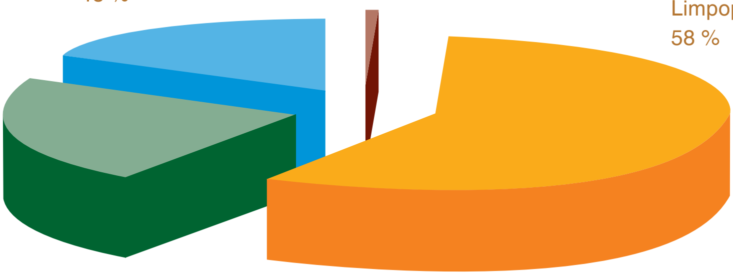


Figure 2: Tobacco Production in South Africa
Source: Tobacco SA/TISA

The trends in tobacco production over the past ten years are as follows:

TABLE 1. Tobacco: area planted and total production

Year	1994 /95	1995 /96	1996 /97	1997 /98	1998 /99	1999 /00	2000 /01	2001 /02	2002 /03	2003 /04
Area planted (1000ha)	14	14	15	15	14	16	15	15	14	12
Total production (1000tons)	20,6	21,5	26,5	31,6	30,1	29,7	35,0	33,0	37,4	29,0

Source: Directorate of Agricultural Statistics-Department of Agriculture

In the SADC region tobacco is also produced in countries such as Zimbabwe, Uganda, Kenya, Tanzania 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.

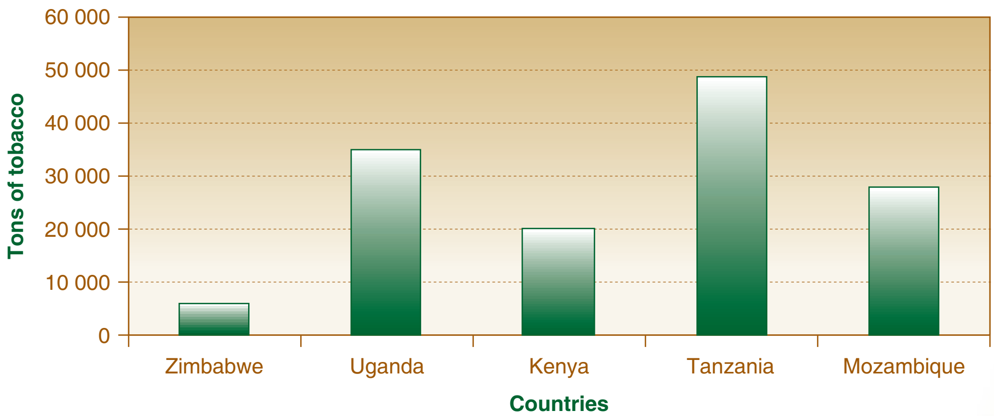


FIG. 3. Tobacco production in the SADC region
Source: Tobacco SA

1.3 Employment

The primary tobacco industry in South Africa employs 46 000 agricultural workers, with 2 400 employed in tobacco cooperatives, while the tobacco manufacturing industry employs 5 000. In total there are approximately 100 000 people who are dependent on the tobacco industry.

2. MARKETING STRUCTURE

2.1 Domestic market

Approximately 40 to 45 % of flue-cured tobacco and 60 to 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.). The average producer prices for tobacco for the past ten years as depicted in Fig. 4 reached a peak in 1997/98 and then declined sharply as a result of the introduction of the Tobacco Control Act while a slightly smaller number of hectares were used for tobacco production during the 2003/2004 season.

