

# **A PROFILE OF THE SOUTH AFRICAN TOBACCO MARKET VALUE CHAIN**

**2010**

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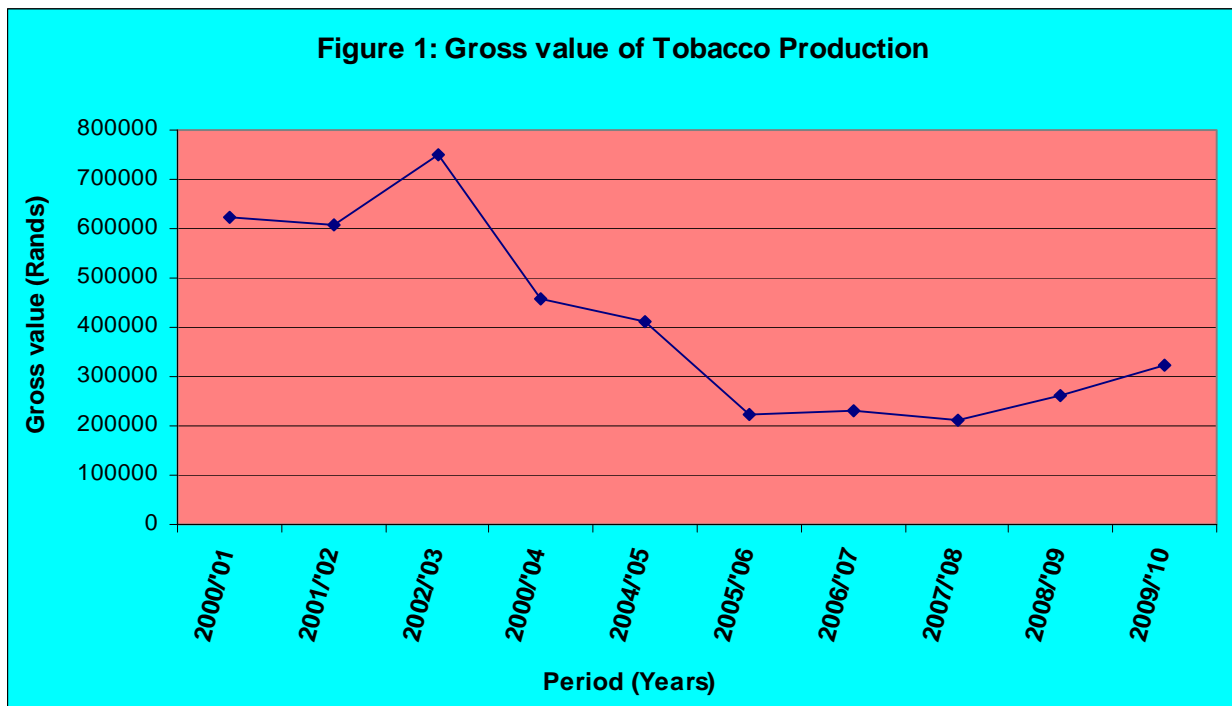
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## 1. DESCRIPTION OF THE INDUSTRY

The tobacco industry contributes more than R8 billion in excise duty and VAT to the government per annum. Private consumer spending on tobacco is approximately R11, 9 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: Agricultural Statistics**

Figure 1 indicates tobacco industry's contribution to the gross value of agricultural production in South Africa. The gross value has increased considerably between 2000/01 and 2002/03 and thereafter showed a decline between the period 2003/04 and 2005/06. In 2008/09 and 2009/10 the gross value of production started to increase. The gross value of production reached a peak in 2002/03 at approximately R750 000 and in 2007/08 the gross value of production experienced its lowest levels at approximately R200 000. The substantial decrease in tobacco's contribution to the gross value of agricultural production started in 2003/04 up to 2007/08 and can be attributed to the introduction and implementation of tobacco control regulations within the country.

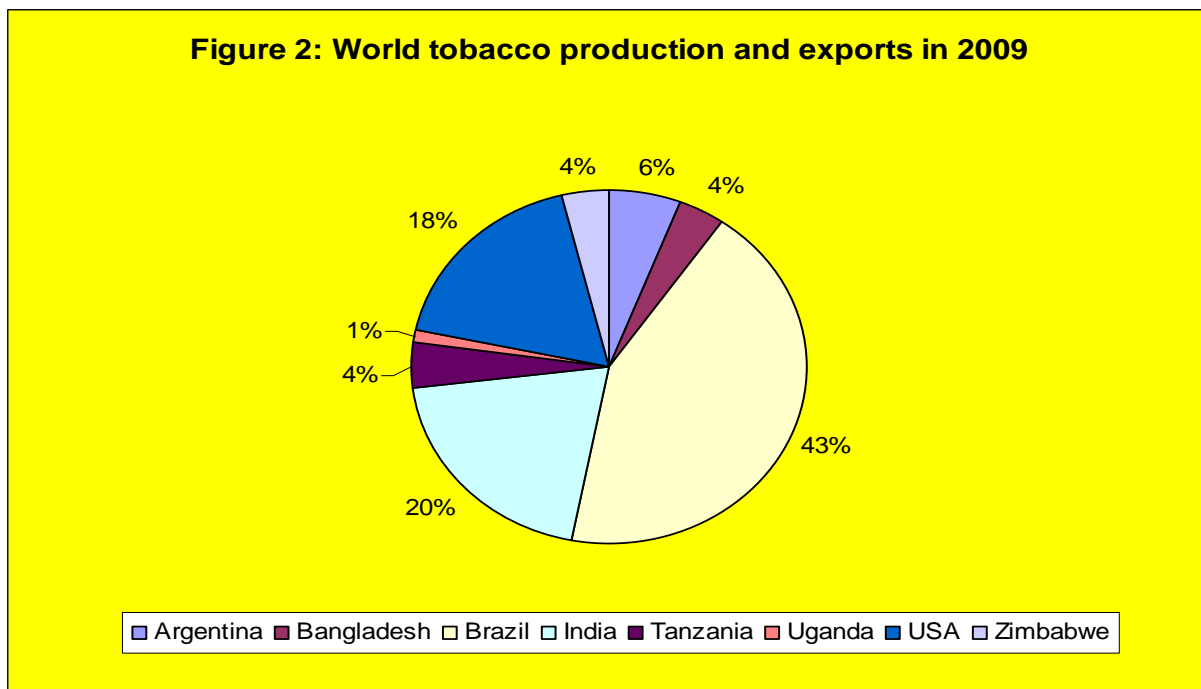
## 1.1 Producing Areas

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

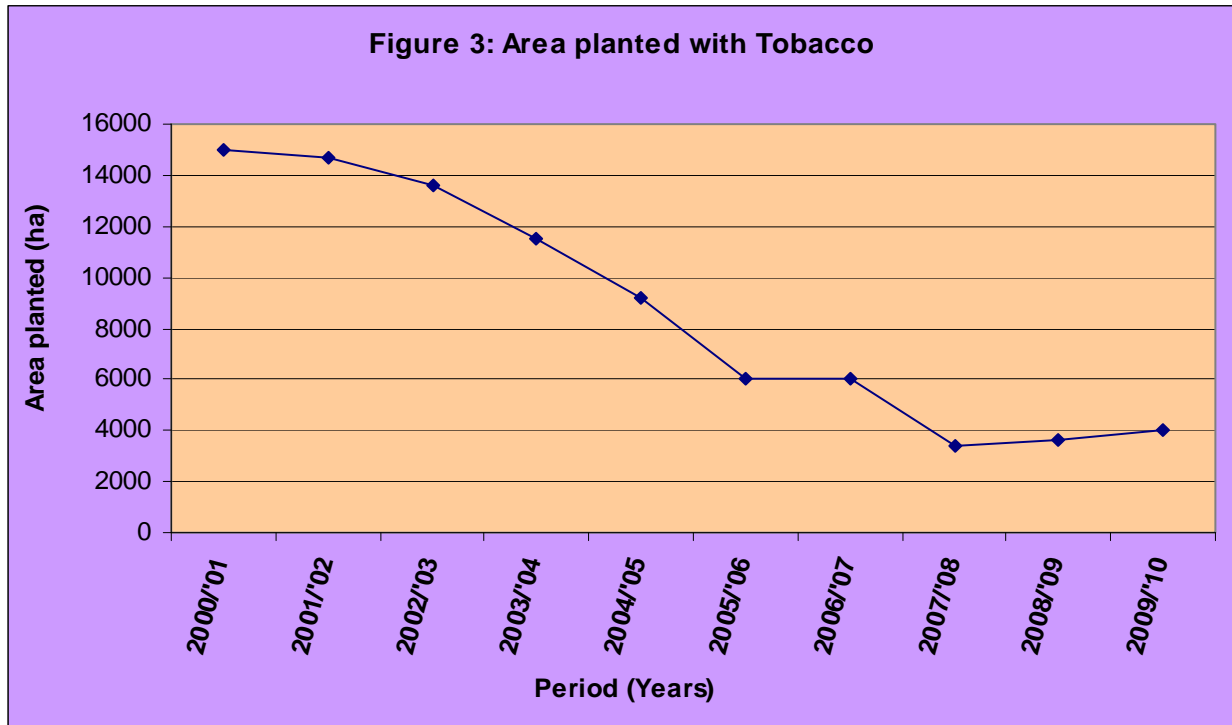
The total production of tobacco in South Africa is estimated at 10 000 tons comprising of 8 500 tons of flue-cured tobacco and 2 000 tons of air-cured tobacco. The total production of tobacco has decreased by 5 000 tons between 2005 and 2008. There are 140 tobacco growers in South Africa operating on approximately 3 700 hectares of land. Similarly the number of tobacco growers has also decreased from 300 in 2005 to the current 140.

**Figure 2: Tobacco world production and exports in 2009**



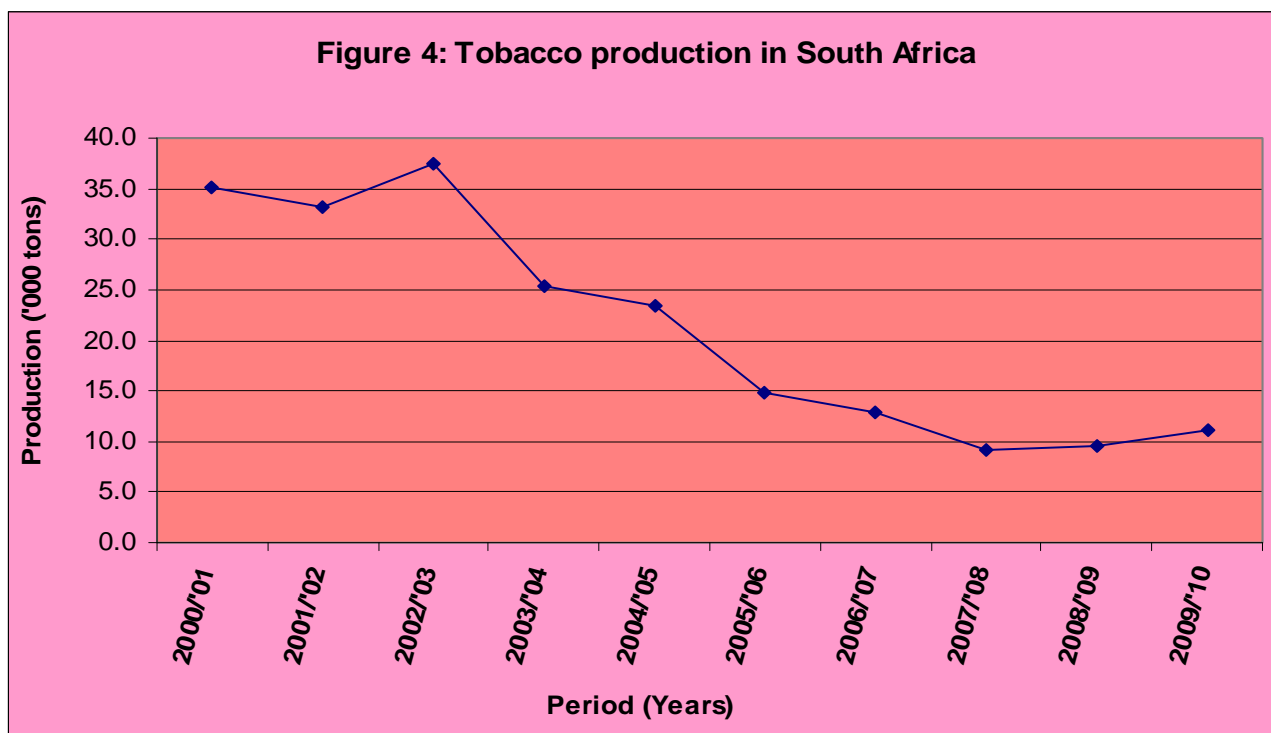
**Source: Tobacco Institute of SA**

Figure 2 indicates the top eight exporters of tobacco in the world in 2009. Brazil was the biggest producer and exporter of tobacco during the period under review. World production and exports of tobacco originated in Brazil followed by India, U.S. and the rest of the 19% is shared amongst countries like Argentina, Zimbabwe, Bangladesh, Uganda and Tanzania.



**Source: Agricultural Statistics**

Figure 3 indicates the area planted with tobacco in South Africa between 2000/01 and 2009/10. The graph further indicates in 2000/01 the area planted experienced a peak at approximately 15 000 ha, then between 2001/02 and 2009/10 the area planted decreased consistently until it reached 3 500 ha in 2007/08. Between 2005/06 and 2006/07 the area planted was constant and started to increase marginally in 2008/09 and 2009/10 years. The graph generally indicates that there was a continuous decline in the area planted to tobacco during the period under review.



**Source: Agricultural Statistics**

Figure 4 shows tobacco production in South Africa between 2000/01 and 2009/10 period. The graph also shows that tobacco production started to increase in 2000/01 until a peak was experienced in 2002/03 at approximately 37 000 tons of tobacco. Between 2003/04 2007/08 tobacco production in South Africa declined consistently until there was a marginal increase in 2008/09 and 2009/10. The graph further shows that there were greater fluctuations in terms of tobacco production during the period under examination.

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

Year	2000 /01	2001 /02	2002 /03	2003 /04	2004 /05	2005 /06	2006 / 07	2007/ 08	2008/ 09	2009/ 10
Area Planted (ha)	15000	14700	13600	11500	9200	6000	6000	3400	3600	4000
Total Production in (000 tons)	35.2	33.1	37.4	25.3	23.5	14.9	12.8	9.1	9.5	11.1

**Source: Agricultural Statistics**

Table 1 depicts total tobacco production trends in tons as against the area planted to tobacco in hectares between 2000/01 and 2009/10. The table also depicts that in 2001/02 the area planted decreased by 300 ha to 14 700 hectares as compared to 2000/01 and the total production also decreased to 33 100 tons of tobacco. Interestingly in 2002/03 the area planted decreased again to 13 600 ha but the total production increased to 37 400 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.

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. 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.

