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South Africa, Republic of

Tobacco

Tobacco Annual Report, South Africa.

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Report Highlights:

South Africa's tobacco industry has had its share of difficulties with the anti tobacco lobby. In spite of this, the country's production of tobacco is estimated at 30,000 tons with cigarette production at about 30 billion annually. Considerable quantities of tobacco is imported from neighboring countries. One of these countries is Zimbabwe whose tobacco crop is readily available to the South African market.

U.S. type cigarettes are now produced locally, consequently, the need for imported cigarettes is relatively limited.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Pretoria [SF1], SF

Executive Summary	1
Unmanufactured Tobacco:	2
Production	2
Consumption	3
Trade	4
Stocks	6
Policy	6
Marketing	6
Flue-cured Tobacco	7
Burley	8
Cigarettes	9
Production	9
Consumption	9
Trade:	10

Executive Summary

South African tobacco production has recovered after the poor, weather damaged, yield attained in 1997. The 1998 crop is estimated at 31,493 tons (26,417 tons in 1997) and the 1999 crop at 31,399 tons. Consumption, however, declined dramatically from 32,835 tons in 1997 to 27,162 tons in 1998. The decline is seen as a reaction to strict new anti tobacco legislation as well as poor economic conditions. The 1999 consumption is expected to recover to about 30,000 tons again. Unmanufactured tobacco imports reached nearly 14,800 tons in 1997 and 22,600 tons in 1998, but 1999 imports are expected to revert to less than 10,000 tons again as stocks are high. Exports increased from about 12,000 tons in 1997 to 14,000 tons in 1998 and is expected to increase to more than 20,000 tons in 1999.

Cigarette production has stabilized around 30 billion annually with some imports, including some from the U.S. and exports.

U.S. Dollar 1 = S.A. Rand 6.15 (07/20/99)

Unmanufactured Tobacco:

PSD Table						
Country:	South Africa, Republic of					
Commodity:	Tobacco, Unmfg.					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Area Planted	16500	15005	15500	14905	0	14064
Beginning Stocks	35754	35754	31760	31990	30460	44708
Farm Sales Weight Prod	27000	29062	29000	32768	0	32683
Dry Weight Production	26245	26417	27800	31493	0	31399
U.S. Leaf Imports	0	0	0	855	0	893
Other Foreign Imports	14794	14794	15000	21742	0	9000
TOTAL Imports	14794	14794	15000	22597	0	9893
TOTAL SUPPLY	76793	76965	74560	86080	30460	86000
Exports	12140	12140	10000	14210	0	21000
Dom. Leaf Consumption	17377	21835	20000	17162	0	22200
U.S. Leaf Dom. Consum.	0	0	0	855	0	800
Other Foreign Consump.	15516	11000	14100	9145	0	7000
TOTAL Dom. Consumption	32893	32835	34100	27162	0	30000
TOTAL Disappearance	45033	44975	44100	41372	0	37800
Ending Stocks	31760	31990	30460	44708	30460	35000
TOTAL DISTRIBUTION	76793	76965	74560	86080	30460	86000

Production

A total tobacco production table is supplied highlighting the dominance of Flue Cured tobacco in the total, followed by all the Air Cured tobaccos combined as separate data is not available, and Oriental tobacco. Burley production was discontinued in 1992 because of unacceptably high residue levels in the product. The following table contains the details:

Production table:

Product	Area, ha.			Production, mt.		
	1997	1998	1999	1997	1998	1999
Flue-cured	11,981	12,029	11,574	22,679	27,066	26,382
Burley	0	0	0	0	0	0
Oriental	1,083	900	650	464	450	345
Air -cured	1,941	1,976	1,840	3,274	3,977	4,672
TOTAL	15,005	14,905	14,064	26,417	31,493	31,399

At this stage it appears that the area planted to tobacco is on the decline again after the recent high of about 15,000 hectares in 1997. In 1992 South Africa still produced tobacco on more than 24,000 hectares and in 1986 nearly 31,000 hectares were still planted to tobacco. The demise of the controlled marketing system and the Tobacco Board as well as opening up of the import market under WTO guidelines lead to a decline in domestic prices and profitability. The 1997 crop suffered weather related setbacks leading to the poor yield but the 1998 yield was much better and the estimated yield for 1999 also looks good. Unfortunately for the producers proposed anti-tobacco legislation has put a damper on the market again.

Consumption

The latest figures available indicate that total tobacco consumption decreased from 32,835 tons in 1997 to 27,162 tons in 1998 but this decrease may have been an over-reaction to the new legislation and is not expected to continue. It may be that manufacturers tightened up on inventory of the end products until they are able to evaluate the effect of the new anti smoking measures. A slow growth in tobacco consumption is expected in the long term. The following table contains the details:

Consumption by type of tobacco	1997, Metric tons	1998, Metric tons
Flue-cured	25,497	21,717

Air-Cured	5,349	3,879
Oriental	445	333
Burley	1544	1233
Total	32,835	27,162
Consumption by product	1997 Metric ton	1998 Metric ton
Cigarettes	24,717	20,911
Pipe Tobacco	7,158	5,860
Cigars	9	4
Snuff	951	387
Total	32,835	27,162

Trade

According to the Department of Customs and Excise South Africa imported 14,794 tons of unmanufactured tobacco in 1997 and 22,597 tons, including 855 tons from the U.S., in 1998. With the big Flue Cured producer, Zimbabwe, as a neighbor, it is no surprise that it is the major provider, followed by Malawi as a Burley supplier. Both these countries still enjoy some duty free privileges in the South African market.

