

AN AFRICAN TOBACCO PRODUCTION PERSPECTIVE
AN EXECUTIVE SUMMARY
APRIL 2012

1. INTRODUCTION

- 1.1 This report aims to provide a perspective of tobacco production in Africa, from cultivation and production of the raw crop, to its manufacture, distribution and trade around the world.
- 1.2 China is the leading global producer of tobacco, producing up to 4 times as much as the next competitors, Brazil and India. However, with an equally vast domestic consumption, China actually only exports a small percentage of its tobacco crop.
- 1.3 African tobacco producing nations have a fundamental role in the tobacco industry, as they export most of their product, and at globally competitive prices for both flavour and filler tobacco.

2. GLOBAL TOBACCO PRODUCTION

2.1 Largest Global Tobacco exporters (2010) – ('000 USD):

Ranking	Country	Exported value in 2007	Exported value in 2008	Exported value in 2009	Exported value in 2010
1	Brazil	2,194,075	2,683,204	2,991,818	2,706,674
2	USA	1,213,027	1,240,935	1,163,469	1,175,052
3	India	328,916	539,033	739,119	713,313
4	China	355,138	435,807	533,301	615,863
5	Malawi	422,685	589,988	759,505	585,160
6	Zimbabwe	210,561	99,875	241,774	420,000
16	Mozambique	50,503	193,041	179,337	142,635
17	Tanzania	94,822	177,752	90,365	129,187
18	Zambia	61,312	71,749	84,688	117,719

3. TOBACCO CULTIVATION & PRODUCTION

- 3.1 Tobacco is typically grown in warm climates with temperatures ranging between 20 and 30°C, and year round average rainfall of 625-1000 millimetres.
- 3.2 Tobacco is a transplanted crop, whereby seedlings are grown by hand for about 60 days, until they reach a height of 15-20cm suitable to be moved to the fields.
- 3.3 Harvesting technique is dependent on the type of tobacco – Virginia and Oriental ripen sequentially, so are consistently harvested from the top down over a period of 6 to 12 weeks. Burley tobacco is stalk cut however, where the plant is cut from the bottom once most of the leaves are ripe.
- 3.4 The curing process is crucial to the production of tobacco, giving it the distinctive taste, and differs dependent on the type. Virginia tobacco, the most widely grown tobacco worldwide, is flue-cured (a name the tobacco also goes by), whereby the leaves are heated in barns to temperatures up to and over 70°C in the latter stages, which results in the distinctive yellow/orange colour of the leaves. This process takes 5 to 8 days.

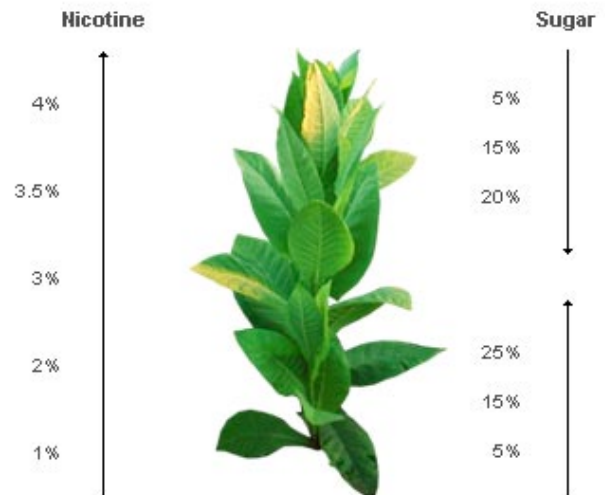
3.5 Burley tobacco is air cured, stripping it of most of its sugars and turning a brown colour, for between 7 and 8 weeks. The process occurs naturally, whilst hung in unheated barns. The tobacco is often treated after curing to replace lost sugars, and is typically mixed with Virginia before making a cigarette.

3.6 After curing, the tobacco is further distinguished into sub-groups by various characteristics related to perceived quality of the tobacco, such as maturity, conformity and colour. This process is known as grading.

3.7 One tobacco plant is capable of producing several different grades of leaf. The leaves higher up the plant are more exposed to the sunlight and typically attain a higher grade.

3.8 Buyers determine the usefulness of the tobacco for their specific products – higher grades attract higher prices. Producer country is also important - Zimbabwe and USA have historically attracted higher prices for their reputation of growing the highest quality tobacco in the world.

3.9 Different grades are then packed into bales and sent either directly to a buyer at a pre-arranged price or to sales floors for auction.