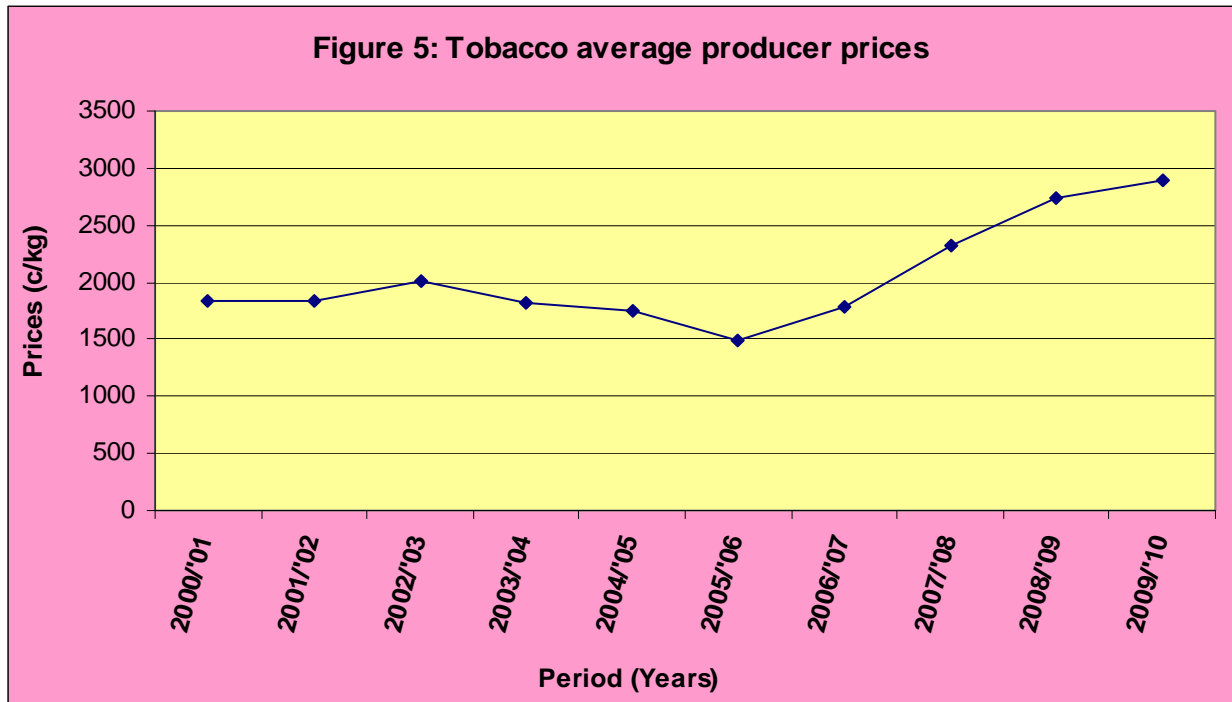
### **1.3 Employment**

The primary tobacco industry in South Africa employs about 10 000 agricultural workers. Tobacco producer organizations employ 800 people, whilst the manufacturing industry employs 3000 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: Agricultural Statistics**

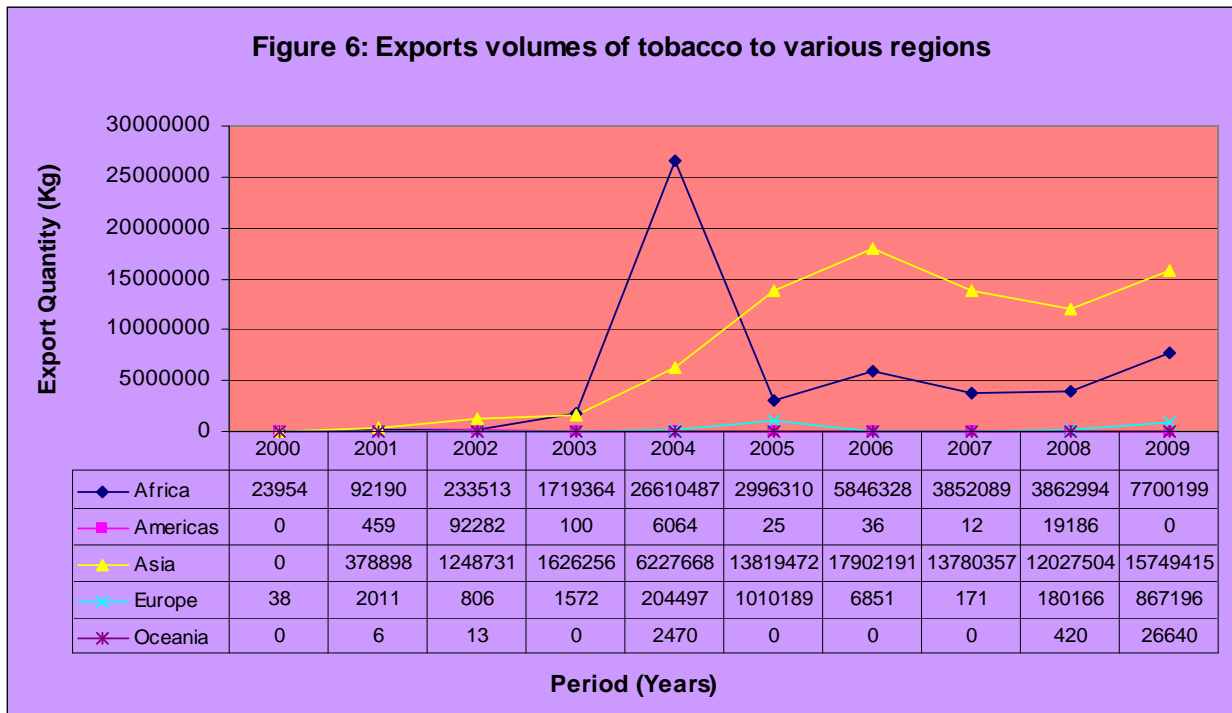
Figure 5 illustrates average producer prices of tobacco in South Africa between 2000/01 and 2009/10.

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.



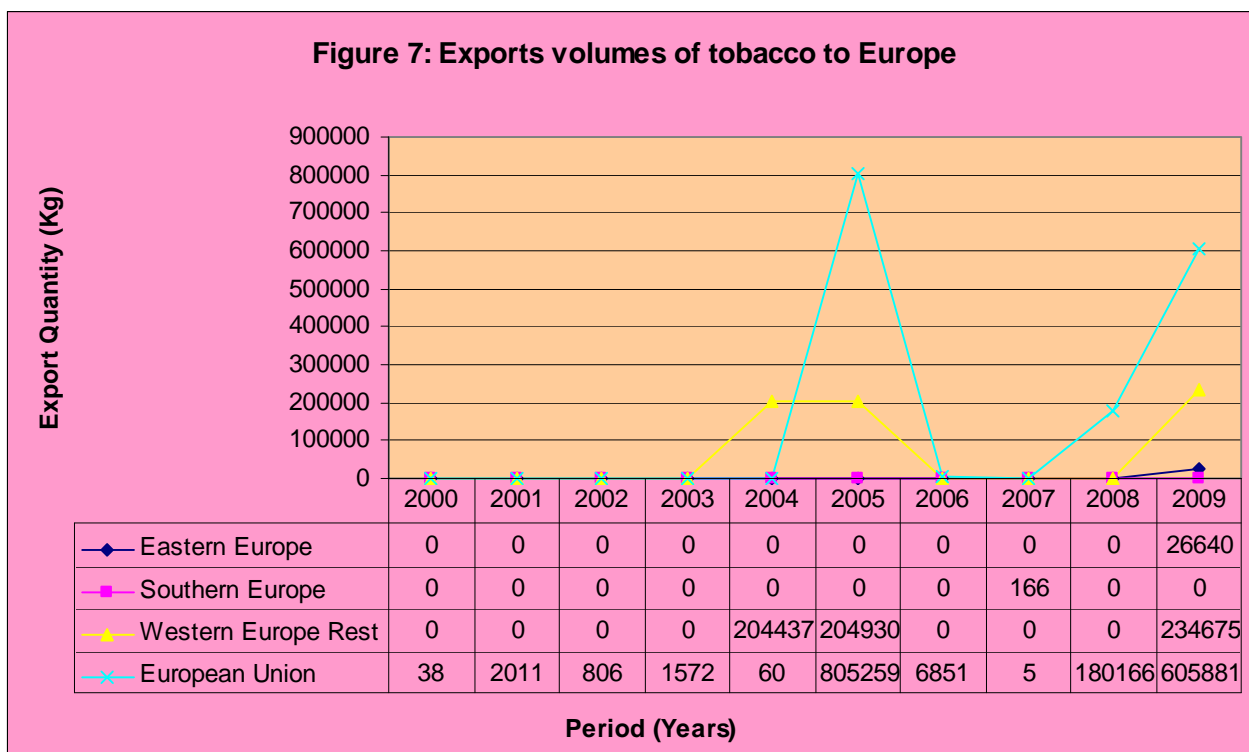
### 3. EXPORTS VOLUMES

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.



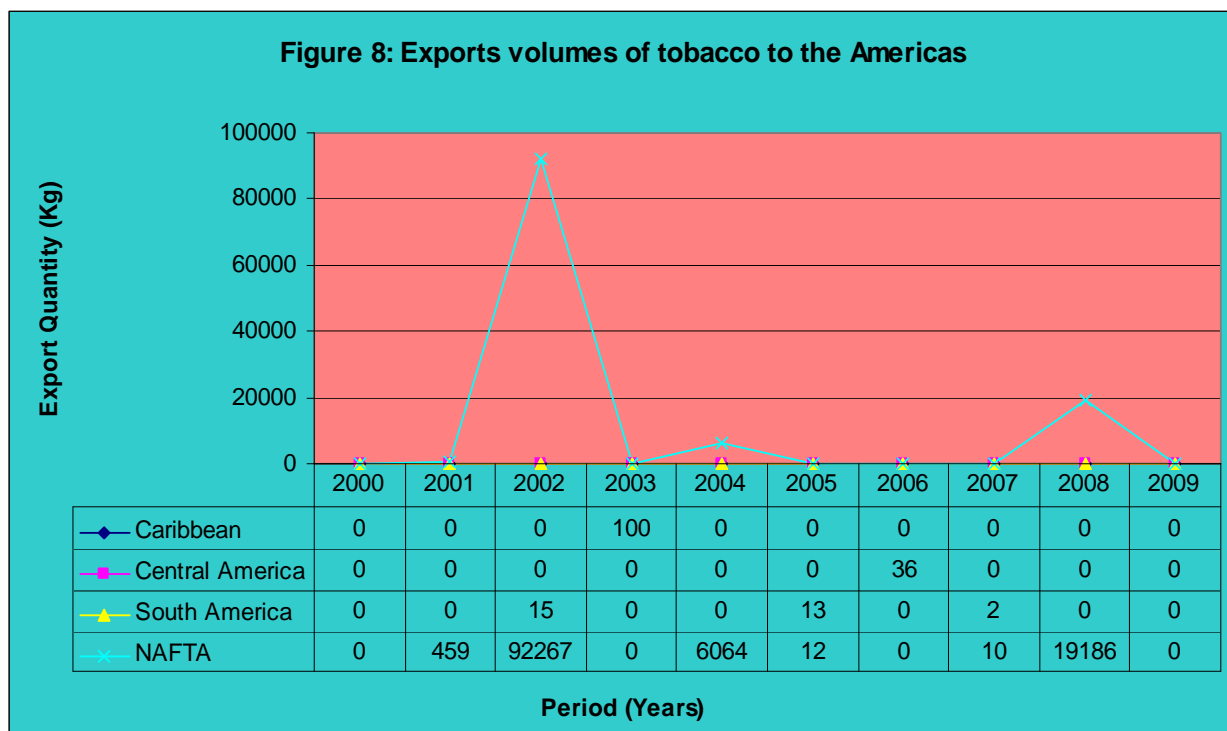
**Source: Easy Quantec data**

Figure 6 indicates volumes of tobacco exports from South Africa to various regions of the world between 2000 and 2009 period. Between the years 2000 and 2003 the volumes of tobacco exports from South Africa started to increase slightly to Africa and Asia with greater volumes recorded to Africa. In 2004 the volumes of tobacco exports from South Africa to African countries experienced a surge and a peak at approximately 25 million kilograms. Between 2005 and 2009 South Africa's tobacco exports shifted from Africa to Asian countries while exports to Europe and the Americas declined substantially. Between 2005 and 2009 South Africa's tobacco exports shifted from African countries to Asia countries while exports to Europe and the Americas declined substantially.



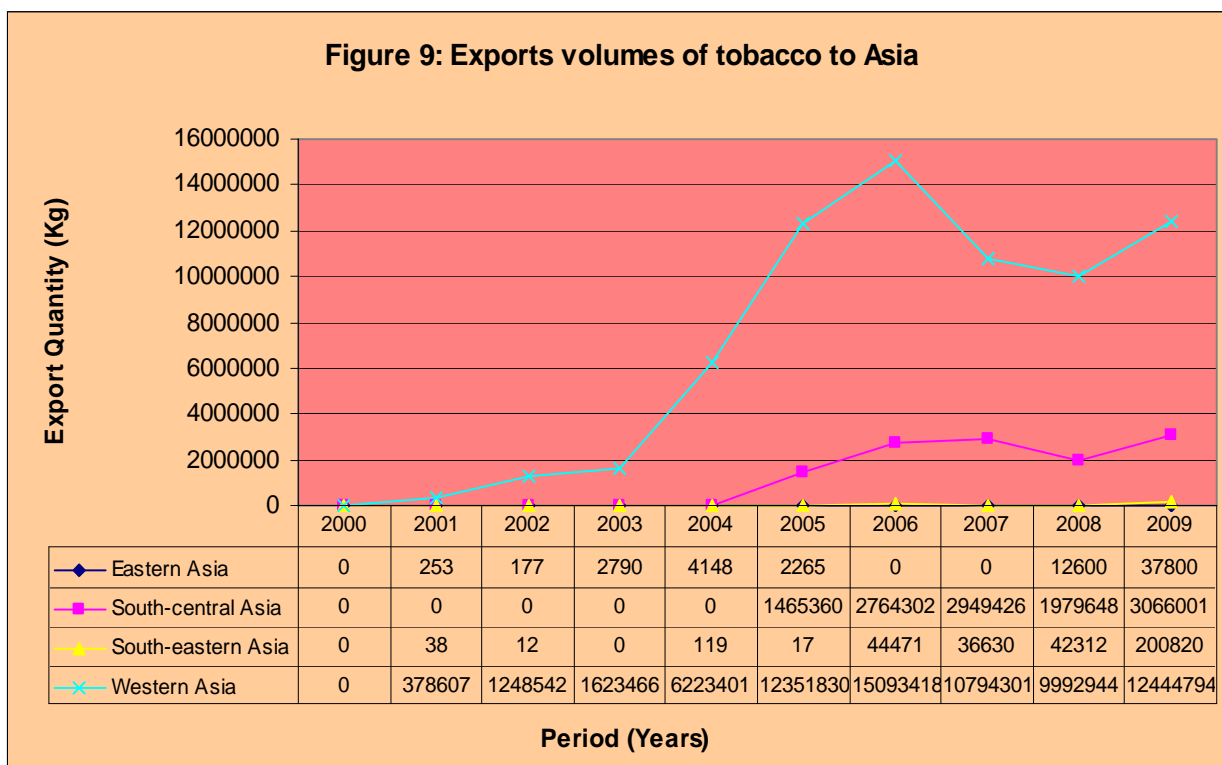
**Source: ITC Trade Map**

Figure 7 shows volumes of tobacco exports from South Africa to Europe between 2000 and 2009 period. Between the years 2000 and 2004 the volumes of tobacco exports from South Africa were very minimal and then started to increase slightly to the European Union and Western Europe. In 2005 tobacco exports from South Africa recorded greater volumes recorded to the European Union at approximately 800 000 kilograms of tobacco while Western Europe recorded approximately 201 000 kilograms of tobacco from South Africa in 2009.



