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AGRICULTURAL OUTLOOK CONFERENCE 1986

AGROCON '86
LANVOKON

LANDBOUVOORUITSKOUINGSKONFERENSIE 1986

PRESENTED BY —

- Agricultural Economics Association of South Africa
- Co-ordinating Committee of Agricultural Marketing Boards
- Department of Agricultural Economics and Marketing
- Department of Agriculture and Water Supply
- National Marketing Council
- SA Agricultural Union

CSIR CONFERENCE CENTRE
Pretoria

10 AND 11 FEBRUARY 1986

AGROCON '86 N

TOBACCO

1. EVALUATION OF 1985 FORECAST

With reference to the 1985 forecast the estimated production for the 1984/85 season was aimed at a total quantity of 36,57 million kg which would have represented a decline of 5,48 percent. The production however, realized lower at a total of 35,86 million kg, representing a decline of 7,31 percent. This decline is represented by 1,7, 7,8, 38,06 and 11,7 percent in the classes flue-cured, air-cured, burley and oriental tobacco respectively. The biggest difference occurred in the flue-cured class for which an increase of 2,5 percent was predicted while the final figure represents a decline of 1,7 percent.

As far as the consumption of leaf tobacco is concerned, the total in 1984 showed a decline of approximately 0,05 percent as against an expected decline of 1,6 percent. The reason for this is the general economic performance which still moves in a recessionary phase which especially affected the purchasing power of black consumers who constitute the prime consumer group of tobacco commodities. A further decline has been predicted for 1985 and the estimated consumption is expected to show a further decline of approximately 5,2 percent to 36,93 million kg, compared with the 1984 consumer year. When the consumption is viewed in its respective market segments, the decline in the different classes of leaf tobacco used for the manufacture of tobacco products is reflected as follows (million kg):

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Class Tobacco	Year					
	1983			1984		1985*
Flue-cured	25,20	[3,93]	(-1,1)	26,19	(-2,4)	25,55
Light Air-cured	3,29	[0,00]	(-21,3)	3,29	(-32,8)	2,21
Dark Air-cured	6,31	[-16,60]	(9,7)	5,26	(-4,7)	5,01
Burley	3,08	[2,27]	(-5,5)	3,15	(-0,6)	3,13
Oriental	1,12	[-2,70]	(-3,6)	1,09	(-5,5)	1,03
Total	39,00	[-0,05]	(-1,6)	38,98	(-5,2)	36,93

[ ] Actual percentual change
( ) Estimated percentual change
* Estimated consumption

2. PRODUCTION

Before continuing with this paper, one imported aspect that needs highlighting is that of the season of planting, production, delivery to the co-operative and the marketing of the tobacco.

The preparation of seed-beds, sowing of seed and bedding-out of the small plant to the land start from approximately June to September, depending on the relevant area.

The crop is then delivered from December till about September of the following year. The tobacco is already prepared for the market and sold to domestic representatives of tobacco products, as well as to foreign buyers from 1 April up to and including 31 March of the following year.

The implication is therefore that a specific crop is handled during the course of approximately 24 months. A delay in the final cash settlement of crops puts pressure on the cash flow position of the producer, especially in view of the cost price squeeze situation and relatively high inflation sensitivity. While his deferred payment is still outstanding, the producer already has to start preparations for the next production season.
As far as the production of tobacco is concerned, its extent and gross value can be represented by the following tables.

(A) Extent of production

Production season	Flue-cured	Air-cured	Burley	Oriental	Total
		Million kilogram			
1984/85	24,41	7,77	2,62	1,06	35,86
1985/86*	28,22	8,01	2,66	1,15	40,04
1986/87*	28,46	11,36	2,94	0,89	43,65

(B) Leaf tobacco marketed

Marketing season	Flue-cured	Air-cured	Burley	Oriental	Total
		Million kilogram			
1984/85	24,14	7,24	2,49	1,02	34,89
1985/86*	27,60	8,20	2,20	1,02	39,02
1986/87*	27,10	10,82	2,80	0,85	41,57

(C) Gross value of leaf tobacco marketed

Marketing season	Flue-cured	Air-cured	Burley	Oriental	Total
		Million rand			
1984/85	134,37	21,76	12,46	5,18	173,77
1985/86*	167,20	28,00	13,30	7,10	215,60
1986/87*	—	—	—	—	—

*Estimated

As far as the following season, that is, 1986/87, production is expected to fall within the set production limits.