3.10 Tobacco is historically sold at auction, but there has been an increasing global trend towards contract farming as smallholder tobacco farmers, who typically lack access to farm inputs to improve the quality and yield of their crop, have grown more prominent, particularly in Africa.

3.11 Loans for such inputs are often included within the contract, which is spent on fertilisers and farm tools. The greater yield and quality of the crop increases the farmer's incomes which then are used to repay the loans, mutually benefitting both buyer and grower. Contracts have an advantage of allowing a greater understanding of the buyers' requirements by the grower, as buyers can reject whatever they consider to not meet the standards set out by the contract. Further, the contracts guarantee a price for growers without the unpredictable nature of auctions.

3.12 The tobacco is sent for threshing to separate the stem and the lamina of the leaf, important to bring down the moisture level ready to be stored for months to mature. Once finished, the tobacco is packed and shipped off to manufacturing sites worldwide.

4. INTERNATIONAL TRADE

4.1 There exists a lack of competition between tobacco merchants in Africa, further exacerbated by a merger of two major US corporations in the last decade. As such, falling prices in many countries is being blamed on this, and the companies have even faced allegations of collusion. Despite this, the negligible or non-existent manufacturing industry within these African countries mean exporting their crop is the only option, regardless of prices.

4.2 There are a number of international and regional trade agreements in place that tobacco producing countries can benefit from, such as the Cotonou Agreement and the Everything But Arms (EBA) initiative relating to trade to the EU, and African Growth and Opportunity Act (AGOA) relating to the US, which offers reduced tariffs and improved trade access for exports.

The lack of competition in the industry however has resulted in claims that the benefits of such agreements have been reaped the by tobacco companies rather than the countries themselves.

- 4.3 The two dominant tobacco traders in Africa are the largest such companies in the world, Universal Leaf Tobacco and Alliance One International (the result of a merger between DIMON and Standard Commercial in 2005). These two companies operate under local subsidiaries within producer countries and sell their product on to major cigarette corporations, as they are not involved in cigarette manufacture. Both companies reported total sales of over \$2 billion for the fiscal year ending March 2011.
- 4.4 Increased regulation within the tobacco industry is weakening the global market, from advertising bans to public smoking bans, particularly in Western Europe and USA. Despite this, tobacco products are still used by over a fifth of the global population, and continued industry growth is expected in the Asian Pacific market, Middle East and parts of Africa. Organisations such as the International Tobacco Growers Association (ITGA), representing the majority of tobacco producing countries globally, are actively seeking to counter anti-tobacco pressure.
- 4.5 This summary is focused on the production and trade of unmanufactured tobacco in the largest growing countries of tobacco in Africa in recent years. This market has changed dramatically in the last decade, due primarily to the political upheaval in Zimbabwe, a significant global exporter of flue-cured tobacco. This has prompted tobacco buyers to seek out and initiate new sources of tobacco in countries with similar climatic conditions conducive to tobacco production. Many of these countries are included in this report.

5. MALAWI

5.1 Malawian tobacco exports in relation to GDP (2010):

Country	'000 Metric Tonnes	Value of tobacco exports (\$)	Value of total exports (\$)	% of total exports	GDP (\$)	% of GDP
Malawi	215	585 million	1.06 billion	55	5.1 billion	11.5

- 5.2 Malawi is the largest producer of burley tobacco in the world, recently overtaking USA, and the largest producer and exporter of all tobacco in Africa.
- 5.3 Burley tobacco grown in Malawi is valued highly because of its relatively low levels of nicotine and the low level of agro-chemicals used in its production. High levels of nicotine in crops in competing countries such as Brazil can increase the auction price of Malawian tobacco. This renders it valuable as a 'filler' tobacco. Further, its selling price can be as little as a quarter of US grown burley tobacco.
- 5.4 The liberalisation of the tobacco industry in the 1980s and 1990s allowed small holder farmers to enter the market, who now account for over 70% of the country's tobacco crop. The formation of burley clubs, whereby groups of 10-30 farmers gather together to perform critical activities (and meet the quota required to sell at auction) has been instrumental in this process. The reforms also allowed for the availability of credit to smallholders, primarily by the Malawi Rural Finance Company that allowed smallholders to obtain necessary inputs to grow tobacco.
- 5.5 Existing institutional arrangements are based around the auction system. There are three auction floors in Malawi – at Limbe, Lilongwe and Mzuzu – and all run by a single company, Auction Holdings Limited (AHL).