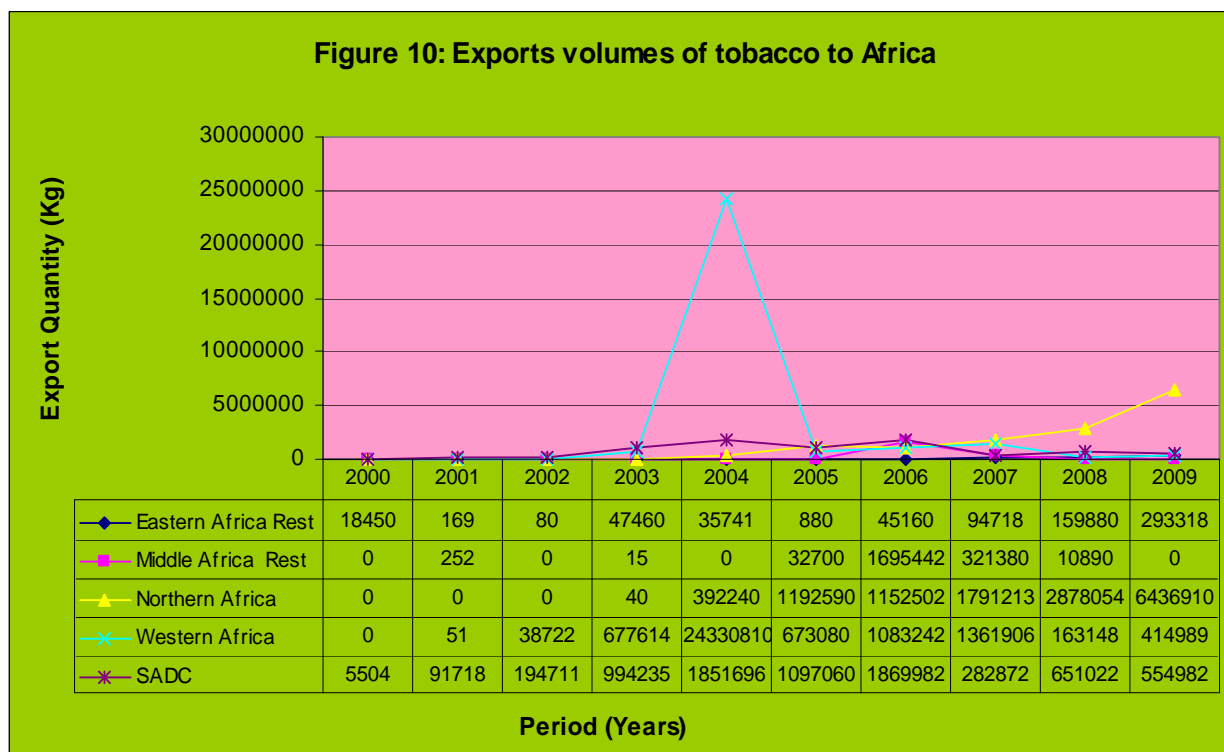
Source: Quantec

Figure 8 depicts volumes of tobacco exports from South Africa to the Americas between 2000 and 2009 period. Between the years 2000 and 2001 the volumes of tobacco exports from South Africa were very minimal. In 2002 tobacco exports from South Africa to NAFTA started to increase until a peak was experienced at approximately 92 267 kilograms. In 2004 tobacco exports from South Africa recorded less volumes at less than 20 000 kilograms. In 2008 tobacco exports increased slightly at 19 186 kilograms and then a decline to zero in 2009.



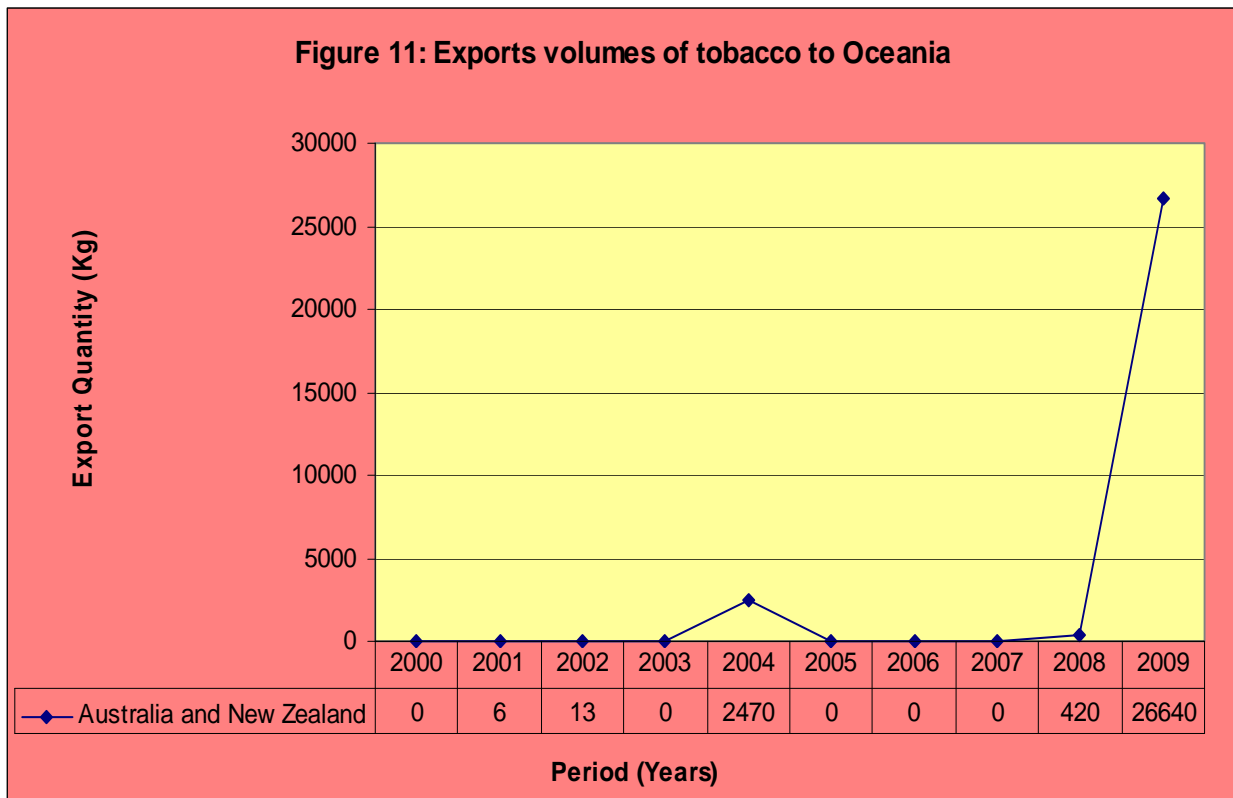
Source: Quantec Easy Data

Figure 9 shows exports volumes of tobacco from South Africa to Asia between 2000 and 2009. The graph also shows that major exports markets for tobacco from South Africa are Western Asia followed by South-Central Asia, South-Eastern Asia and Eastern Asia. The graph further shows that there were greater fluctuations in terms of exports of tobacco during the period under scrutiny. Exports of tobacco from South Africa to Western Asia experienced a peak in 2006 at approximately 15 million kilograms while tobacco exports to South-central Asia experienced a peak in 2009 at approximately 12 million kilograms. Between 2000 and 2003 tobacco exports from South Africa to Western Asia were very low at approximately less than 2 million kilograms.



**Source: Quantec**

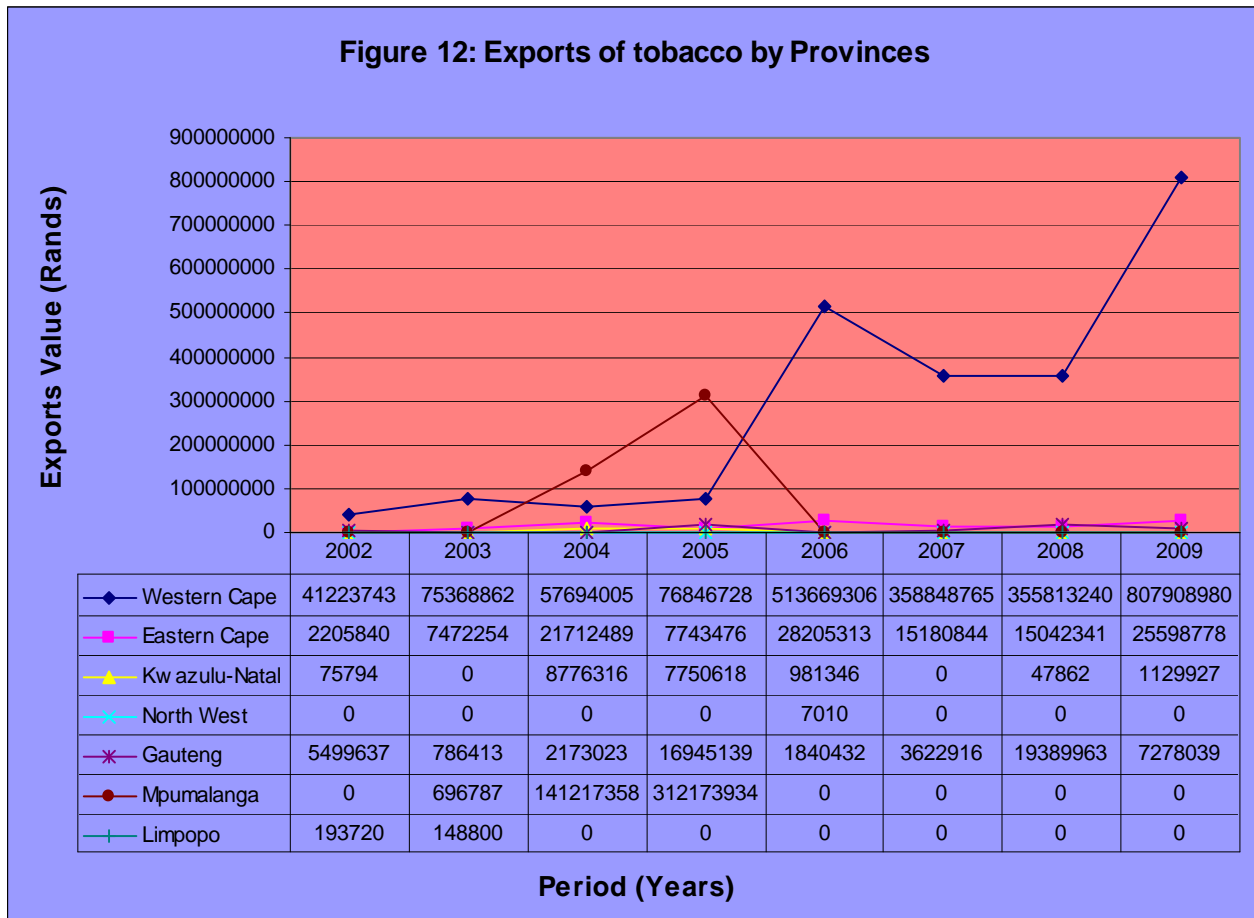
Figure 10 illustrates exports volumes of tobacco from South Africa to Africa between 2000 and 2009. The graph also shows that major exports markets for tobacco from South Africa are SADC countries particularly from Mozambique and Zimbabwe, Western Africa and lastly Northern Africa. Middle and Eastern Africa had very low tobacco exports during the period under examination. The graph further illustrates that there were greater fluctuations in terms of exports of tobacco during the period under examination. Exports of tobacco from South Africa to Western Africa experienced a peak in 2004 at approximately 24 million kilograms while tobacco exports to Northern Africa experienced a peak in 2009 at approximately 6.4 million kilograms. Between 2000 and 2003 tobacco exports from South Africa to Western Africa were very low at approximately less than 5 million kilograms; the same scenario took place with exports of tobacco to Northern Africa. Exports of tobacco from South Africa to SADC were far below the 5 million mark during the period under examination.



Source: Quantec

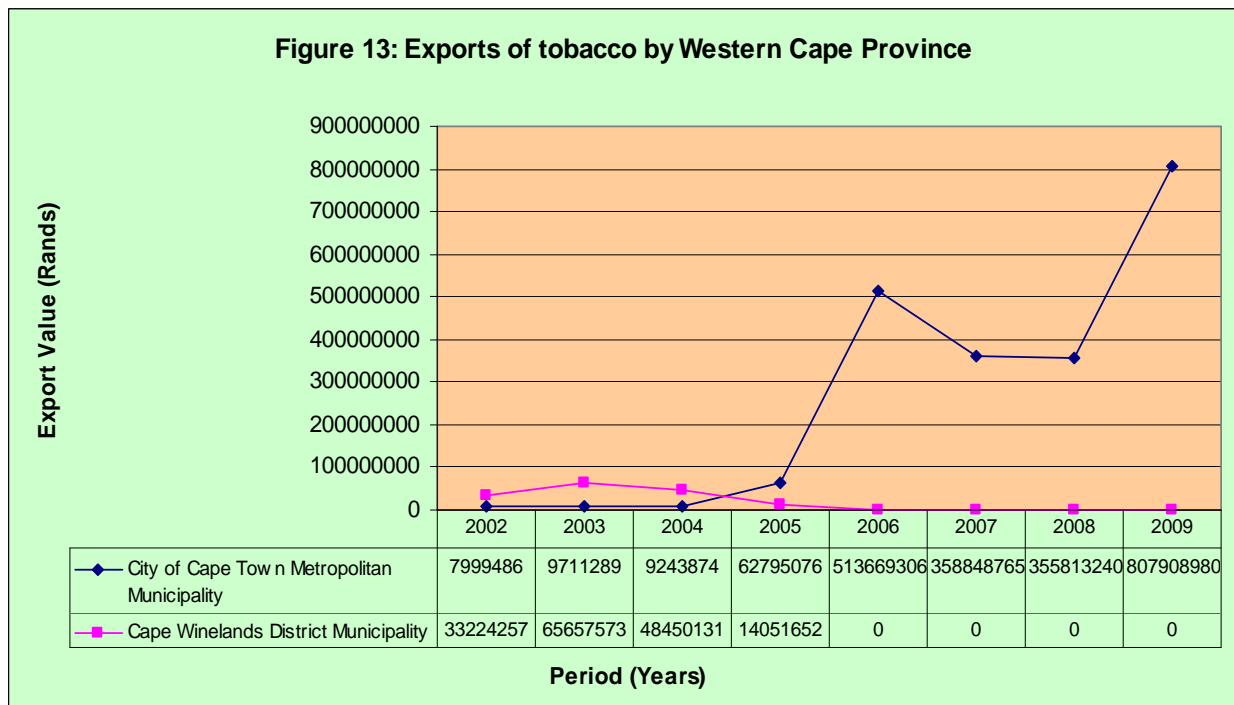
Figure 11 illustrates exports volumes of tobacco from South Africa to Oceania between 2000 and 2009. The graph also illustrates that major export markets for tobacco from South Africa are New Zealand and Australia. The graph further illustrates that there were greater fluctuations in terms of exports of tobacco Australia and New Zealand during the period under examination. Exports of tobacco from South Africa to Australia and New Zealand experienced a peak in 2009 at approximately 26 500 kilograms. Between 2000 and 2003 tobacco exports from South Africa to Australia and New Zealand were very low at approximately less than 5000 kilograms; the same scenario took place with exports of tobacco to Australia and New Zealand between 2005 and 2008. In 2004 tobacco exports started to increase to about 2470 kilograms.

**Figure 12: Exports of tobacco by Provinces**



Source: Quantec

Figure 12 indicates exports values of tobacco by provinces of the Republic of South Africa to the world between 2002 and 2009. During the period under review tobacco exports have shown greater fluctuations with a peak attained by Western Cape in 2009 followed by Mpumalanga with its peak in 2005 at approximately R312 million and Eastern Cape with less than a million rand. The graph further indicates greater fluctuations during the period under scrutiny. Western Cape tobacco exports started to increase in 2003 then declined slightly in 2004 and increased in 2005 until 2006. Between 2007 and 2008 there was a slight decline in tobacco exports.

