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South Africa, Republic of

Tobacco and Products

Annual

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Report Highlights:

South Africa's 2002 tobacco crop is currently estimated at 28,450 metric tons dry weight. Consumption is estimated at 31,500 tons, declining by 2 to 3% per year. Imports, mainly from Zimbabwe and Malawi, amount to about 15,000 tons annually, while unsuitable types are exported. Cigarette consumption is about 25 billion per year, and declining. Imports and exports are small. The government has a strong anti tobacco policy.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

South Africa's 2002 tobacco crop is currently estimated at 28,450 metric tons dry weight, 13% smaller than the 2001 crop. The 2001 crop was exceptional and the 2002 crop better reflects the downward trend in production. About 24,000 tons is expected to be flue-cured tobacco, with the rest mainly air-cured. Unmanufactured tobacco consumption is estimated at about 31,500 tons, declining by about 2 to 3% per year as a result of the Government's anti tobacco legislation. Stocks are supplemented by imports while unsuitable tobacco is exported. Imports and exports usually total about 15,000 tons per annum with the bulk of the flue cured imports supplied by Zimbabwe and the Burley by Malawi. These imports are mainly duty free under long standing arrangements. The published tobacco trade data are currently under suspicion as indications are that Zimbabwean tobacco shipped through South Africa are shown as exports without being listed as imports.

Cigarette consumption is also declining although the data vary over time as stock holdings are not taken into account. Current consumption estimates are around 25,275 million cigarettes per annum with exports around 2,524 million. As a result of the high taxes smuggling and duty avoidance is increasing.

Unmanufactured tobacco

PSD Table						
Country	South Africa, Republic of					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Area Planted	15599	15599	15750	15500	0	15000
Beginning Stocks	33066	33066	24330	28660	21910	29535
Farm Sales Weight Prod	30900	30700	32150	34000	0	29950
Dry Weight Production	29178	29178	29500	32725	0	28450
U.S. Leaf Imports	950	908	925	805	0	800
Other Foreign Imports	12593	13438	18570	18025	0	15000
TOTAL Imports	13543	14346	19495	18830	0	15800
TOTAL SUPPLY	75787	76590	73325	80215	21910	73785
Exports	16258	16465	16415	18450	0	15000
Dom. Leaf Consumption	17399	15565	17300	15855	0	15500
U.S. Leaf Dom. Consum.	900	900	900	800	0	800
Other Foreign Consump.	16900	15000	16800	15575	0	15200
TOTAL Dom. Consumption	35199	31465	35000	32230	0	31500
TOTAL Disappearance	51457	47930	51415	50680	0	46500
Ending Stocks	24330	28660	21910	29535	0	27285
TOTAL DISTRIBUTION	75787	76590	73325	80215	0	73785

Production

Unfortunately the availability of South African tobacco statistics declined with the demise of the Tobacco Board and the advent of the free market a few years ago. This situation is aggravated by competition amongst the Cooperatives that handle the crop. At this stage there are no signs that the situation will improve in the short term; However, as the industry is affected by an anti-smoking environment it may decide to pool resources again. The 2001 crop showed a major increase over the disappointing 2000 crop but indications are that the 2002 crop will continue the long term decline. The 2001 season enjoyed favorable weather conditions and a big crop resulted; unfortunately quality and prices suffered in the process which again led to a decline in area planted. South Africa stopped producing burley tobacco in the early nineties and this year production of oriental tobacco was abandoned. The oriental crop was produced in the Western Cape, since sufficient infrastructure still exists, production can be started up again when economic conditions improve. The delivery, cleaning, and processing of the 2002 crop only started recently and the

forecast shown is preliminary.

Production table:

Product	Area	planted	Hectare	Dry weight	production	Metric ton
	2000	2001*	2002**	2000	2001	2002
Flue cured	12 767	12 250	12 025	24 575	26 000	22 800
Air cured	2 382	3 100	2 975	4 351	6 600	5 650
Oriental	450	150	0	250	125	0
TOTAL	15599	15 500	15 000	29 178	32 725	28 450

*Estimate

** Forecast

Consumption

Domestic consumption of tobacco products based on duty paid removals from warehouses is shown in the following table:

Year	Cigars, mt.	Cigarettes, million pieces	Cigarette tobacco mt.	Pipe tobacco mt.
1998	34.1	30,439	14.5	7,917.4
1999	16.3	25,331	17.8	7859.9
2000	5.6	25,670	17.1	7265.4
2001	4.0	25,278	20.0	7281.1

Based on these figures, and using 1,200 cigarettes produced per kilogram tobacco and a 5% processing loss, tobacco consumption is calculated, export production added, and the data used in the PS&D. Using this calculation, 1999 consumption amounted to 30,590 tons, 2000 to 31,465 tons and 2001 to 32,230 tons. The 2002 consumption figure is expected to decline to 31,500 tons in line with the 2 to 3% long term downward trend.