2.1 PRODUCTION LIMITS

The quotas for the 1984/85 season were raised in total by 8 percent from 36 974 580 during 1983/84 to 39 972 580 kg. When the figures are compared with the performance of the producer, as far as marketable tobacco delivered to co-operatives is concerned (1984/85), an under-performance of approximately 15 percent (only for Virginia tobacco) becomes evident.

The production limit for the 1986/87 season was raised by a further 3,8 percent compared with the 1985/86 season, in order to effect a quality adjustment, especially in view of the new grade requirements which will be applicable in the coming year.

The table below indicates the change in the limits in total, as well as the shift in the different classes of Virginia tobacco (kg).

Year	Flue-cured	Air-cured Light	Air-cured Dark	Burley	Total
1984/85	25600000	3370000	7452580	3550000	39972580
+/-	0%	0%	0%	-21%	-2%
1985/86	25600000	3370000	7452580	2800000	39222580
+/-	5.8%	0%	0%	0%	3.8%
1986/87	27100000	3370000	7452580	2800000	40722580

The production of tobacco varies from year's end to year's end, despite the fact that production limits are set. This is largely attributable to varying climatic conditions which reign over large parts of the production area, as well as the availability and composition of production factors which in the final analysis determine the comparative advantage of tobacco cultivation.

A further problem which may occur in the production of tobacco is the fact that producers are compelled by the quotas to expand vertically, in order to compensate for the financial position in which the South African farmer and the tobacco producer find themselves. In itself, little fault can be found with vertical expansion, but certain cultivation practices, such as too high nitrogen application for heavier tobacco may give rise to an incorrect balance in the nicotine and sugar quality in the leaf which renders this tobacco totally unsuitable for marketing.

A further important aspect is the availability of labour which is creating increasing problems for the producer. The immense increase in production input also gives cause for concern.

2.2 PRODUCTION POTENTIAL

It is a fact that the potential of tobacco production is a function of fertilisation, climate, management and technological development. As already been mentioned, the correct application of fertilisers, is of the utmost importance for the producer since it directly influences the quality and quantity of the product which he will supply, and concomitantly the price of his product and the profitability of his undertaking.

An interesting aspect which can be mentioned is that expenditure on 1 hectare of tobacco can be equated to approximately 5 hectare of maize.

The unique nature of tobacco production necessitates that management should pay the necessary attention to the planning of the undertaking, and all its activities. Presentation of management courses, counselling by co-operatives and the relevant financial institution, can play an important role in this regard.

The fact that the production of tobacco is immensely labour-intensive and that mechanisation exists only at a relatively low level, will place increasing pressure on the producer in the near future, in order for him to deal with the problems attached to tobacco cultivation, successfully.

3. LOCAL AND OVERSEAS MARKETS

3.1 DOMESTIC CONSUMPTION

In this context consumption is seen as the use of leaf tobacco in the manufacture of tobacco products. The type of product manufactured, based on consumer preference and demand, determines the demand for the specific grade and class of tobacco. In the manufacture of cigarettes, mainly flue-cured tobacco is used while burley tobacco is used virtually exclusively for its burning ability and aromatic qualities in the cigarette. Approximately 70 to 75 percent of the total quantity of leaf tobacco is used in the manufacture of cigarettes while the rest of the leaf tobacco is used mainly in manufacturing pipe tobacco and snuff.

The different classes of leaf tobacco used for the manufacture of tobacco products is reflected as follows (million kilogram):

Class tobacco	Year				
	1984		1985*		1986*
Flue-cured	26,19	-2,4%	25,55	-2,5%	24,92
Light Air-cured	3,29	-32,8%	2,21	-10,9%	1,97
Dark Air-cured	5,26	-4,7%	5,01	-4,4%	4,79
Burley	3,15	-0,6%	3,13	+6,4%	3,33
Oriental	1,09	-5,5%	1,03	+0,9%	1,04
Total	38,98	-5,2%	36,93	-2,4%	36,05

*Estimated

As far as the prospects for 1986 are concerned, a further decline of 2,4 percent is expected. This decline is represented in a decline of 2,5, 10,9 and 4,4 percent in flue-cured, light and ark air-cured, and an increase of 6,4 and 0,9 percent in burley and oriental tobacco respectively.

The decline can be attributed to the recessionary conditions in which the economy presently finds itself. Further factors which are a direct result of the present unfavourable conditions are the decline in spending income, the rise in unemployment, the high inflation rate, while the political unrest and the distribution and provision of the product also create problems.

3.2 IMPORTATION OF TOBACCO

The importation of leaf tobacco can take place under various schemes such as, imports according to trade agreement, rebate of duty, duty-paid and duty-free, depending on circumstances.