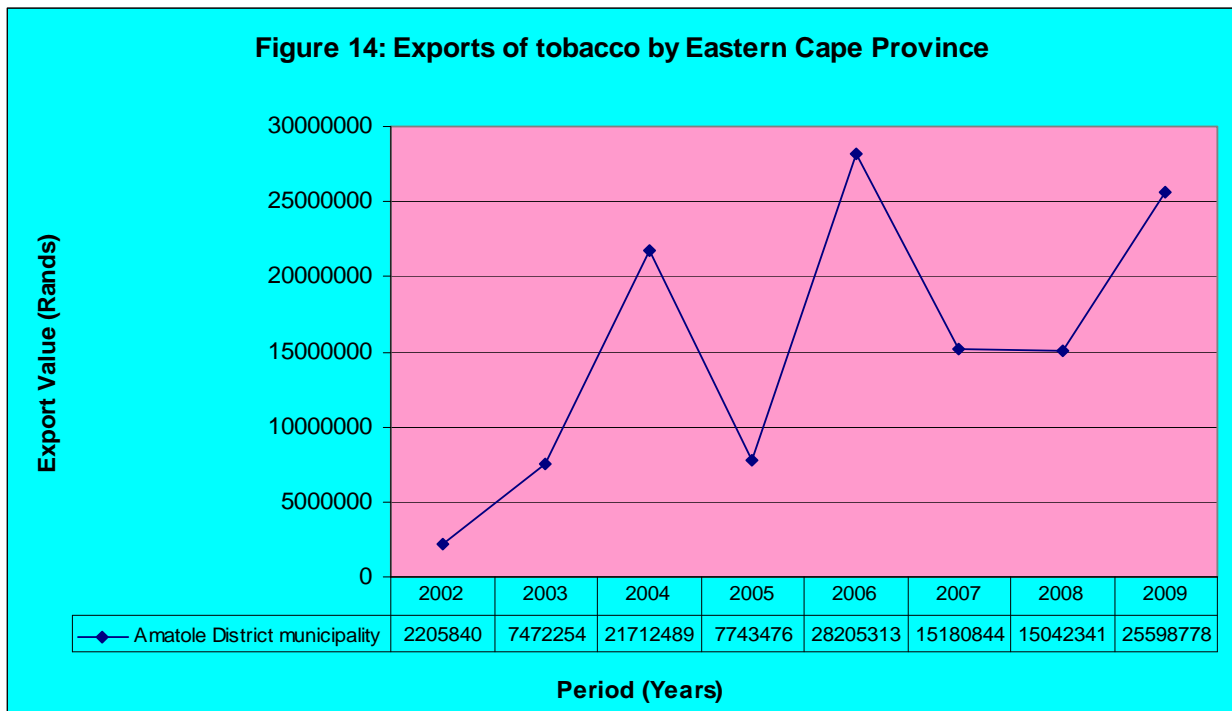


Source: Quantec

Figure 13 shows exports values of tobacco by Western Cape Province to the world between the period 2002 and 2009. The City of Cape Town Metro commanded the greatest share of tobacco exports during the period under review with no competition followed by Cape Winelands District Municipality. The City of Cape Town Metro experienced a peak in 2009 at approximately R807 million while Cape Winelands district experienced its peak in 2003 at approximately less than R100 million. Throughout the whole period between 2002 and 2009 there were greater fluctuations in terms of tobacco exports from Western Cape Province. Exports of tobacco started to increase in 2005 and 2006 until a decline in 2007 and 2008.

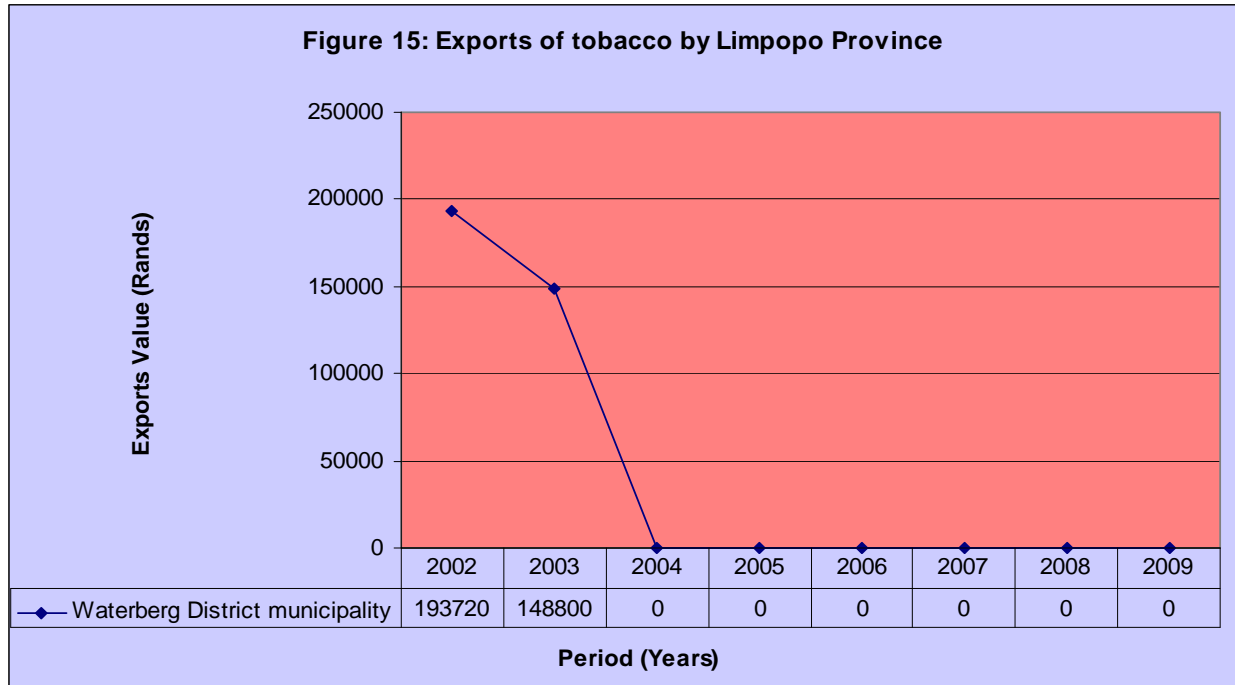
Tobacco exports from Cape Winelands District started to increase in 2002 to 2003 then experienced a decline in 2004 up to 2009.





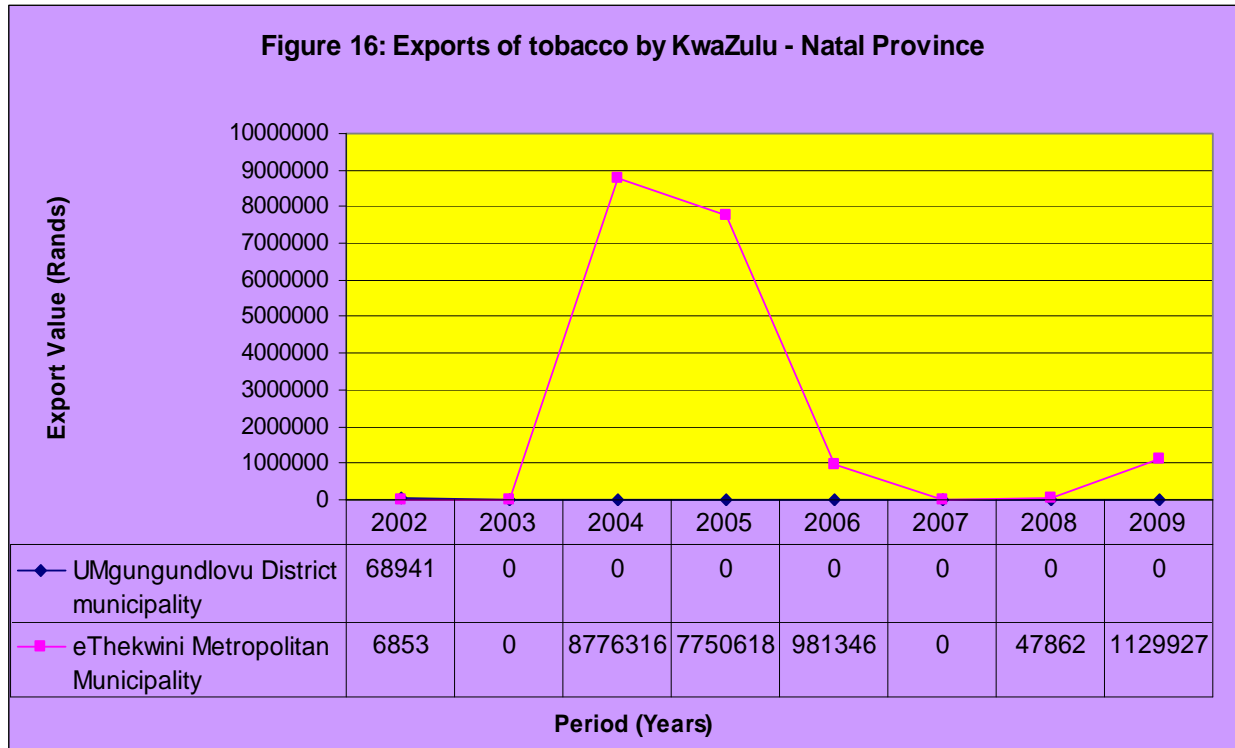
Source: Quantec

Figure 14 depicts exports values of tobacco by Eastern Cape Province to the world between the period 2002 and 2009. The Amathole District Municipality commanded the greatest share of tobacco exports during the period under review with no competition. The Amathole District Municipality experienced a peak in 2006 at approximately R28 million. Throughout the whole period between 2002 and 2009 there were greater fluctuations in terms of tobacco exports from Eastern Cape Province. Exports of tobacco by the Eastern Cape Province started to increase in 2002 at approximately R2.2 million to 2004 at approximately R21 million then a decline in 2005 at approximately R7.7 million. In 2006 a peak was reached then there was a decline in 2007 and 2008 then an increase in 2009.



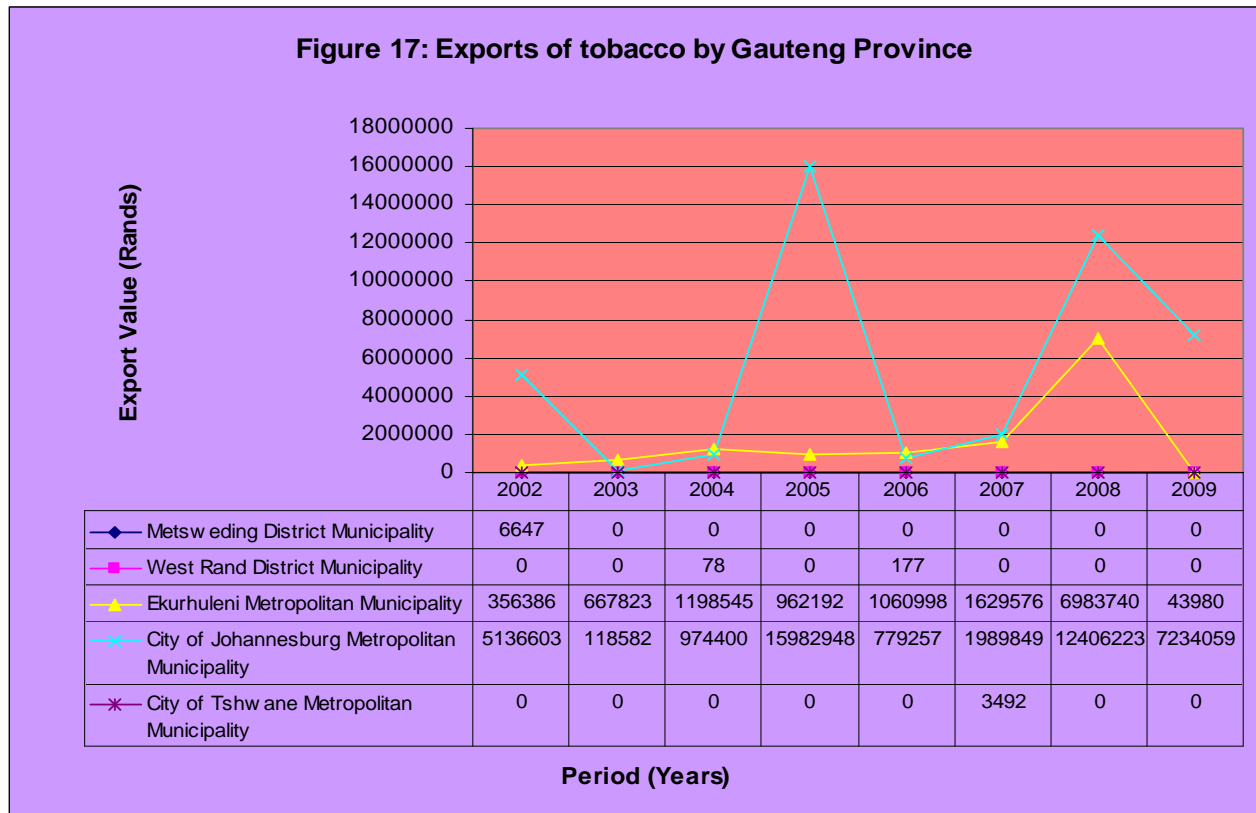
Source: Quantec

Figure 15 illustrates exports values of tobacco by Limpopo province to the world between the period 2002 and 2009. The Waterberg District Municipality commanded the greatest share of tobacco exports during the period under review with no competition. The Waterberg District Municipality experienced a peak in 2002 at approximately R193 000. Throughout the whole period between 2002 and 2009 there were fewer fluctuations in terms of tobacco exports from Limpopo province. Exports of tobacco by the Limpopo province started to increase in 2002 then declined in 2003 to R148 000. Between 2004 and 2009 there were no exports of tobacco recorded from the Limpopo province.



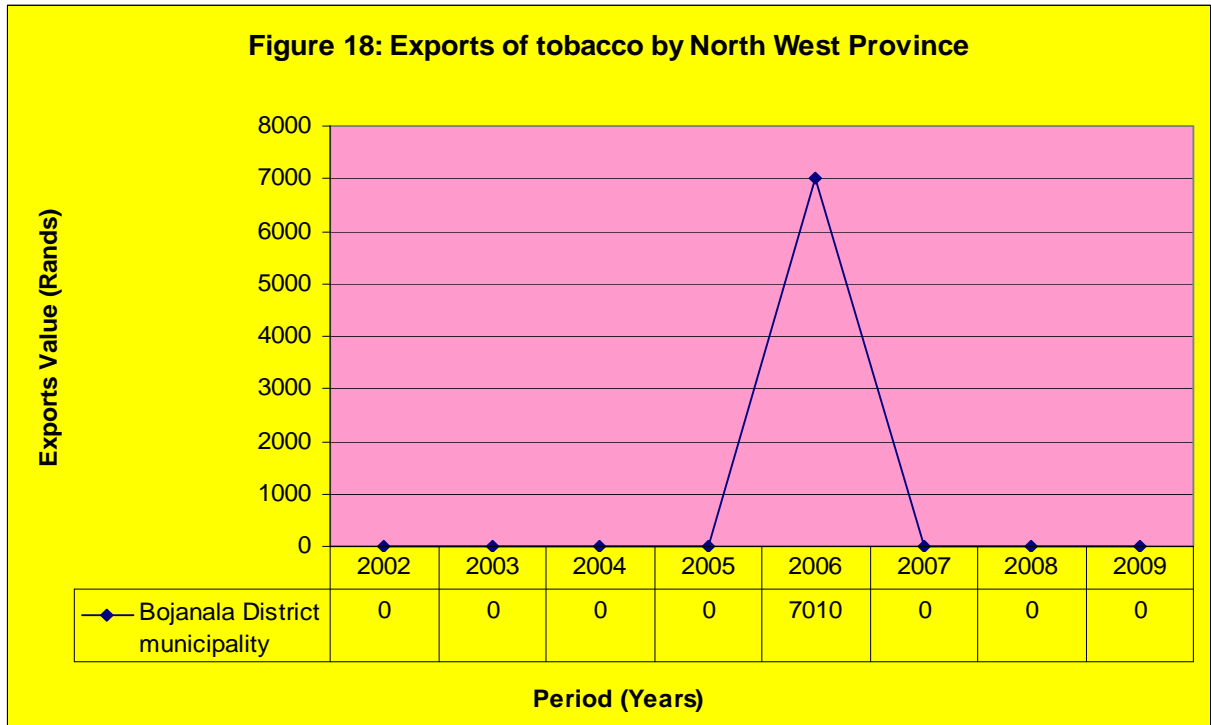
Source: Quantec

Figure 16 indicates exports values of tobacco by KwaZulu-Natal province to the world between the period 2002 and 2009. The eThekweni Metro Municipality commanded the greatest share of tobacco exports during the period under review with no competition followed by UMgungundlovu District Municipality. The eThekweni Metro Municipality experienced a peak in 2004 at approximately R8.7 million whilst UMgungundlovu District Municipality had very low levels of tobacco exports. Throughout the whole period between 2002 and 2009 there were greater fluctuations in terms of tobacco exports from KwaZulu-Natal province. Exports of tobacco from the eThekweni Metropolitan Municipality started to decrease in 2005, 2006, 2007 and 2008 respectively at approximately R7.7 million, R981 000, R0 and R47 862. In 2009 tobacco exports from KwaZulu-Natal slightly increased at approximately R1.1 million.