Trade

Tobacco imports continue unabated and although the table may show a slowdown in 2000, the 1999 imports were exceptionally high. Imports in 2001 reached 18,830 tons but the stock situation indicates that 2002 imports need not exceed 16,000 tons. Imports shown from the US are for the local manufacture of a popular US brand.

Under existing trade agreements, South African companies may import up to 9,000 tons of flue cured tobacco duty free from Zimbabwe annually. Up to 3,000 tons of air cured and burley tobacco may be imported duty free

from Malawi annually. In addition, under South Africa's commitment under the World Trade Organization (WTO): Marakesh Agreement regarding market access, a tariff rate quota of 16,773 tons of tobacco is allowed to be imported at a reduced rate of duty of 8.8% ad valorem. These arrangements makes the 15% general rate of duty virtually redundant.

Import Trade Matrix			
Country	South Africa, Republic of		
Commodity	Tobacco, Unmfg., Total		
Time period	Jan -Dec	Units:	Metric tons
Imports for:	2000		2001
U.S.	950	U.S.	750
Others		Others	
Zimbabwe	6369	Zimbabwe	7328
Brazil	2650	Brazil	3265
Malawi	1688	Malawi	1578
Croatia	0	Croatia	1445
India	574	India	1132
Paraguay	481	Paraguay	867
Uganda	0	Uganda	510
Zambia	0	Zambia	346
Kenya	0	Kenya	238
Argentina	575	Argentina	213
Total for Others	12337		16922
Others not Listed	1059		1158
Grand Total	14346		18830

The export situation is confused. The South African Revenue Services (SARS) and the World Trade Atlas show exports of 36,923 tons in 2001 compared to the 16,465 tons in 2000. The 2001 figure of 5,712 tons to the US does not bear any relation to the 40 tons shown imported by U.S. Trade statistics. It appears that Zimbabwean exports through South Africa are showing up as South African exports, although they are not included in the imports. SARS is looking at the data. Exports of 8,136 tons to Zimbabwe include the usual sales plus tobacco being sent for processing by a South African trader. Traditionally producers delivered their crops to their cooperative which then cleaned, processed and re packed the crop for sale. With the turmoil in the marketing system, cooperative loyalty declined and farmers started delivering their crop to other coops. In the process buyers started buying directly from farmers but the

coops. would not process the tobacco, as a result some tobacco is sent to Zimbabwe for processing. In the PS&D, we used estimates based on South Africa's

normal export patterns.

Export Trade Matrix			
Country	South Africa, Republic of		
Commodity	Tobacco, Unmfg., Total		
Time period	Jan-Dec	Units:	Metric tons
Exports for:	2000		2001
U.S.	156	U.S.	5712
Others		Others	
Zimbabwe	1244	Zimbabwe	8136
Philippines	618	Philippines	3304
Switzerland	188	Switzerland	2656
Egypt	64	Egypt	2068
Germany	699	Germany	1460
China	700	China	1397
Belgium	1421	Belgium	1251
Turkey	1659	Turkey	1135
Spain	115	Spain	938
Singapore	104	Singapore	905
Total for Others	6812		23250
Others not Listed	9497		7961
Grand Total	16465		36923