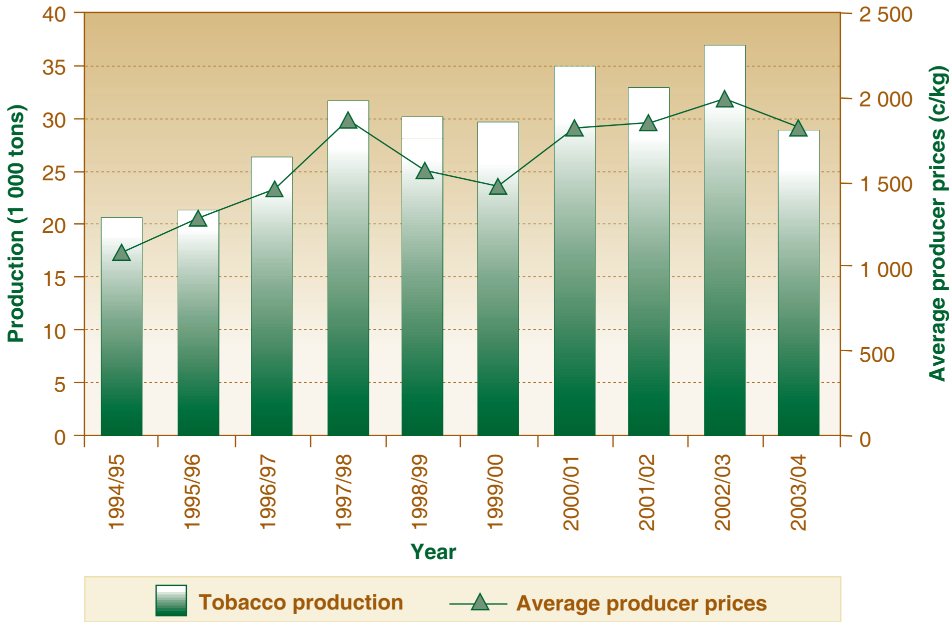


FIG. 4. Tobacco production and average producer prices

Source: Directorate of Agricultural Statistics – Department of Agriculture

2.2 Exports and Imports

South Africa exports approximately 16 000 tons of leaf tobacco per annum. 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 and the value of exports of leaf tobacco are shown in Fig. 5.

On average South Africa also imports approximately 17 000 tons of leaf tobacco per annum. The volumes and the value of the imports of leaf tobacco are shown in Fig. 6. Imports have increased above exports since 2002 because the tobacco manufacturers are importing more leaf tobacco and some tobacco manufacturers have started importing finished tobacco products.

The Directorate Marketing issues rebate permits under the Market Access Rebate Scheme to importers of unmanufactured tobacco for a total of 16 773 tons per annum. The full duty is 15 % or R8,60 c/kg less 85 % if the imports are from outside the SADC region.

FIG. 5. Tobacco exports

Source: Directorate Agricultural Statistics – Department of Agriculture

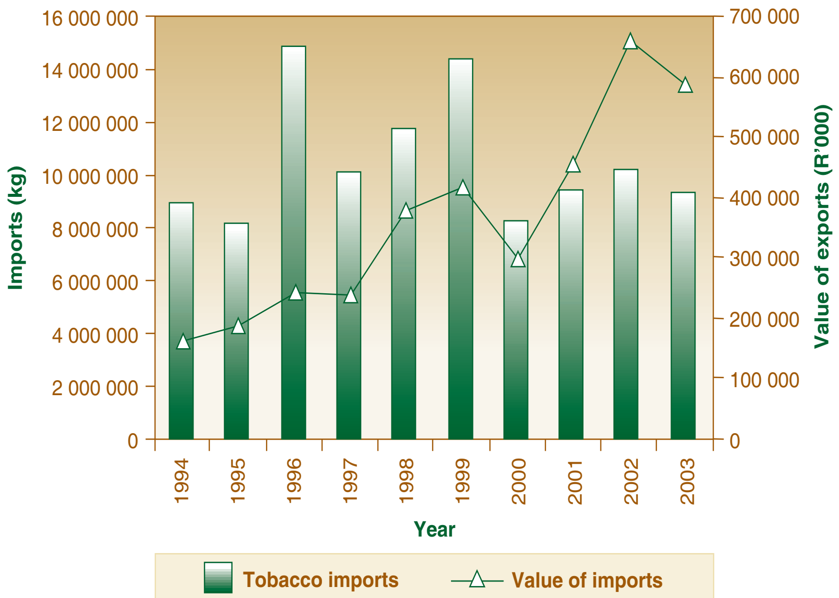


FIG. 6. Tobacco imports

Source: Directorate Agricultural Statistics – Department of Agriculture

2.3 Processing

In South Africa processing facilities belong to tobacco farmers in the form of companies or cooperatives. Farmers are paid for their tobacco at the point of delivery according to the valuation being placed on every bale of tobacco. The tobacco is then processed and packed according to the specifications of the tobacco manufacturers. Leaf dealers mostly buy tobacco from grower cooperatives or companies although some air-cured tobacco is bought directly from contracted growers. Two methods of leaf drying are used—artificially dried tobacco and tobacco dried under natural weather conditions. After the drying process the leaf is graded according to colour, size and texture. Flue-cured tobacco is used mainly for cigarette manufacturing while air-cured tobacco is mainly used as pipe tobacco, snuff and RYO cigarettes.