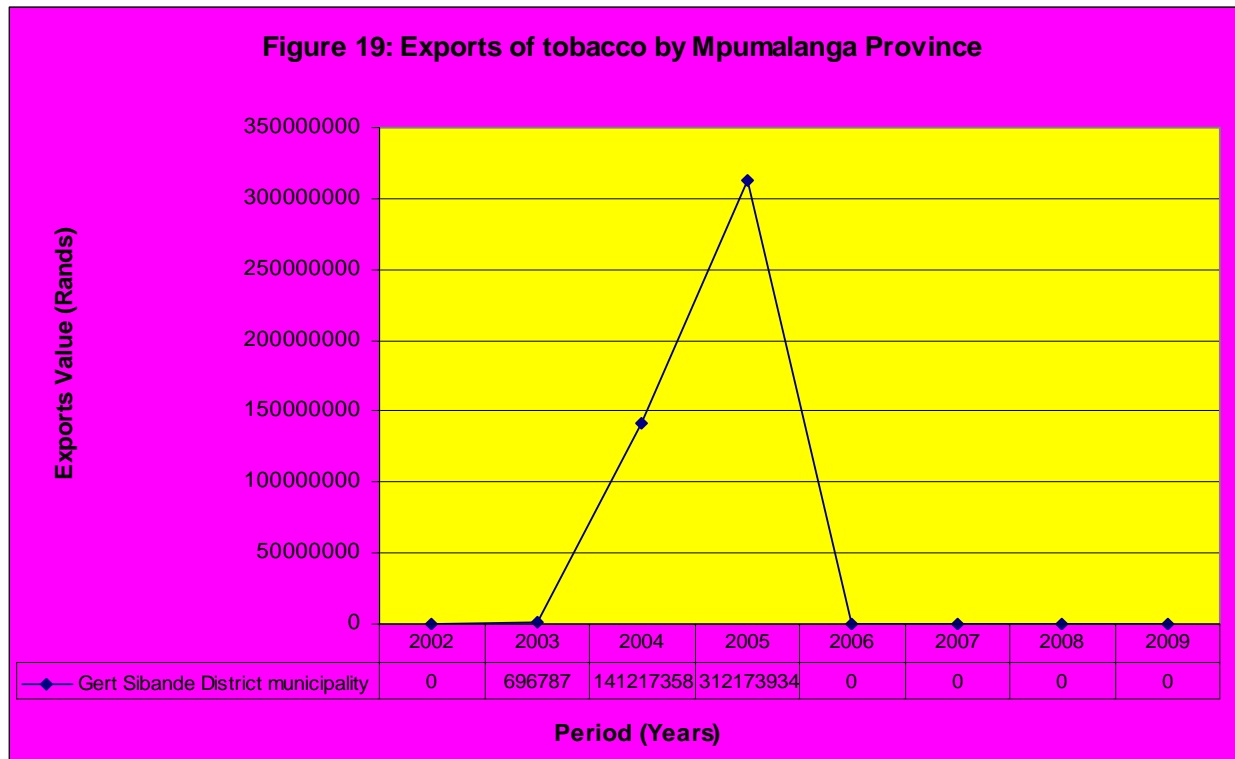
Source: Quantec

Figure 17 shows exports values of tobacco by Gauteng province to the world between the period 2002 and 2009. The City of Johannesburg Metro Municipality commanded the greatest share of tobacco exports during the period under review followed by Ekurhuleni Metropolitan Municipality. The City of Johannesburg Metropolitan Municipality experienced a peak in 2005 at approximately R15 million whilst Ekurhuleni Metropolitan Municipality experienced its peak in 2008 at approximately R12 million. Throughout the whole period between 2002 and 2009 there were greater fluctuations in terms of tobacco exports from Gauteng province. Exports of tobacco the City of Johannesburg started to increase in 2002 the declined in 2003 and then increased again in 2004 and 2005. In 2006 tobacco exports from eThekweni Metro declined and then there was a slight increase in 2007. In 2008 tobacco exports from eThekweni Metro increased dramatically until there was a decline in 2009.



Source: Quantec

Figure 18 illustrates exports values of tobacco by North West province to the world between the period 2002 and 2009. Exports of tobacco from the Bojanala District Municipality experienced a peak in 2006 at approximately R7010. Exports of tobacco by North West province were zero between 2002 and 2005 then started to increase in 2006 then again there were no exports between 2007 and 2009.



Source: Quantec

Figure 19 indicates exports values of tobacco by Mpumalanga province to the world between the period 2002 and 2009. The Gert Sibande District Municipality commanded the greatest share of tobacco exports during the period under review. Sibande District Municipality experienced a peak in 2005 at approximately R12 million. Exports of tobacco by Mpumalanga province was zero in 2002 and then in 2003 exports of tobacco took place at approximately R696 000 while during the period between 2006 and 2009 there were no exports of tobacco from Gert Sibande District Municipality.

### 3.1 Share Analysis

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

Year Province	2002	2003	2004	2005	2006	2007	2008	2009
Western Cape	83.79	89.22	24.91	18.23	94.30	95.02	91.17	95.96
Eastern Cape	4.48	8.85	9.38	1.84	5.18	4.02	3.85	3.04
KwaZulu-Natal	0.15	0.00	3.79	1.84	0.18	0.00	0.01	0.13
North West	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gauteng	11.18	0.93	0.94	4.02	0.34	0.96	4.97	0.86
Mpumalanga	0.00	0.82	60.98	74.07	0.00	0.00	0.00	0.00
Limpopo	0.39	0.18	0.00	0.00	0.00	0.00	0.00	0.00

Source: Calculated from Quantec

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

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

Year District	2002	2003	2004	2005	2006	2007	2008	2009
City of Cape Town Metro	19.41	12.89	16.02	81.74	100	100	100	100
Cape Winelands	80.59	87.11	83.98	18.29	0.00	0.00	0.00	0.00

Source: Calculated from Quantec

In the Western Cape Province tobacco exports occur mainly through the City of Cape Town, with menial exports recorded from the Cape Wine lands. During the period under review the two districts have experienced fluctuations in the value of tobacco exports with the City of Cape Town commanding a greater share between the years 2005 to 2009 while the Cape Wine lands district commanded the greatest share of tobacco exports between the years 2002 and 2004.

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

Year District	2002	2003	2004	2005	2006	2007	2008	2009
Amatole	100	100	100	100	100	100	100	100

**Source: Calculated from Quantec**

Table 4 illustrates that in the Eastern Cape Province tobacco exports occurred mainly through the Amatole District.

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

Year District	2002	2003	2004	2005	2006	2007	2008	2009
Waterberg	100	100	0.00	0.00	0.00	0.00	0.00	0.00

**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, except for the periods 2004 to 2009 where there was no export at all.

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

Year District	2002	2003	2004	2005	2006	2007	2008	2009
UMgungundlovu	90.96	0.00	0.00	0.00	0.00	0.00	0.00	0.00
eThekweni Metro	9.04	0.00	100	100	100	0.00	100	100

**Source: Calculated from Quantec**

In the KwaZulu-Natal province tobacco exports originated mainly from the eThekweni Metro with very low exports recorded inform the UMgungundlovu District in the year 2002.

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

Year District	2002	2003	2004	2005	2006	2007	2008	2009
Bojanala District	0.00	0.00	0.00	0.00	100	0.00	0.00	0.00

**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, except for the periods 2002 to 2005 and 2007 to 2009 where there were no tobacco exports.



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

Year District	2002	2003	2004	2005	2006	2007	2008	2009
Metsweding	0.12	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ekurhuleni	6.48	84.92	55.16	5.68	57.65	44.98	36.02	0.60
City of Johannesburg	93.40	15.08	44.84	94.32	42.34	54.92	63.98	99.40
City of Tshwane	0.00	0.00	0.00	0.00	0.00	0.10	0.00	0.00

**Source: Calculated from Quantec**

Table 8 indicates that in Gauteng province, the City of Johannesburg Metro Municipality commanded the greatest share of tobacco exports in the years 2002, 2005, 2007, 2008 and 2009 followed by Ekurhuleni Metro Municipality that commanded the greatest share of tobacco exports in the years 2003, 2004 and 2006.

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

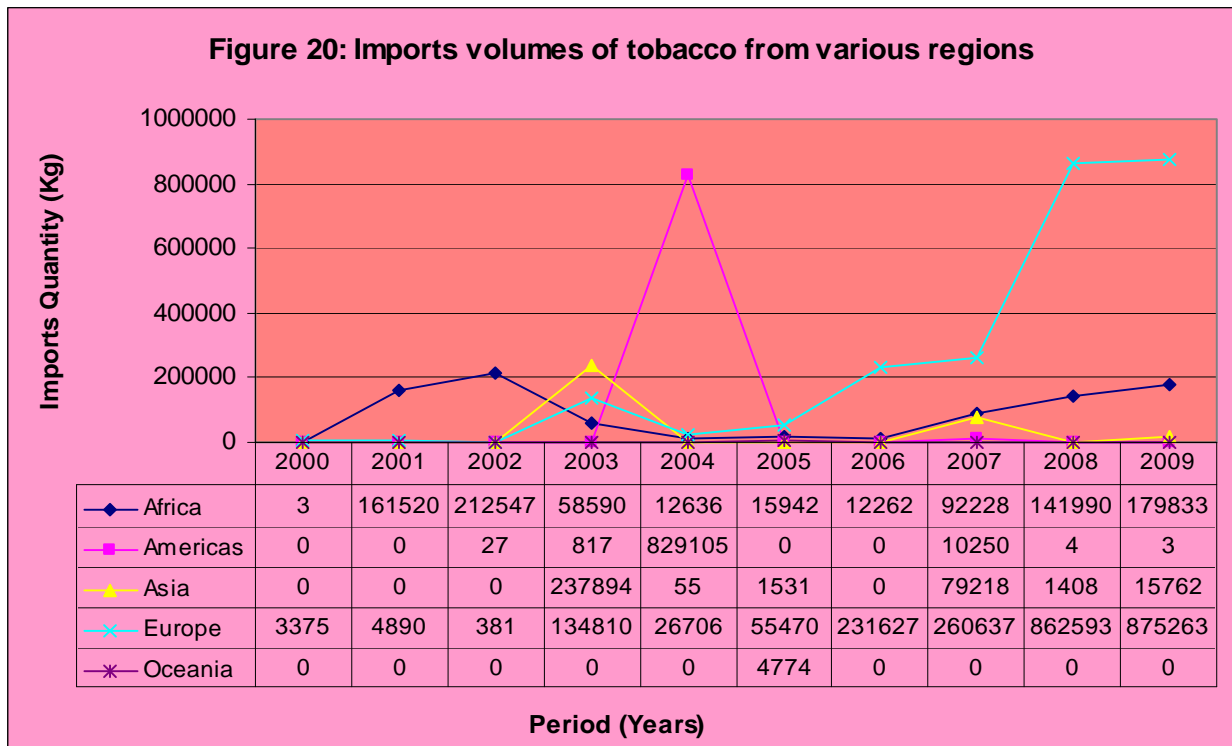
Year District	2002	2003	2004	2005	2006	2007	2008	2009
Gert Sibande	0.00	100	100	100	0.00	0.00	0.00	0.00

**Source: Calculated from Quantec**

Table 9 depicts that in Mpumalanga province, Gert Sibande commanded the greatest share of tobacco exports throughout the period under review, except for the periods 2002, 2006, 2007, 2008 and 2009 where there were no tobacco exports from the province at all.