It is attempted, as far as possible, to meet the requirements of the manufacturer by means of domestic production. Tobacco is usually imported in order to effect adjustments for specific taste preferences or when a shortage of specific grades or classes of tobacco occurs.

The importation of tobacco under the various schemes is as follows (Period 1 April to 31 March):

	Class tobacco	1984/85	1985/86*
		Kilogram	
Trade agreement:	Flue-cured	907185	907185
	Burley	226796	226796
Duty Free:	Flue-cured	1828652	100000
	Dark Air-cured	—	20500
	Burley	—	140000
	Oriental	—	18000
Rebate of duty:	Flue-cured	2453503	—
Duty paid:	Flue-cured	938492	2403220
	Light Air-cured	68460	—
	Burley	298142	—

*Estimated

3.3 EXPORT OF TOBACCO

As far as the export of tobacco is concerned, the Board's policy is to limit it to long standing and regular buyers. The export of tobacco mainly concerns the maintenance of stability in the domestic market and the shifting of surpluses which may occur. The ability of the tobacco industry to compete with foreign components has a restrictive influence on the extent of exports. The following table indicates the export of leaf tobacco during the previous few years.

Marketing season	Flue-cured	Light Air-cured	Burley	Oriental	Total
		Million kilogram			
1984/85	5,62	—	1,07	0,003	6,693
1985/86*	6,85	—	0,20	—	7,050
1986/87*	4,50	—	0,20	—	4,700

*Estimated

4. SELLING PRICES

4.1 MINIMUM SELLING AND PRODUCER PRICES

The minimum selling prices are revised annually and are determined for each specific grade of each class of tobacco, and tobacco has to be sold by the agents of the

Board to the different registered processors at these prices.

The producer receives, on delivery of his tobacco to the co-operative, an advance payment of 75 percent of the evaluation price. The evaluation price may differ from the minimum selling price and the former is determined by the agent himself.

The producer price can only be determined after the relevant crop has been sold, the pools have been closed and the marketing costs attached thereto have been recovered. The costs comprise, amongst others, reconditioning, handling and packing costs by the agent and the levy payable on the tobacco to the Board. It can therefore happen that the producer price differs from region to region, depending on the extent and effectiveness of activities at the co-operative. The average producer price is about 25 to 30 percent lower than the average selling price. The producer prices for the different classes of tobacco are shown in Addendum 11.

4.2 EXPORT PRICES

The prices of tobacco to be exported, are determined by means of negotiations with the foreign purchaser. Should the price realise lower than the domestic price, the Board can subsidise the difference in the export price.

4.3 CONSUMER PRICES

The Board has no direct say in the determination of the prices of tobacco products. Prices are determined by the manufacturers, wholesalers and retailers. Factors such as the cost attached to the new materials used (especially that of paper), manufacturing and distribution costs, and excise duty, play a leading role in the establishment of a price level.

5. FUTURE PERSPECTIVE

The tobacco industry plays an imported role in the economic welfare of South Africa. According to the Abstract of Agricultural Statistics 1985, the tobacco industry is responsible for a contribution of about 5,4 percent to the gross value of agricultural production and of about 2 percent to the total gross value of agricultural (1983/84). As far as provision of employment is concerned, numerous people are employed on primary as well as intermediary level. During the 1984/85 year the industry provided employment to about 76 000 people of whom approximately 89 percent is directly concerned with the physical production of tobacco. (Producers and labourers).

An aspect which needs to be emphasized is the fact that the industry supplies a product to the tertiary market to which a certain consumer value is attached by the consumer, which is unique to the product. The fact that this product is not an essential commodity, places considerable pressure on the industry which is conjuncture - sensitive, during the present recessionary phase of the economy. Although smoking is habit-forming, the preference for specific tastes may cause, during these times of high unemployment, lower spending income and higher inflation, that the consumer to change over to smoking pipe tobacco or using snuff, or maybe even stop smoking altogether.

It can therefore rightly by expected that a declining tendency in the consumption of tobacco products will continue in 1986 as the effect of the weakened economy infiltrates all the different sectors. This poses a tremendous challenge to the industry to market the product to the consumer in the midst of all the problems and the anti-smoking campaigns.

As far as the producers are concerned, far greater challenges will confront them in the coming year, especially if the drought should continues. Input prices are also expected to rise sharply especially as a result of the unusual spending pattern of the tobacco producer, and are further influenced by a high inflation rate and the poor rand. The most important group in the manufacturing sector to benefit from the purchases of the tobacco farmer is the chemical industry, that is, through fertilisers and pest control, followed by agricultural machinery and equipment, and petroleum products.