On the other hand, South Africa exported 12,140 tons of unmanufactured tobacco in 1997 and 14,210 tons in 1998 to various destinations.

Import Trade Matrix			
Country:		Units:	Metric ton

Commodity:	Unmanufactured Tobacco		
Time period:	Jan-Dec		
Imports for	1997		1998
U.S.	0	U.S.	855
Others		Others	
Zimbabwe	6371	Zimbabwe	9008
Malawi	2526	Malawi	3197
Brazil	1658	Paraguay	1818
Paraguay	1005	Italy	676
India	594	India	649
Italy	570	Brazil	907
Belgium	516	Kenya	496
Indonesia	482	Greece	349
Yemen	462	China	351
Total for Others	14184		17451
Others not listed	610		4291
Grand Total	14794		22597

Export Trade Matrix			
Country:		Units:	Metric tons

Commodity:	Unmanufactured Tobacco		
Time period:	Jan-Dec		
Exports for	1997		1998
U.S.	309	U.S.	258
Others		Others	
Denmark	1459	Taiwan	3442
Zimbabwe	1390	Zimbabwe	1697
Egypt	1380	Norway	925
Taiwan	1341	Morocco	673
Tunisia	900	Sweden	686
Switzerland	643	Denmark	571
Belgium	400	Philippines	495
Zambia	402	Egypt	411
Mocambique	303	Poland	365
Sweden	223	Bulgaria	299
Total for Others	8441		9564
Others not listed	3390		4388
Grand Total	12140		14210

Stocks

Due to the nature of the product stocks well in excess of annual requirements are kept. The current situation, as shown in the PS&D, is normal.

Policy

The agricultural side of the industry is totally free of any government assistance or interference with the emphasis of the government policies on final product consumption.

The current import duties on tobacco are 15% or 860 cents/kg. less 85% on unmanufactured tobacco and 77 cents/kg. on tobacco refuse.

Marketing

The producers still market their product through the major tobacco cooperatives which then prepares the product for sale to the two major producers and for export. The average selling prices by type realized over the past two years were as follows:

Selling prices by type: 1997	Rand per Kilogram	\$ per Kilogram	1998	Rand per Kilogram	\$ per Kilogram
Flue-cured	20.46	4.44		15.07	2.73
Air-cured	12.26	2.66		11.07	2.00
Oriental	26.08	5.66		23.58	4.26

Flue-cured Tobacco

PS&D TABLE						
Country:						
Commodity:	Flue Cured					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin						
Area Planted	11981	11981	12500	12029	0	11574
Beginning Stocks	27213	27213	27340	25100	26340	32616
Farm Sales Weight Prod	23800	24781	25000	27750	0	26932
Dry Weight Production	22900	22679	24000	27066	0	26382
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	13340	9212	12000	13387	0	7002
TOTAL Imports	13340	9212	12000	13387	0	7002
TOTAL SUPPLY	63453	59104	63340	65553	26340	66000
Exports	10500	8507	10000	11220	0	12500
Dom. Leaf Consumption	13540	16497	14000	15717	0	20000
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	12073	9000	13000	6000	0	3500
TOTAL Dom. Consumption	25613	25497	27000	21717	0	23500
TOTAL Disappearance	36113	34004	37000	32937	0	36000
Ending Stocks	27340	25100	26340	32616	26340	30000
TOTAL DISTRIBUTION	63453	59104	63340	65553	26340	66000

Burley

PS&D TABLE						
Country:						
Commodity:	Burley					

	1997		1998		1999	
	Old	New	Old	New	Old	New
Market Year Begin						
Area Planted	0	0	0	0	0	0
Beginning Stocks	2280	2280	1233	1418	1120	1584
Farm Sales Weight Prod	0	0	0	0	0	0
Dry Weight Production	0	0	0	0	0	0
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	848	682	1500	1399	0	1166
TOTAL Imports	848	682	1500	1399	0	1166
TOTAL SUPPLY	3128	2962	2733	2817	1120	2750
Exports	318	0	0	0	0	0
Dom. Leaf Consumption	0	0	0	0	0	0
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	1577	1544	1613	1233	0	1250
TOTAL Dom. Consumption	1577	1544	1613	1233	0	1250
TOTAL Disappearance	1895	1544	1613	1233	0	1250
Ending Stocks	1233	1418	1120	1584	1120	1500
TOTAL DISTRIBUTION	3128	2962	2733	2817	1120	2750