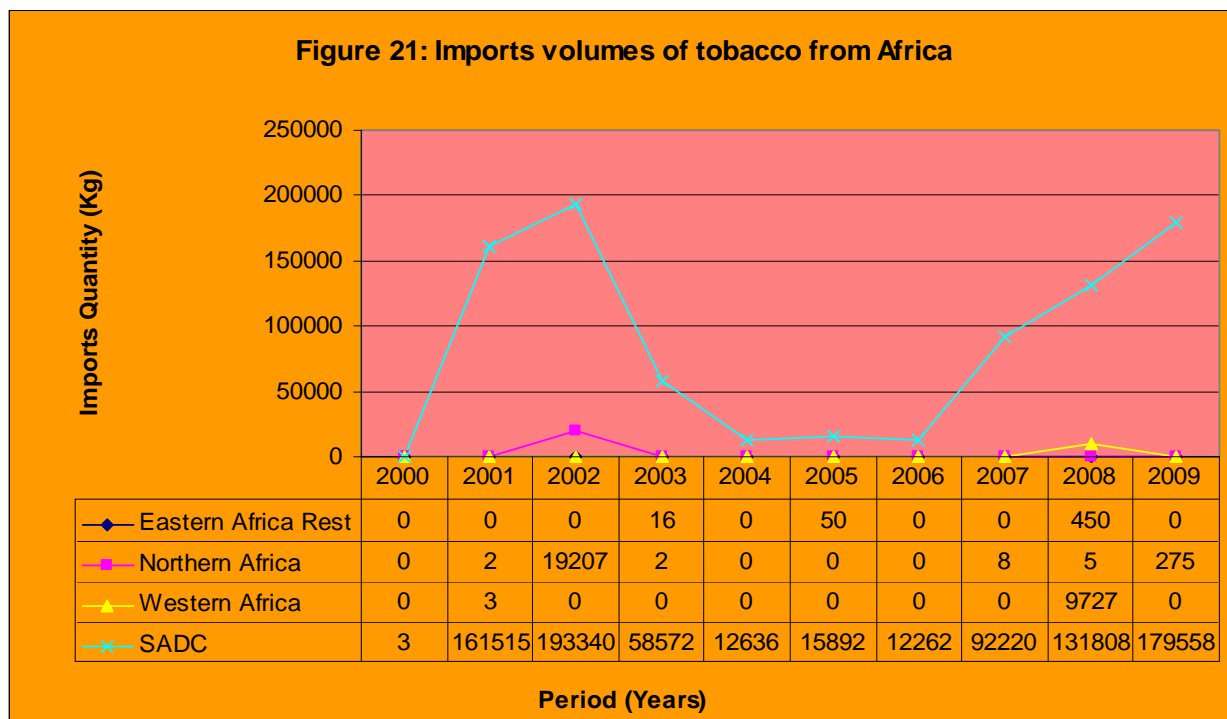
#### 4. IMPORTS VOLUMES

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



**Source: Quantec Easy Data**

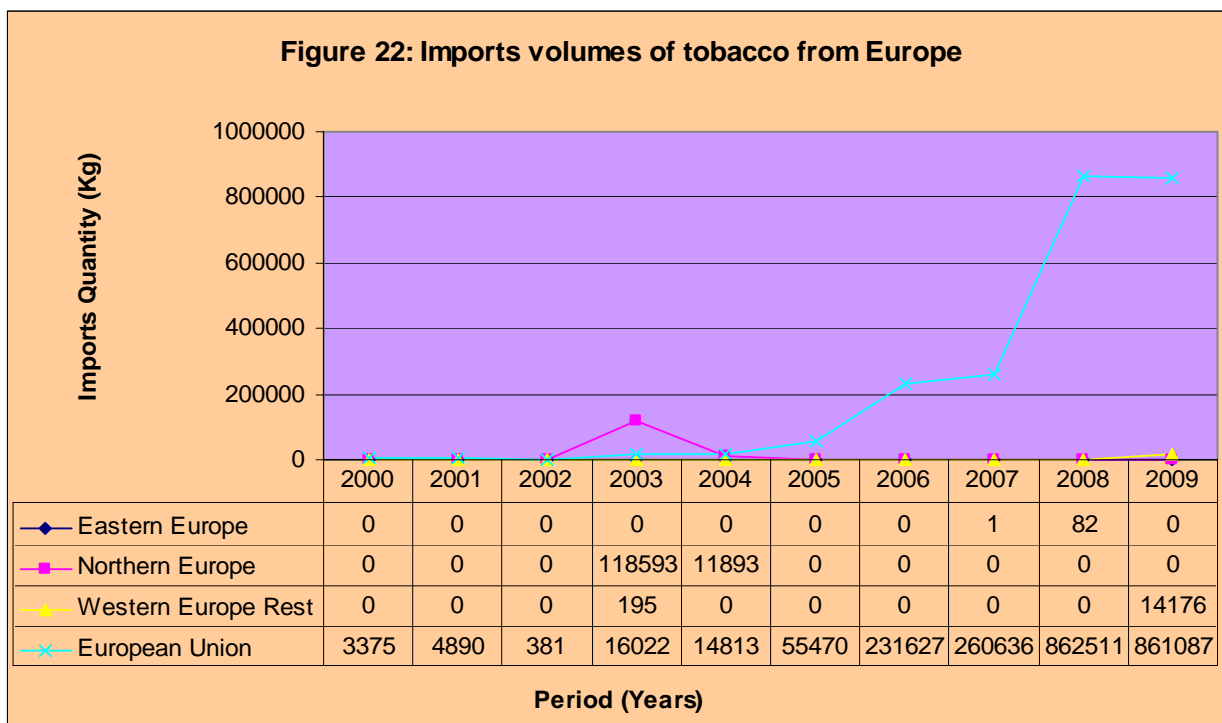
Figure 20 indicates tobacco imports volumes from the world into South Africa between the years 2000 and 2009. Tobacco imports volumes from Europe commanded the greatest share in the market followed by those from the Americas, Asia and Africa during the period under scrutiny. The graph further indicates that there were greater fluctuations in terms of imports volumes of tobacco from various regions. Imports volumes of tobacco from Europe attained a peak in 2009 at approximately 875 000 kilograms whilst the Americas experienced a peak in 2004 at approximately 829 000 kilograms. Tobacco imports from Asia and Africa attained their peaks in 2003 and 2002 at approximately 237 000 and 212 000 kilograms of tobacco imports. The graph further indicates that there were greater fluctuations in terms of imports volumes of tobacco from various regions. South Africa had very low levels of tobacco imports from Oceania in 2005 only at approximately 4 774 kilograms.



**Source: Quantec Easy Data**

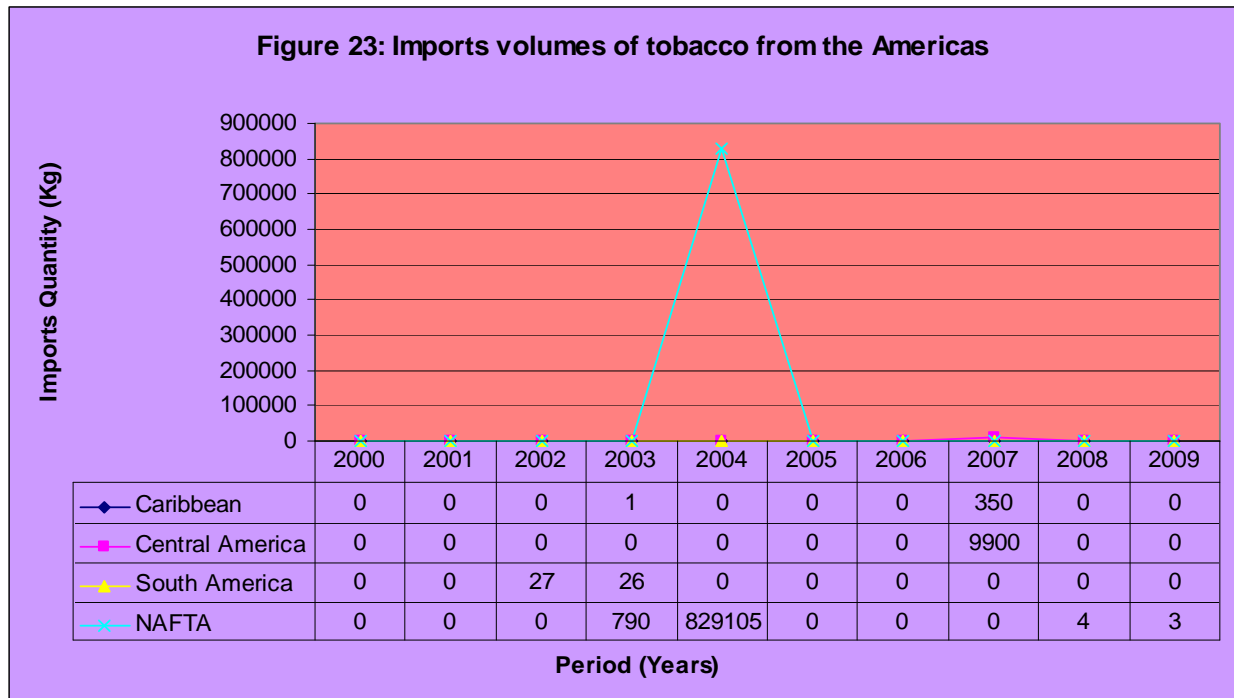
Figure 21 shows that tobacco imports from the African region fluctuated between 2000 and 2009 with imports from SADC reaching the highest peak in 2002 and 2008 at approximately 180 000 and 175 000 kilograms respectively. Imports of tobacco originating from the Northern, East and Western Africa were intermittently low between the years 2000 and 2009.

Tobacco imports from the SADC region started to increase in 2001 to 2002 and then declined in 2003 and 2004 respectively, in 2004, 2005 and 2006 tobacco imports were relatively stable until there was a substantial increase of tobacco imports volumes from 2007 to 2009.



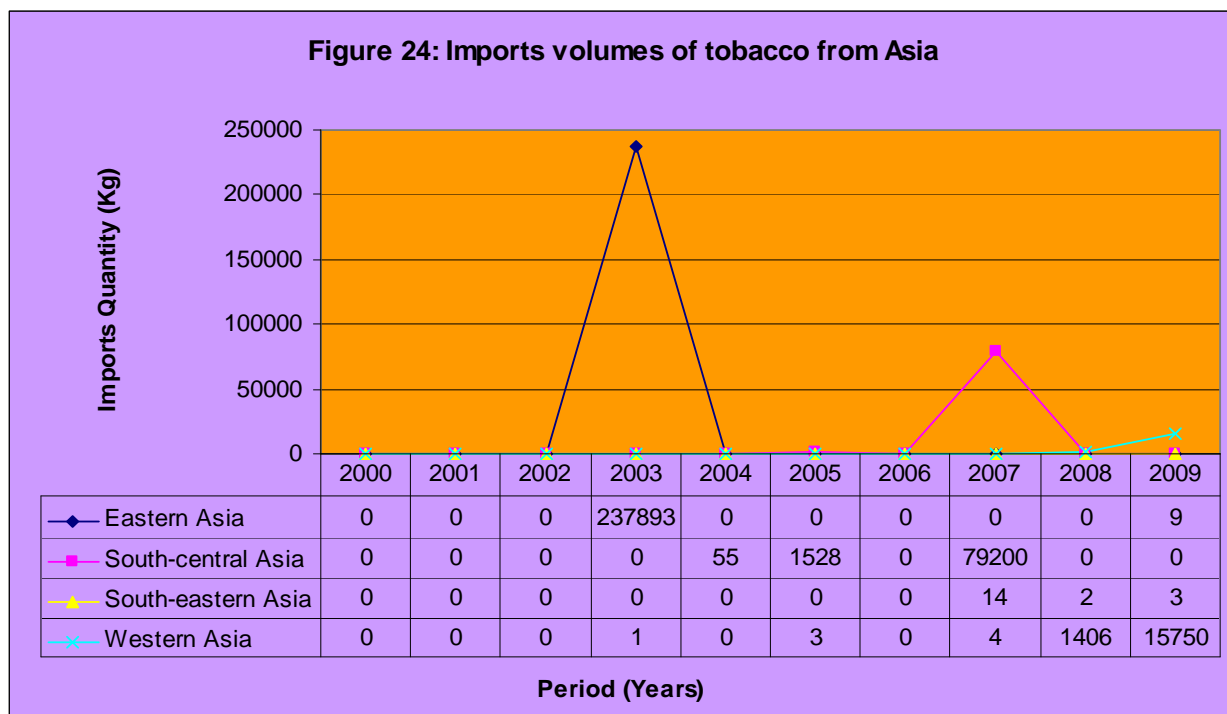
**Source: Quantec Easy Data**

Figure 22 depicts tobacco imports from Europe into South Africa between 2000 and 2009 period. During the period under review, the volumes of tobacco imports from the European Union increased continuously until a peak was attained in 2008 and 2009 at approximately 865 000 and 861 000 kilograms respectively. Tobacco imports from Northern Europe were recorded in 2003 and 2004 at approximately 118 000 kilograms. South Africa had very low levels of tobacco imports from Eastern and Western Europe throughout the period under scrutiny.



**Source: Quantec Easy Data**

Figure 23 indicates the volumes of tobacco imports from the Americas to South Africa between the years 2000 and 2009. The graph also indicates that NAFTA commanded the greatest share of tobacco imports into South Africa whilst Central America, Caribbean and South America had very low levels of tobacco imports into South Africa. Tobacco imports from NAFTA attained their peak in 2004 at approximately 829 000 kilograms whilst Central America recorded 9 900 kilograms of tobacco imports in 2007.



**Source: Quantec**

Figure 24 illustrates the volumes of tobacco imports from Asia into South Africa between 2000 and 2009 period. Before 2003 there were no imports of tobacco and tobacco products from Asia. Intermittent tobacco imports from Eastern, South central, south eastern and Western Asia into South Africa were recorded between 2003 and 2009.

## 5. MARKET ACCESS

**Table 10: Tariffs applied by other countries to tobacco exported by South Africa (2009)**

No.	Country.	Trade Regime Description.	Applied Tariffs.	Total Ad Valorem Equivalent Tariff
1	France	MFN duties (Applied)	18.40%	9.71%
2	Zimbabwe	MFN duties (Applied)	10.00%	10.00%
3	Nigeria	MFN duties (Applied)	5.00%	5.00%
4	Congo	MFN duties (Applied)	10.00%	10.00%
5	Brazil	MFN duties (Applied)	14.00%	14.00%
6	USA	MFN duties (Applied)	0.00%	0.00%
7	Argentina	MFN duties (Applied)	14.00%	14.00%
8	Jamaica	MFN duties (Applied)	30.00%	30.00%
9	Australia	MFN duties (Applied)	0.00%	0.00%
10	Japan	MFN duties (Applied)	10.00%	10.00%
11	China	MFN duties (Applied)	10.00%	10.00%
12	India	MFN duties (Applied)	30.00%	30.00%
13	Germany	MFN duties (Applied)	18.40%	18.40%
14	Uganda	MFN duties (Applied)	25.00%	25.00%
15	Tanzania	MFN duties (Applied)	25.00%	25.00%

**Source: ITC (Mac Map)**

Table 10 shows the highest import tariffs applied by other countries to tobacco exported by South Africa in 2009. India and Jamaican markets are highly protected with 30% applied tariffs followed by Uganda and Tanzania with 25% tariff due to domestic industry protection while tobacco markets in Australia and the USA are open with 0% tariffs.

**Table 11: Tariffs applied by RSA for imports of tobacco (2009)**

<b>No.</b>	<b>Country.</b>	<b>Trade Regime Description.</b>	<b>Applied Tariffs.</b>	<b>Total Ad Valorem Equivalent Tariff</b>
1	Zimbabwe	MFN duties (Applied)	0.00%	0.00%
2	Tanzania	MFN duties (Applied)	0.00%	0.00%
3	Uganda	MFN duties (Applied)	45.00%	45.00%
4	Nigeria	MFN duties (Applied)	45.00%	45.00%
5	Argentina	MFN duties (Applied)	45.00%	45.00%
6	Australia	MFN duties (Applied)	15.00%	15.00%
7	China	MFN duties (Applied)	15.00%	15.00%
8	France	MFN duties (Applied)	45.00%	45.00%
9	USA	MFN duties (Applied)	45.00%	45.00%
10	Germany	MFN duties (Applied)	15.20%	15.20%
11	United Kingdom	MFN duties (Applied)	15.20%	15.20%
12	Brazil	MFN duties (Applied)	40.00%	40.00%
13	India	MFN duties (Applied)	40.00%	40.00%

**Source: ITC (Mac Map)**

Table 11 shows that the highest import tariffs applied by South Africa to tobacco are for tobacco products or originating from France, USA, Argentina, Uganda, Nigeria, Brazil and India while tobacco imports from Zimbabwe and Tanzania face no tariffs.