New development

In May of 2005 British American tobacco 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 is fully imported from Sweden and currently on trial at 241 tobacco outlets in Gauteng. It consists of small sachets of moist tobacco, which resemble a tea bag and are about the size of a thumbnail. 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.

3. MARKET VALUE CHAIN

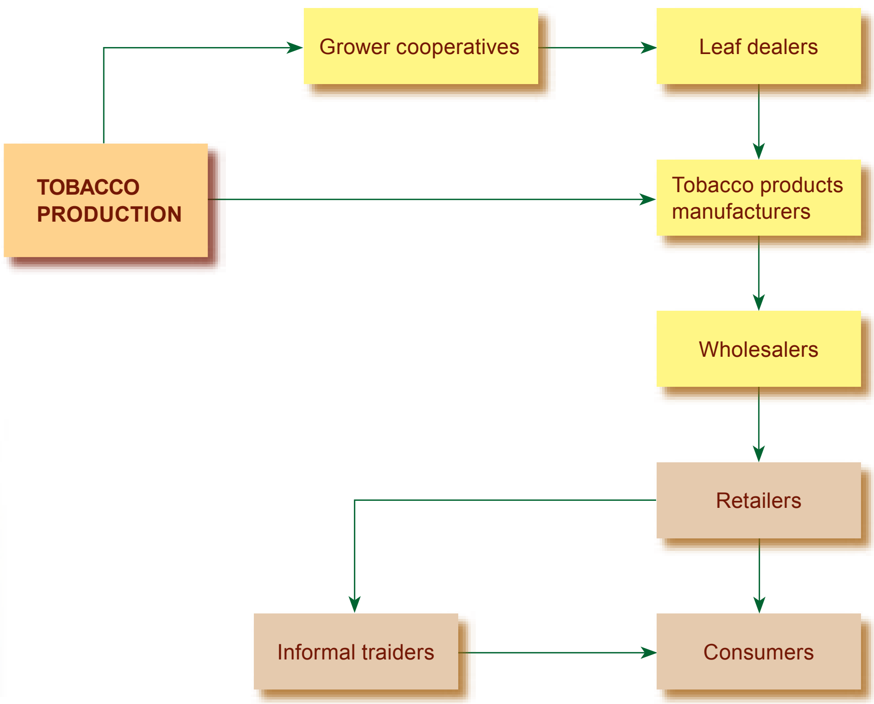


FIG. 7. Market value chain for the tobacco industry

4. EMPOWERMENT ISSUES AND TRANSFORMATION IN THE SECTOR

The Hereford Tobacco Development Project initiated in 2001 on the Hereford small-holding near Groblersdal is aimed at the social and economic empowerment of small farmers to become independent tobacco farmers. This project is led by Tobacco SA with support from British American Tobacco (donating funds) and SA Golden Leaf (providing management and extension expertise).

5. CHALLENGES

The growth of the illicit trade in tobacco products has increased from non-existent a decade ago to the current 15 % of the entire industry. The alarming growth in illegal trade in tobacco products in South Africa is estimated to be between 1 to 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 is still growing.

6. OPPORTUNITIES AND STRENGTHS

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

7. TOBACCO PRODUCER ORGANISATIONS/ COOPERATIVES

7.1 SA Golden Leaf Ltd

P.O. Box 1158
NELSPRUIT
1200

7.2 Gamtoos Tobacco Cooperative

P.O. Box 5
PATENSIE
6335

7.3 Limpopo Tobacco Processors

P.O. Box 69
RUSTENBURG
0030

7.4 Mokopane Tobacco

P.O. Box 4819
MOKOPANE
0600

8. LEAF MERCHANTS/LEAF DEALERS

8.1 Universal Leaf South Africa

P.O. Box 7509
RUSTENBURG
0300

8.2 Tobacco Traders

P.O. Box 487
CONSTANTIA
7848

8.3 Alliance One International (Formerly Dimon Intl)

P.O. Box 787
NORTHLANDS
2116

8.4 Tribac

P.O. Box 652799
BENMORE
2010

8.5 Virginia Leaf Company (Pty) Ltd

P.O. Box 412796
HYDE PARK
2024

9. CIGARETTE MANUFACTURERS

9.1 Africa Affiliated Tobacco (Manufacturing for Gold Leaf Tobacco Corporation)

Cnr Addlesen & Bert Kipling Str
Wilsonia
EAST LONDON
5247

9.2 British American Tobacco South Africa (Pty) Ltd

P.O. Box 631
CAPE TOWN
8000

Head Office: Stellenbosch.