Flue cured tobacco

PSD Table						
Country	South Africa, Republic of					
Commodity	Tobacco,Un mfg.,Flue Cured				(HA)(MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Area Planted	12767	12767	12850	12250	0	12025
Beginning Stocks	21485	25135	15850	22010	16850	24475
Farm Sales Weight Prod	26100	26100	26350	26350	0	24000
Dry Weight Production	24575	24575	24800	26000	0	22800
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	10320	10320	15200	14300	0	12000
TOTAL Imports	10320	10320	15200	14300	0	12000
TOTAL SUPPLY	56380	60030	55850	62310	16850	59275
Exports	13820	13820	12500	13285	0	10800
Dom. Leaf Consumption	14000	14000	13500	13500	0	13000
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	12710	10200	13000	11050	0	11000
TOTAL Dom. Consumption	26710	24200	26500	24550	0	24000
TOTAL Disappearance	40530	38020	39000	37835	0	34800
Ending Stocks	15850	22010	16850	24475	0	24475
TOTAL DISTRIBUTION	56380	60030	55850	62310	0	59275

Burley

PSD Table						
Country	South Africa, Republic of					
Commodity	Tobacco, Unmfg., Burley				(HA)(MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Area Planted	0	0	0	0	0	0
Beginning Stocks	1775	1775	1850	1850	2135	2115
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	1325	1325	1550	1530	0	1420
TOTAL Imports	1325	1325	1550	1530	0	1420
TOTAL SUPPLY	3100	3100	3400	3380	2135	3535
Exports	0	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.	1250	1250	1265	1265	0	1250
TOTAL Dom. Consumption	1250	1250	1265	1265	0	1250
TOTAL Disappearance	1250	1250	1265	1265	0	1250
Ending Stocks	1850	1850	2135	2115	0	2285
TOTAL DISTRIBUTION	3100	3100	3400	3380	0	3535

Cigarettes

PSD Table						
Country	South Africa, Republic of					
Commodity	Tobacco, Mfg., Cigarettes				(MIL PCS)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Filter Production	25635	25565	25965	26132	0	25545
Non-Filter Production	1637	1631	1365	1670	0	1630
TOTAL Production	27272	27196	27330	27802	0	27175
Imports	324	388	370	382	0	375
TOTAL SUPPLY	27596	27584	27700	28184	0	27550
Exports	1926	1526	1950	2524	0	2000
Domestic Consumption	25670	26058	25750	25660	0	25550
TOTAL DISTRIBUTION	27596	27584	27700	28184	0	27550

Production and consumption

BAT (British American Tobacco) the current number 2 producer in the world, dominates the local market. An actual PS&D in million cigarettes, but excluding imports, can be supplied based on SARS excise data.

Million cigarettes	Cy 1999	Cy 2000	Cy 2001
Beginning stocks	4764	3737	3877
Production*	25243	27336	27114
Total supply	31690	31073	30991
Consumption	25293	25670	25278
Exports	977	1526	2524
Ending stocks	3737	3877	3189

* Losses, reworked stocks and abandonments taken into account in the production figures.
Imports added to consumption in the PS&D

Unfortunately none of the data are considered reliable as the high duties on tobacco products encourage tax avoidance, fraud and smuggling. Smuggled cigarettes are regularly confiscated but the suspicion is that duties are also avoided by fake export documents etc.

Consumption is, however, declining as a result of the Government's anti tobacco efforts.

Policy

Tobacco legislation; the first Tobacco Products Control Act was passed by the Government in 1993 as Act no 83 of 1993 and it came into effect in 1994 and 1995. The latest Act was passed by Government in 1999. It is an amendment of the original Act and its contents are incorporated into the original Act. Two sets of regulations have been published. The first set was published on December 2, 1994 and came into effect the next year. The latest set was published on September 29, 2000 and was published in terms of the latest Amendment Act.

The original Act empowered the Minister of Health to prescribe health warnings on advertisements and on tobacco packs. It also contained a prohibition on the sale of tobacco products to people under the age of 16 and some restrictions on vending machines. It introduced a requirement that the tar and nicotine yields of cigarettes be printed on the pack. The first Act led to the publication of the first set of regulations on December 2, 1994. These regulations contained details about the warnings on tobacco advertisements and on packages and also prescribed testing methods for determining tar and nicotine yields.

The new Tobacco Act, passed by parliament in April 1999, is more extensive and basically introduces a ban on all tobacco advertising and sponsorships. It bans smoking in public places, with certain exemptions. It provides for "point of sale" advertising to continue. It also, for the first time, gives the Minister the power to prescribe maximum yields of tar and other constituents. It bans free distribution and reward and places further restrictions on the use of vending machines.