## **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 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.

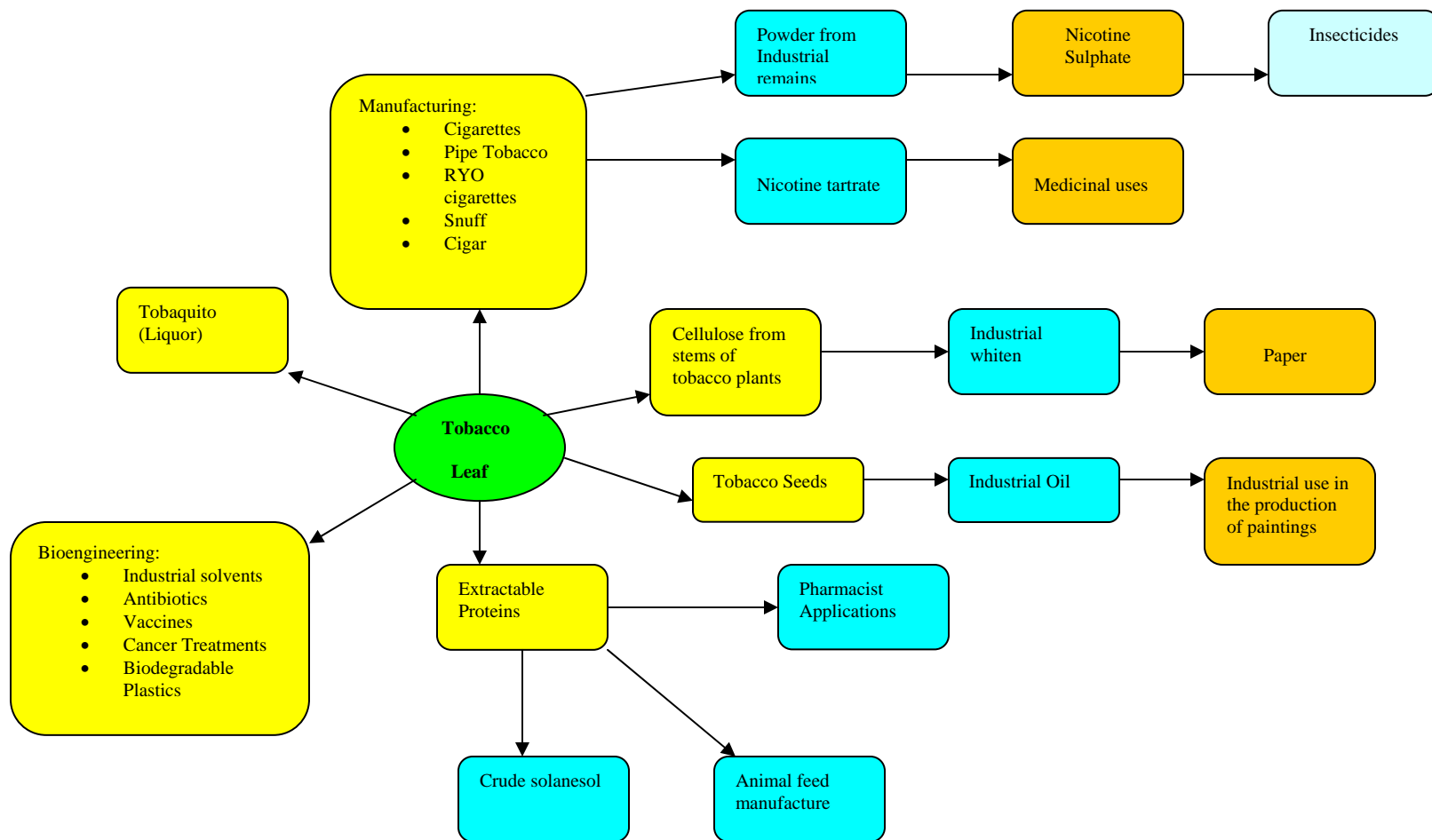
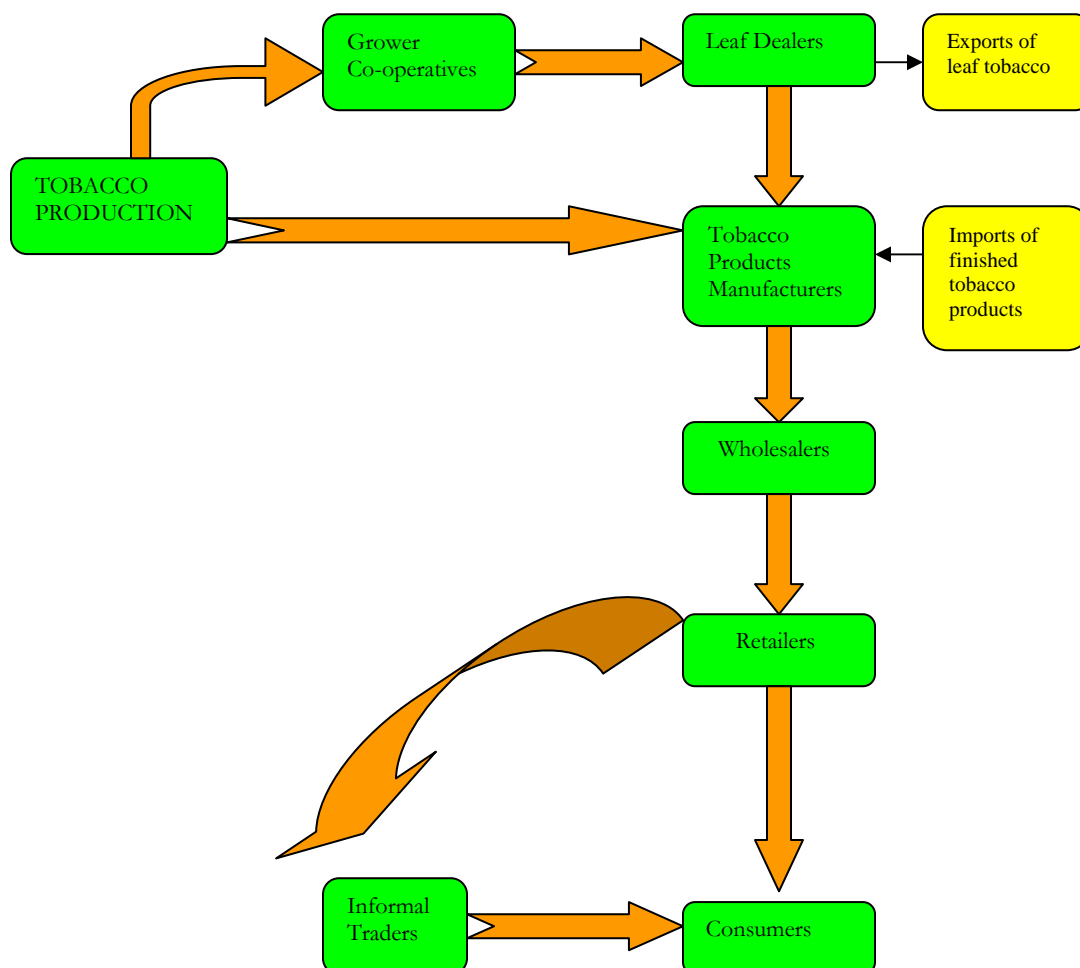


Figure 19: Tobacco Value Chain Tree

## 6.2 Market value chain

**Figure 20: 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 13: Tobacco exports in 2009

Importers	Trade Indicators							Tariff (estimated) faced by South Africa
	Exported value 2009, USD thousand	Share in South Africa's exports, %	Exported quantity 2009	Unit value, (USD/unit)	Exported growth in value between 2005- 2009, %, p.a.	Exported growth in quantity between 2005-2009, %, p.a.	Exported growth in value between 2008- 2009, %, p.a.	
'World	99611	100	24166	4122	4	3	115	
'Yemen	45774	46	9287	4929	5	-2	92	'25
'Egypt	31878	32	6362	5011	57	54	205	'27.8
'Iran (Islamic Republic of)	10046	10.1	2888	3479	10	12	135	'10
'Jordan	4081	4.1	1105	3693	-27	-21	57	'65
'Benin	1684	1.7	305	5521	-17	-25	235	'20
'United Arab Emirates	1663	1.7	2053	810	-23	12	22	'183.1
'Switzerland	1059	1.1	178	5949	5	-3		'26.1
'Madagascar	937	0.9	280	3346		75	965	'20
'Mali	512	0.5	110	4655	51	3	1284	'20
'Algeria	437	0.4	75	5827			95	'30
'Philippines	380	0.4	101	3762				'7
'Mozambique	361	0.4	554	652	381		-80	'0
'Cyprus	226	0.2	250	904	-10	-22	335	'0
'Spain	221	0.2	321	688			453	'0
'Germany	101	0.1	25	4040	121		1163	'0
'Zimbabwe	72	0.1	14	5143	-18	-38	-14	'60
'Singapore	46	0	76	605				'0
'Tajikistan	39	0	63	619				'15
'China	23	0	38	605	18	76	156	'57
'Malaysia	20	0	24	833		0	-31	'92.8

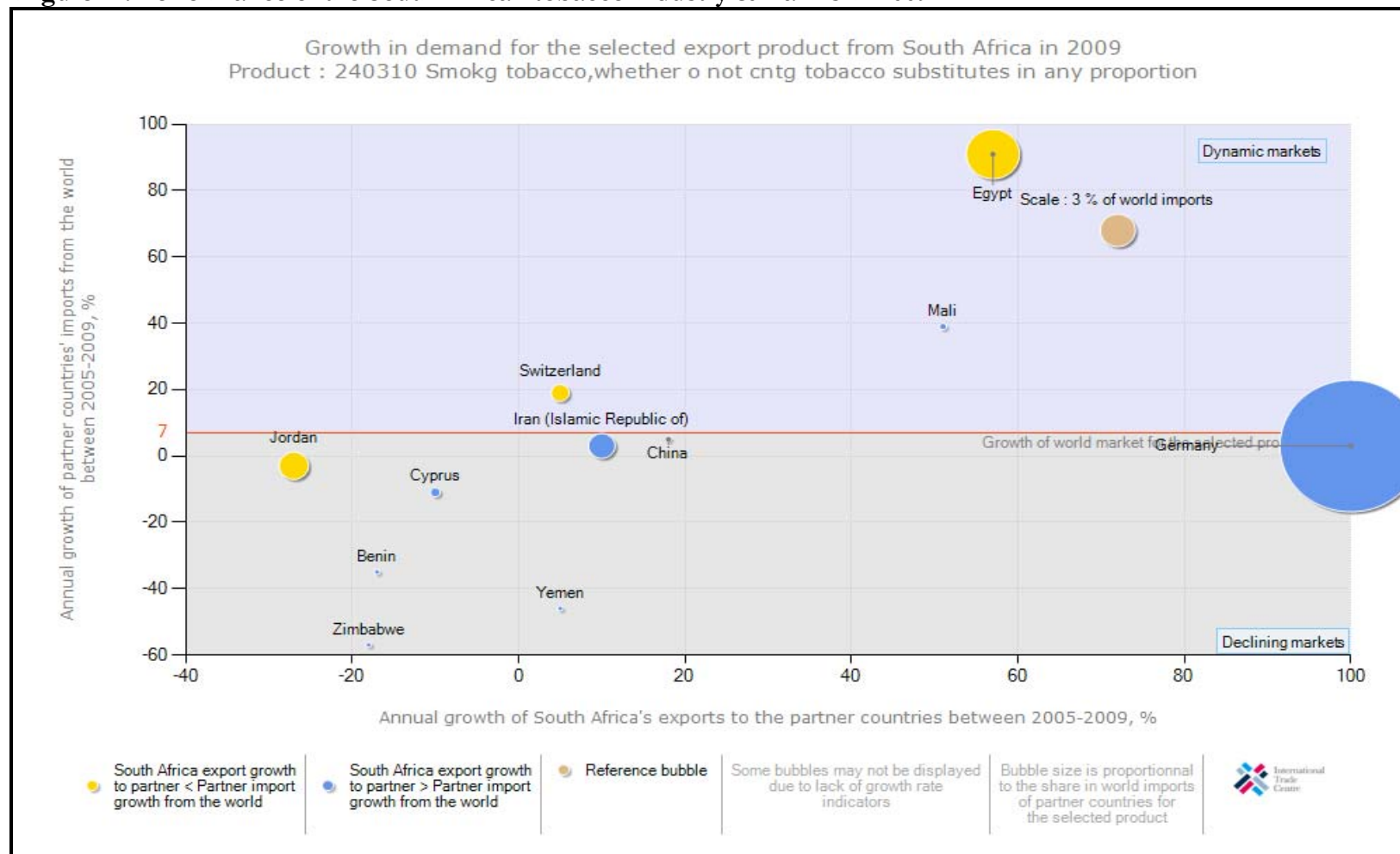
Source: ITC Trade Map

Table 13 indicates the list of importing countries of tobacco from South Africa in 2009 period. In the same period South Africa exported a total of 24 166 tons of tobacco to the world of which the greatest quantities were exported to Yemen, Egypt, Iran and Jordan. Yemen experienced high export value of 45 774 US Dollars with export volumes of approximately 9 287 tons in 2009.

During the same period there was a decrease in exports of tobacco to Jordan by 27% and by 21% in quantity and value terms respectively. Mali saw an increase in tobacco imports from SA by 3% and 57% in quantity and value.

South Africa exported 554 tons of tobacco to Mozambique, during the same period there was an increase in export growth in value of 381%. During the same period there was a decrease in exports of tobacco to Zimbabwe by 18% and 38% in quantity and value respectively.

Figure 21: Performance of the South African tobacco industry & Tariffs in 2009



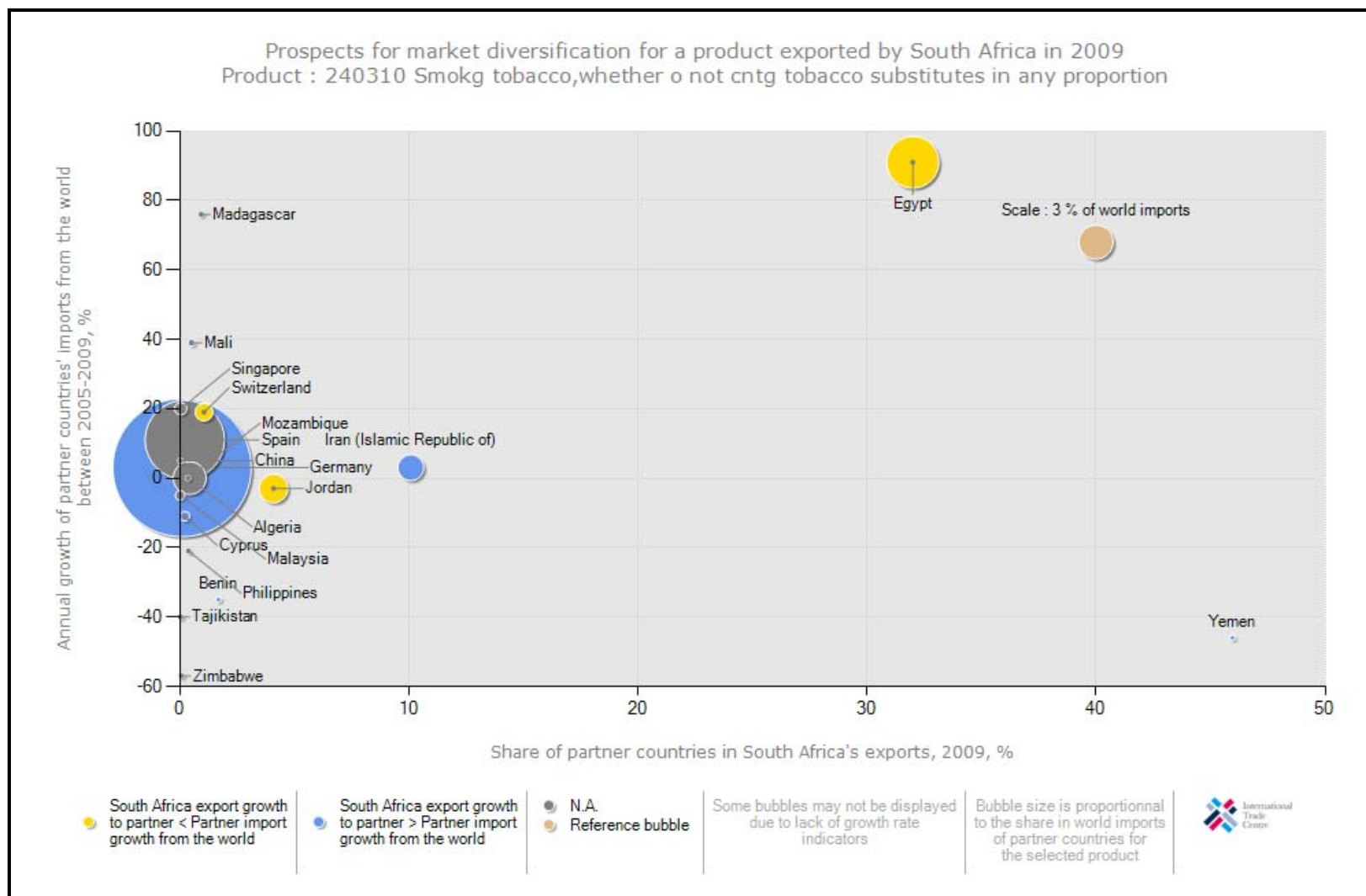
Source: ITC Trade Map

Figure 21 indicates performance of the South African tobacco industry in 2009. The bubble graph shows that Switzerland and Egypt are the biggest markets for tobacco between 2005 and 2009. Between 2005 and 2009 markets like Mali have experienced an increase in annual growth of tobacco from the world. Countries like Zimbabwe, China, Benin, Yemen, Cyprus and Germany, their imports of tobacco from the world have declined during the same period under scrutiny.

Between 2005 and 2009 period Egypt imported more tobacco from the world than South Africa. Switzerland also imported more tobacco from the world than South Africa during the period under scrutiny.