Factories: Heidelberg, Gauteng and Paarl.

9.3 Japanese Tobacco International South Africa

Private Bag X39
RIVONIA
2128

9.4 Mastermind Tobacco SA (Pty) Ltd

P.O. Box 7185
EAST LONDON
5200

9.5 Phillip Morris South Africa

MILNERTON, Cape Town

Currently importing brands: Marlboro, Marlboro Lights, Marlboro Menthol

Considering manufacturing at a later stage.

9.6 Gallaher (Still Setting Up)

JOHANNESBURG

10. PIPE AND SNUFF TOBACCO MANUFACTURERS

10.1 Swedish Match Sa: Leornard Dingler (Pipe and Snuff)

P.O. Box 215
BENONI
1500

10.2 Swedish Match SA: Best Blend (Pipe)

P.O. Box 63
RUSTENBURG
0300

10.3 MLP Distributors (Medicated/treated Snuff)

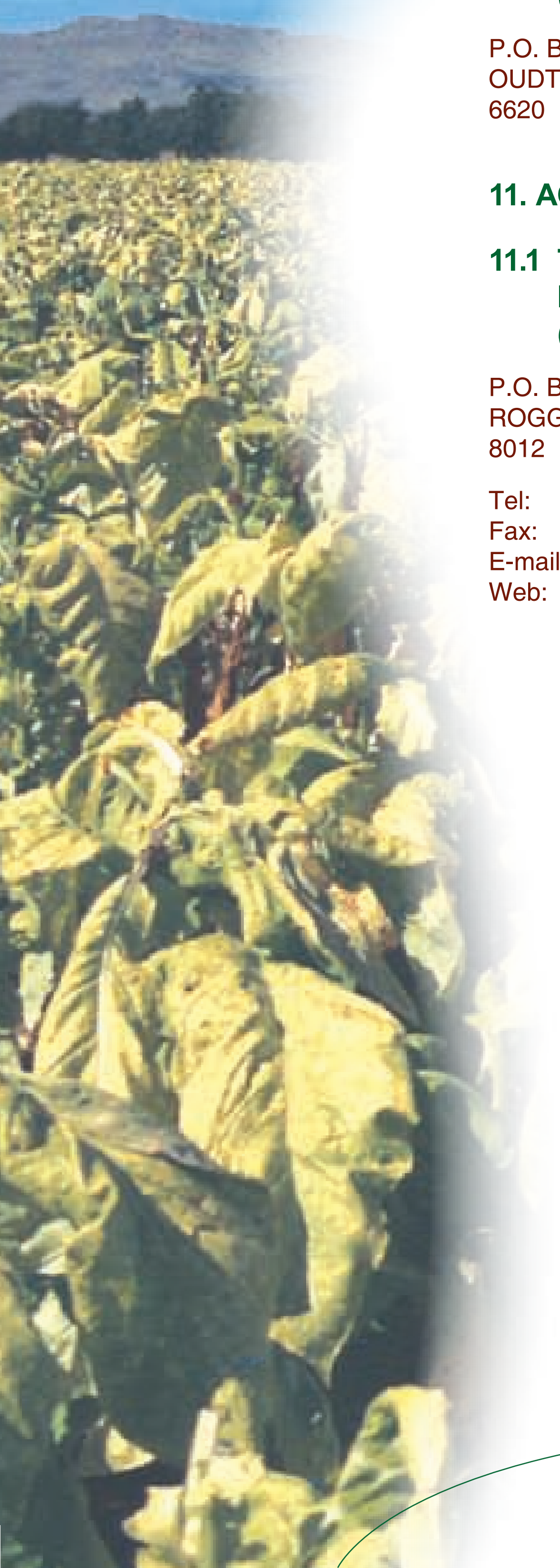
P.O. Box 9975
JOHANNESBURG
2000

10.4 Van Erkoms Tabakke (Edms) Bpk (Pipe and Snuff)

P.O. Box 1889
MOKOPANE
0600

10.5 World Class Connection Trading (Pty) Ltd (Roll Tobacco)

P.O. Box 46
OUDTSHOORN
6620



10.6 KTC HS Spies & Broers (Roll Tobacco)

P.O. Box 46
OUDTSHOORN
6620

11. ACKNOWLEDGEMENTS

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P.O. Box 631
Stellenbosch
7599

Tel: (021) 888 3973
Fax: (021) 888 3423
Web: www.batsa.co.za

11.3 Directorate Agricultural Statistics – Department of Agriculture

Address ??