- 5.6 Competition for the tobacco at these auctions is very limited, and this has been blamed as the cause of a recent drop in prices offered by buyers. Alliance One International and Universal Leaf Tobacco - under their local subsidiaries of Alliance One and Limbe Leaf respectively – buy up to 90% of the tobacco at auction. The government responded by establishing the company Malawi Leaf in 2006 in an attempt to force up prices, and has attempted to set minimum prices for the lowest grades of tobacco, albeit unsuccessfully as buyers continued to offer prices below it.
- 5.7 Trade routes for the export of Malawian tobacco typically take one of three options – the long but reliable route of road and rail down to Durban in South Africa (2300km), or the Mozambique ports of Beira (900km), with a transport time of only 2-3 days, or Nacala (1000km).
- 5.8 The future of Malawi’s tobacco industry is dependent on a rebound in prices for their produce. Falling prices and increasing rejection rates has forced many farmers to default on their loans, unable to pay it back due to their ever decreasing incomes. As a result, many are switching to alternative cash crops, with a much lower crop anticipated for the coming year. A global oversupply of tobacco, and lack of competition at auction, means that this will not necessarily cause prices to go back up to sustainable levels.

6. ZIMBABWE

6.1 Zimbabwean tobacco exports in relation to GDP (2010):

Country	'000 Metric Tonnes	Value of tobacco exports (\$)	Value of total exports (\$)	% of total exports	GDP (\$)	% of GDP
Zimbabwe	130	420 million	3.20 billion	13.1	7.47 billion	5.6

- 6.2 Zimbabwean flue-cured tobacco has earned a reputation as some of the highest quality worldwide due to its rich soils and climate, and was among the leading global exporters up until the land reforms of 2000, where the white, large scale commercial farmers were forced from their land. This prompted a dramatic fall in tobacco production.
- 6.3 The dollarization of the Zimbabwean economy in 2009, whereby the increasingly worthless Zimbabwean dollar was officially allowed to be replaced by other currencies (most commonly the US dollar) causing a resurgence in the growth of Virginia tobacco. The potential income from the valuable cash crop, along with the pre-existing flue-curing facilities, has meant tobacco production in Zimbabwe has increased remarkably in the last 3 years.
- 6.4 The move towards entering contracts directly with farmers, particularly by Chinese tobacco firms, has furthered this by providing millions of dollars in fertiliser and farm tools. In 2011, more than half of the tobacco exported was sold via contract; further, China was the largest export destination for Zimbabwean tobacco by almost a factor of 3.
- 6.5 Tobacco is still sold at auction in Zimbabwe, and four were licensed for the beginning of the 2012 market season – Tobacco Sales Floor, Boka Tobacco Floors, Millenium Tobacco Floors and Premier Tobacco Auction Floors. Unlike other African tobacco producing countries, the reputation of Zimbabwean tobacco means that there is plenty of competition – last year there were 23 companies licensed as buyers, and 11 actively purchased at auction sales, with the others preferring contract growing and buying schemes. The Tobacco Industry Marketing Board (TIMB) governs behaviour by both growers and buyers in this dual market.

6.6 Despite its history as a tobacco grower, Zimbabwe's role as a supplier of tobacco to foreign cigarette companies has meant its own manufacturing industry is minimal. As a landlocked country, export routes are dependent on ports in neighbouring countries, specifically Beira in Mozambique (450km from Harare) and Durban in South Africa (1300km from Harare).

7. TANZANIA

7.1 Tanzanian tobacco exports in relation to GDP (2010):

Country	'000 Metric Tonnes	Value of tobacco exports (\$)	Value of total exports (\$)	% of total exports	GDP (\$)	% of GDP
Tanzania	60	129 million	4.05 billion	3.19	23.3 billion	0.55

7.2 The Tanzanian tobacco production industry is primarily based on Virginia tobacco production. Tobacco is marketed using co-operative societies, a product of the pre-reform nationalised tobacco industry of the 1980s when government encouraged smallholder farmer schemes to sell directly to the government owned factories. When the market was liberalised, tobacco buyers decided to enter contracts with the existing co-operative societies. Consequently, all Tanzanian tobacco is sold under contract.

7.3 Zimbabwe's demise in terms of tobacco production has caused an increase in demand for Tanzanian flue-cured. The 10 Year Tobacco Production Programme of 2002, improving availability of agricultural inputs and quality of contracts between farmers and buyers has also accompanied this increase, as have gains in quality. The value of Tanzanian tobacco exports has multiplied many times over since the 1990s and, is now the third largest tobacco exporter in Africa.