Cigarettes

PSD Table						
Country:	South Africa, Republic of					

Commodity:	Tobacco, Mfg., Cigarettes					
	Old	New	Old	New	Old	New
		1997		1998		1999
Market Year Begin		01/1997		01/1998		01/1999
Filter Production	34000	30385	0	28976	0	28000
Non-Filter Production	1750	1600		1525	0	1500
TOTAL Production	35750	31985	0	30501	0	29500
Imports	950	652	0	643	0	570
TOTAL SUPPLY	36700	32637	0	31144	0	30070
Exports	1500	49	0	62	0	70
Domestic Consumption	35200	32588	0	31082	0	30000
TOTAL DISTRIBUTION	36700	32637	0	31144	0	30070

Production

Traditionally South African manufacturers produced about 1,200 cigarettes per kilogram tobacco used but latest figures indicate that the figure is getting closer to 1,400. This would be in line with the trend to weaker cigarettes. Production of cigarettes, were, nonetheless on the decline although we expect some growth again in 1999 as the export market in the region improves. While the import figures in the PS&D is based on kilograms imported and is at best an estimate, it is probably a better figure than the export figure. South African Revenue Service (SARS) figures on exports differ from the Customs and Excise figures and the suspicion is that excise duty fraud is the main reason for the discrepancies. Domestic consumption of cigarettes declined recently but this could also be the effect of the dismal economic conditions.

Since 1997 United Tobacco (Utico), a local manufacturer, has been producing R.J. Reynolds brands such as Winston and Camel in South Africa. Utico is the South African branch of the British American Tobacco Company (BATSA). The main South African producer, Rembrandt/Rothmans International and BAT are now to merge as part of a world wide deal which will give the company 95% of the South African market with Rembrandt currently holding 85% and BATSA 10%.

There are now rumors going around that Phillip Morris is planning to enter the South African market with its Marlboro brand, probably first by importing and then later manufacturing.

Consumption

The current South African government is vehemently against smoking and has recently passed a very strict Tobacco Products Control Bill. Parliament actually passed the Bill earlier this year but President Mandela refused to sign it and sent it back to parliament for revision as it was feared to be unconstitutional. The Bill will ban all tobacco product advertising as well as smoking in public places in addition to the strict health warnings already required on the packets. Implementation details has not been announced yet.

The February 1999 budget included a 20% hike in excise duty on tobacco products and about half of what smokers pay for a packet of cigarettes will now go to taxes when the 14% VAT (value added tax) is added. The increase meant a 41 cent increase in duty on a packet of twenty taking excise duty to R2.45 per packet in the most popular price (R7.50 for 20 including VAT) category . In the interest of fairness the same percentage increase applies to all other tobacco products. Cigarette tobacco tax thus went up by 76 cents per 50 gram, pipe tobacco by R1.56 per 100 gram and the duty on cigars went up by R7.33 per 23 gram.

The general rates of import duties are:

- Cigarettes 45% ad valorem
- Pipe tobacco 45% ad valorem
- Cigars 110 cents/kg. net.

The customs duty rate in the following table is then added on imported products while domestic products only pay the Excise duty. All products carry 14% VAT.

The latest customs and excise duties are (the previous rates in parenthesis)

	Excise duty	Customs duty
24.03.10 Cigars	1601.0 cents/kg. net (868.0 cents/kg)	1644.0 cents/kg. net (911.0 cents/kg)
24.03.20 Cigarettes	122.5 cents/10 cigarettes (102 cents/10)	122.5 cents /10 cigarettes (102 cents/10)
Plus, in respect of cigarettes in which the tobacco content exceeds 1.5 kg. Per 1,000 cigarettes		
Cigarette tobacco	3798 c/kg. Tobacco 204 c/50 gram (128 c/50 gram) Plus 493 c/kg tobacco	3798 c/kg. Tobacco 204 c/50 gram (128 c/50 gram) Plus 493 c/kg tobacco
Pipe tobacco, packaging , <5 kg.	2498 c/kg. (938 c/kg).	2498 c/kg. (938 c/kg.)
>5 kg.	2462 c/kg. 902 c/kg.	2462 c/kg. 902 c/kg.

Trade:

Import Trade Matrix			
Country:		Units:	Metric tons
Commodity:	Cigarettes		
Time period:			
Imports for	1997		1998
U.S.	385	U.S.	66
Others		Others	

Tanzania	67	Netherlands	122
United Kingdom	23	France	119
Netherlands	14	U.S. Virgin Islands	51
Japan	8	Cyprus	43
Zimbabwe	8	Panama	28
Cyprus	7	Belgium	24
France	3	Zimbabwe	21
Cyprus	1	Japan	7
		Switzerland	4
Total for Others	131		419
Others not listed	23		47
Grand Total	539		532

The U.S. share of imports declined in 1998 but this is due to R.J. Reynolds now producing cigarettes locally . The export matrix is in millions of cigarettes

Export Trade Matrix			
Country:		Units:	Millions
Commodity:	Cigarettes		
Time period:	Jan-Dec		
Exports for	1997		1998
U.S.	0	U.S.	0
Others		Others	
Angola	18	Malawi	26
Congo	8	Angola	18

United Kingdom	8	Mocambique	10
Burundi	3	Gambia	2
Malawi	2	Benin	1
Total for Others	39		57
Others not listed	10		5
Grand Total	49		62