Figure 22: Market diversification for tobacco exported by South Africa in 2009



Source: ITC Trade Map

Figure 22 shows market diversification for tobacco exported by South Africa in 2009. The bubble graph also shows that between 2005 and 2009 period, Yemen and Egypt are the biggest markets for tobacco from the world as they commanded approximately 46 and 32% share in South Africa's exports of tobacco respectively. If South Africa had to diversify its tobacco exports markets for diversification, potential markets would be Mali, Madagascar and Singapore.

Yemen and Egypt's annual growth of partner countries imports of tobacco from the rest of the world grew by an average of more than 5% and 57% per annum between 2005 and 2009.

Table 14: Tobacco Imports in 2009

Exporters	Trade Indicators							Tariff (estimated) applied by South Africa
	Imported value 2009, USD thousand	Share in South Africa's imports, %	Imported quantity 2009	Unit value, (USD/unit)	Imported growth in value between 2005-2009, %, p.a.	Imported growth in quantity between 2005- 2009, %, p.a.	Imported growth in value between 2008-2009, %, p.a.	
'World	9498	100	1621	5859	58	87	33	
'Portugal	5698	60	673	8467			14	'16.5
'Germany	1379	14.5	187	7374	35	39	86	'16.5
'Zimbabwe	767	8.1	334	2296	222	114	212	'0
'India	744	7.8	144	5167	307	163	23	'43.3
'Netherlands	288	3	11	26182	10	-7	343	'16.5
'United Republic of Tanzania	177	1.9	68	2603		63	86	'0
'Egypt	98	1	150	653	42	44	18	'43.3
'Switzerland	80	0.8	14	5714				'43.3
'Ireland	68	0.7	3	22667	57	8	33	'16.5
'United Arab Emirates	63	0.7	20	3150	52	64	-31	'43.3
'Denmark	60	0.6	2	30000	23	3	-52	'16.5
'United States of America	52	0.5	11	4727	-52	8	767	'43.3
'United Kingdom	11	0.1	0		-49		57	'16.5
'Jordan	10	0.1	4	2500	34	36	-17	'43.3

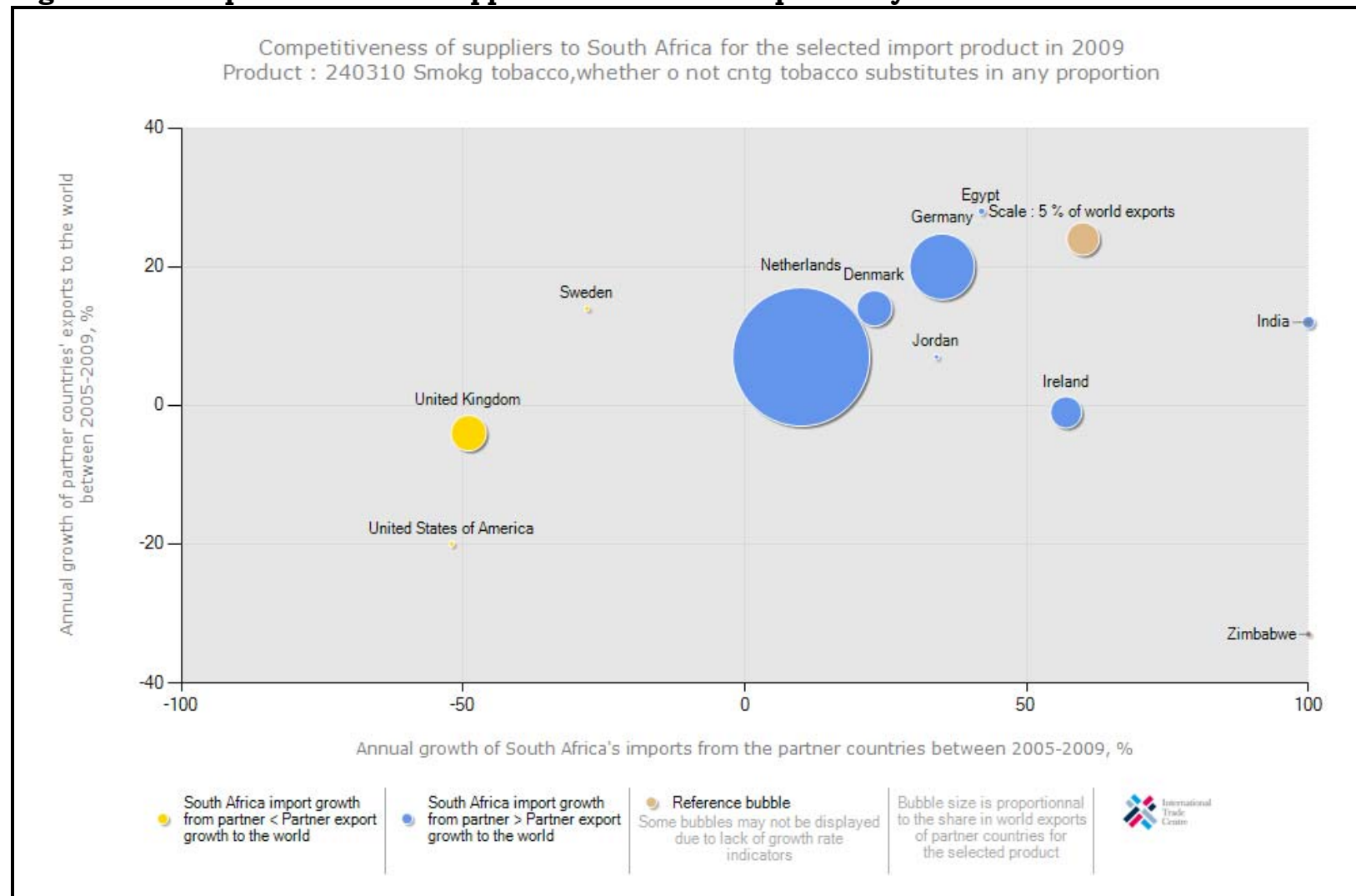
Source: ITC Trade Map

Table 14 indicates tobacco imports from the world to South Africa in 2009. During the same period South Africa imported a total of 1 621 tons of tobacco from the world and that means South Africa is a net exporter of tobacco. The greatest volumes of tobacco were imported from Portugal, followed by Zimbabwe and Germany. During the same period between 2005 and 2009 Germany's imported value was more than that of Zimbabwe at 1 379 US dollars as compared to 767 US dollars.

Portugal's share in South Africa's imports was 60%, Germany at 14.5% and Zimbabwe 8.1% may be because of the effect of the exchange rate.

The period between 2005 and 2009 saw an increase in tobacco imports from Zimbabwe in both volume and value terms at 222% and 114% respectively. Tobacco imports from Netherlands increased in value by 10% and declined in quantity by 7%.

**Figure 23: Competitiveness of suppliers for tobacco imported by South Africa in 2009**



Source: ITC (Trade Map)

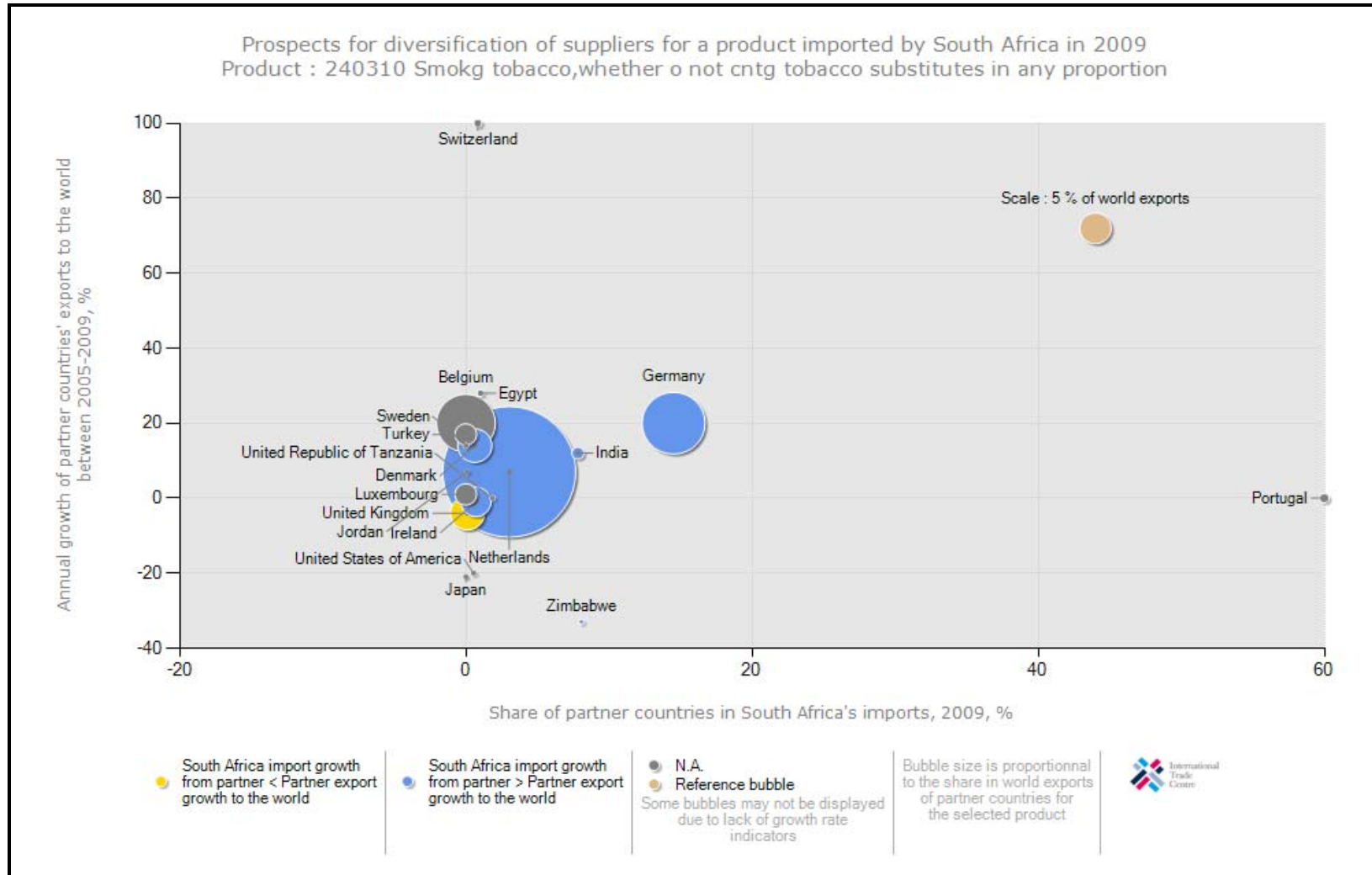
Figure 23 illustrates competitiveness of suppliers for tobacco imported by South Africa in 2009. Between 2005 and 2009 South Africa's tobacco imported from the Netherlands, Denmark, Ireland and Germany were growing at a rate that is less than their export growth to the rest of the world.

During the same period, South Africa's tobacco imports from India, Zimbabwe, Jordan and Egypt were growing at a rate that is greater 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 United Kingdom were declining and at the same time world's exports were also declining.
- South Africa's imports for tobacco from India, Zimbabwe, Egypt, Ireland and Jordan were growing faster than world's exports.

**Figure 24: Market diversification of suppliers for a product imported by South Africa in 2009**



Source: ITC Trade Map

Figure 24 indicates market diversification of suppliers for a product imported by South Africa in 2009. The bubble graph also indicates that if South Africa were to diversify its suppliers of tobacco, small markets exist in Egypt, India and Belgium. The very small markets of tobacco mentioned above are exporting less tobacco to South Africa but more to the world between 2005 and 2009 periods.

## **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 these 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 06<sup>th</sup> 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: LEONARD 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

**13.5 AJ PADIA TOBACCO MERCHANTS**

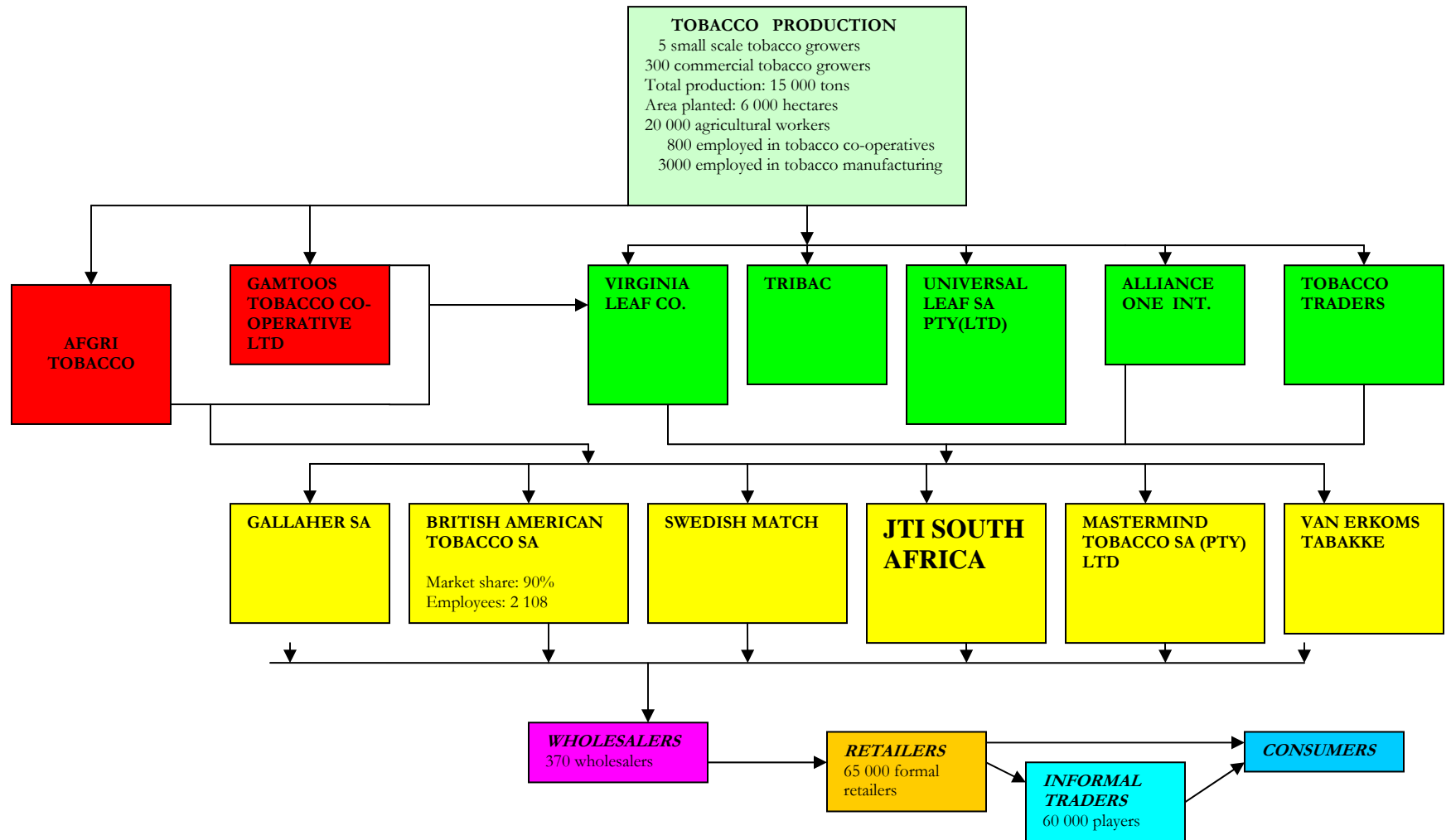
PO Box 2030  
DURBAN  
4000

**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 Niccentury Trading CC
- Shutel Tobacco.



**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)**

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8012

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E-mail: [tisa@tobaccosa.co.za](mailto:tisa@tobaccosa.co.za)

Website: [www.tobaccosa.co.za](http://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](http://www.batsa.co.za)

### **Directorate Agricultural Statistics**

#### **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](http://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>

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