7.4 Alliance One, Tanzania Leaf Tobacco (subsidiary of Universal Leaf Tobacco) and Premium Active Tanzania are the main tobacco buyers in Tanzania. The farmers will form a group before the growing season has begun and sign a contract with the factories, and from then can apply for a loan for inputs and fertilizers from the buying company. This contract will also specify crop volume, prices and payment procedures, much of which will have been established by the Tanzania Tobacco Council, where representatives of the growers, traders and other experts will meet and agree upon the contractual terms.

7.5 The port of Dar es Salaam is the principal port of Tanzania, and handles 95% of Tanzanian international trade. The cost of using this port can depend on the condition of the adjoining roads, as many are in dire need of maintenance.

8. MOZAMBIQUE

8.1 Mozambique tobacco production relative to GDP (2010):

Country	'000 Metric Tonnes	Value of tobacco exports (\$)	Value of total exports (\$)	% of total exports	GDP (\$)	% of GDP
Mozambique	34	142 million	2.243 billion	6.36	9.59 billion	1.48

- 8.2 Tobacco production in Mozambique also benefitted from the demise of Zimbabwean tobacco. Production has developed extremely rapidly, increasing from 1500 tonnes in 1996/97 season, to 86000 tonnes in 2010/11, the majority of which is burley.
- 8.3 There are around 150,000 tobacco growers in Mozambique, mostly small landholders with an average cultivated area of 0.5 hectares. Some have up to and above 10 hectares, but these are mostly displaced farmers from Zimbabwe who have recommenced large scale production in Mozambique.
- 8.4 Due to the youth of the industry, processing factories did not exist in Mozambique, so much of the tobacco in the past was sold unprocessed at lower value into Zimbabwe or Malawi. In order to gain a greater income from the exports, the government put pressure on the tobacco buyers to build processing facilities. Alliance One and Mozambique Leaf Tobacco (subsidiary of Universal) were the primary buyers at the time, and MLT obliged in 2006, building a factory with a capacity of 50,000 tonnes a year. Mozambique responded by giving some of the most fertile tobacco growing land to MLT, which resulted in Alliance One withdrawing from the country. As a result, all Mozambique tobacco is sold via contract with MLT.
- 8.5 Mozambique mostly uses its port of Beira for international trade.

9. ZAMBIA

- 9.1 Zambian tobacco exports relative to GDP (2010):

Country	'000 Metric Tonnes	Value of tobacco exports (\$)	Value of total exports (\$)	% of total exports	GDP (\$)	% of GDP
Zambia	27	117 million	7.2 billion	1.63	16.19 billion	0.7

- 9.2 Tobacco production in Zambia has surged in the last decade, with exports value increasing from slightly over \$10 million to \$117 million in 2010. This again is largely due to the decrease in the Zimbabwean crop. As such, the industry is relatively underdeveloped and similarly to Mozambique had much of its crop sold unprocessed into Malawi and Zimbabwe for a lower value until the government invested in a \$6 million processing plant in Lusaka.
- 9.3 Zambian production is split between the two most common tobacco types– of the 27,000 tonnes produced in 2010, 15,000 was flue-cured and 12,000 burley. Flue-cured is mostly grown by expelled Zimbabwean tobacco farmers with the resources to grow the more capital and skill intensive crop, whilst smallholder farmers predominately grow burley.
- 9.4 There are two tobacco selling floors in Zambia, owned and run by the Tobacco Association of Zambia – west of Luangwa for Virginia, and east for burley, both of which open in March, though Zambian tobacco is also sold on contract. The two main buyers again are Alliance One and Universal Leaf under local subsidiaries, Alliance One Zambia and Zambia Leaf Tobacco.
- 9.5 Zambian processed tobacco exported overseas is either transported via the port in Dar es Salaam in Tanzania (1500km from Lusaka) or the port of Walvis Bay in Namibia (1700km from Lusaka).

10. CONCLUSION

- 10.1 Tobacco production in Africa has changed dramatically in the last decade, due primarily to Zimbabwe's sudden fall in production following Mugabe's forced land reforms. This opened a gap in the market which many countries have attempted to fill.
- 10.2 The impact Zimbabwe's sudden resurgence will have on the market is unclear. There exists a global oversupply of tobacco currently, which is liable to decrease tobacco prices, and has caused an unprecedented stock build up. The lack of competition of buyers in Africa means that they hold substantial influence over the market, and there are legitimate concerns that they will simply return to Zimbabwe. Investment in processing facilities is seen as a commitment to the tobacco industry in the country, which is another reason why Mozambique was so keen for the investment.
- 10.3 Tobacco's value as a cash crop still renders it worthwhile to grow for many African countries. However, if prices fall, farmers may start to look for alternatives, as is the case in Malawi currently, though this may not bother buyers in a market in which there is surplus supply.