The new regulations published in September 2000 consist of one Proclamation and four Government Notices. The Presidential Proclamation states that the Tobacco Products Control Amendment Act, no 12 of 1999, came into effect on October 1, 2000.

The first notice deals with the maximum permissible yields of tar and nicotine and other constituents in tobacco products.

The tar yield of cigarettes must not be greater than 15 mg per cigarette and the nicotine yield not greater than 1.5 mg by December 1, 2001. These maximum levels must then be lowered to a tar yield of 12 mg per cigarette and a nicotine yield of 1.2 mg nicotine per cigarette by June 1, 2006.

The second Notice is an extensive piece of legislation regulating smoking in public places. A public place is defined as an indoor or enclosed area and the notice defines certain public places such as pubs, restaurants, bars, taverns and "smoking establishments". It then goes on to deal with the types of public places where smoking is permitted and the

conditions under which smoking is permitted.

In principle, a person in charge of a public place may designate a portion of the public place as a "smoking area" provided that the designated area does not exceed 25% of the total floor area, is separated by a solid partition and an entrance door; and has a ventilation system which directly exhausts air. The notice also regulates smoking in the workplace. Some of the regulations ran foul of building and hospitality regulations and have not been implemented.

The third Notice deals with point of sale advertising of tobacco products. The signs may not exceed one square meter and must be placed within one meter of the point of sale.

The fourth Notice deals with certain exemptions and the phasing out of existing sponsorship obligations or contractual obligations in respect of advertising. All sponsorships taking place in terms of contracts which were in place of April 23, 1999 were allowed to continue up to April 23, 2001. Tobacco product advertising like print media and billboards can continue if they are taking place in terms of a contract which had been in place on April 23, 1999 but since October 1, 2000 no new contracts can be signed. With advertising and promotion expenditure a main expenditure item for the tobacco companies, the restrictions will have a positive effect on their profitability.

Tariffs and Duties

As usual, Customs and Excise duties on cigarettes were increased again this year. The latest Customs duty on cigarettes is 45% ad valorem and the Excise duty is 175.4c/10 cigarettes, up from 158.4 c/10 last year. This takes the Government share of a R10.50 packet of 20 to R3.51 excise duty plus R 1.25 for the 14% sales tax to R4.76 or 45%. At this level of tax avoidance becomes lucrative.

On the other hand a packet of twenty high quality cigarets retails for about R10.50 which is less than a dollar.

The Customs duty on imported cigarettes is 45% ad valorem and 15% on Unmanufactured tobacco.

Trade

Unfortunately the cigarette trade statistics are very confusing for the same reasons mentioned before. It appears that South Africa imported 323,724 kg. in 2000 and 318,109 kg. in 2001. The SARS duty figures are the more reliable data as close control is kept over the formal and legal part of the industry. The US still exports cigarettes to South Africa although some US brands are being produced locally. The export picture is much more confusing and SARS duty and export figures vary considerably. The export matrix is based on SARS duty totals and SARS trade figures for destinations. SARS is looking at the anomalies.

Import Trade Matrix			
Country	South Africa, Republic of		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	Jan - Dec	Units:	Kg.
Imports for:	2000		2001
U.S.	16552	U.S.	17473
Others		Others	
Switzerland	11515	Switzerland	46795
Panama	10800	Panama	44300
United Kingdom	35012	United Kingdom	40090
France	0	France	37972
Hong Kong	24050	Hong Kong	35100
Zimbabwe	16661	Zimbabwe	33905
Greece	0	Greece	24766
UAE	28381	UAE	21485
Bulgaria	17958	Bulgaria	4438
Netherlands	51815		2568
Total for Others	196192		242056
Others not Listed	110990		58580
Grand Total	323734		318109

Export Trade Matrix			
Country	South Africa, Republic of		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	Jan-Dec	Units:	Kg.
Exports for:	2000		2001
U.S.	0	U.S.	0
Others		Others	
Angola	304635	Angola	446150
Mozambique	270625	Mozambique	299446
Ghana	15230	Ghana	155727
Malawi	242434	Malawi	128815
Zimbabwe	75961	Zimbabwe	96320
Nigeria	11	Nigeria	60458
Zambia	69410	Zambia	49352
Djibouti	58230	Djibouti	37058
Niger	17334	Niger	33354
Total for Others	1053870		1306680
Others not Listed	217790		796923
Grand Total	1271660		2103603