As far as the future of marketable leaf tobacco is concerned, there will always be a market for a tobacco of a high quality. The producer will however have to realise that increasing emphasis will be placed on the quality of leaf tobacco and that grading requirements will be applied strictly, especially in view of the surplus on the world market.

Despite the problems with which the producer is faced, tobacco production delivers some of the best financial yields per hectare.

The primary sector of the South African tobacco industry is a modern agricultural structure and forms an integral part of the country's versatile economy.

BINNELANDSE VERBRUIK VAN DIE VERSKILLENDE KLASSE TABAK VIR DIE VERVAARDIGING VAN TABAKPRODUKTE: BYLAAG V/ADDENDUM V

LOCAL CONSUMPTION OF THE VARIOUS CLASSES OF TOBACCO FOR THE MANUFACTURE OF TOBACCO PRODUCTS: 1976 — 1986*

Klas tabak en tabakprodukte vervaardig Class of tobacco and products manufactured	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985*	1986*
1. Oonddroog/Flue-cured											
1.1. Sigarette/Cigarettes	16.68	16.69	16.1	18.2	19.28	20.67	22.6	21.84	23.11	22.61	21.93
1.2. Pyptabak en snuif/Pipe tobacco and snuff	3.48	3.5	3.53	3.73	3.33	3.11	3.14	3.36	3.08	2.94	2.99
1.3. Ander tabakprodukte/Other tobacco products	—	—	—	—	—	—	—	—	—	—	—
Totaal/Total	20.16	20.19	19.63	21.93	22.61	23.78	25.74	25.20	26.19	25.55	24.92
2. Lugdroog/Air-cured											
2.1. Sigarette/Cigarettes	2.57	2.43	2.09	1.86	2	1.99	2	1.89	1.66	1.42	1.26
2.2. Pyptabak en snuif/Pipe tobacco and snuff	9.61	9.44	8.82	8.15	7.68	6.7	6.91	7.53	6.72	5.64	5.35
2.3. Ander tabakprodukte/Other tobacco products	0.21	0.19	0.32	0.31	0.32	0.13	0.11	0.18	0.17	0.16	0.15
Totaal/Total	12.39	12.06	11.23	10.32	10	8.82	9.02	9.60	8.55	7.22	6.76
3. Burley											
3.1. Sigarette/Cigarettes	2.39	2.18	2.24	2.53	3.03	3.16	3.2	2.92	2.99	2.98	3.17
3.2. Pyptabak en snuif/Pipe tobacco and snuff	0.03	0.04	0.04	0.25	0.54	0.35	0.18	0.16	0.16	0.15	0.16
3.3. Ander tabakprodukte/Other tobacco products	—	—	—	—	—	—	—	—	—	—	—
Totaal/Total	2.42	2.22	2.28	2.78	3.57	3.51	3.38	3.08	3.15	3.13	3.33
4. Orientaal/Oriental											
4.1. Sigarette/Cigarettes	0.90	0.83	0.84	0.88	1	1.04	1.11	1.02	1.03	0.97	0.99
4.2. Pyptabak en snuif/Pipe tobacco and snuff	0.09	0.08	0.08	0.05	0.08	0.07	0.5	0.1	0.06	0.06	0.05
4.3. Ander tabakprodukte/Other tobacco products	—	—	—	—	—	—	—	—	—	—	—
Totaal/Total	0.99	0.91	0.92	0.93	1.08	1.11	1.61	1.12	1.09	1.03	1.04
5. Alle klasse/All classes											
5.1. Sigarette/Cigarettes	22.54	22.13	21.27	23.47	25.31	26.86	28.91	27.67	28.79	27.98	27.35
5.2. Pyptabak en snuif/Pipe tobacco and snuff	13.21	13.06	12.47	12.18	11.63	10.23	10.73	11.15	10.02	8.79	8.55
5.3. Ander tabakprodukte/Other tobacco products	0.21	0.19	0.32	0.31	0.32	0.13	0.11	0.18	0.17	0.16	0.15
Totaal/Total	35.96	35.38	34.06	35.96	37.26	37.22	39.75	39.00	38.98	36.93	36.05

*Beraam
*Estimate

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BLAARTABAK BEMARK EN BRUTO WAARDE
MARKETING OF LEAF TOBACCO AND GROSS VALUE 1976/77 — 1985/86*

BYLAAG IV/ADDENDUM IV

KLASSE TABAK CLASSES OF TOBACCO	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86*
	Jaar eindigend 31 Maart/Year ending 31 March									
(I) Oonddroog/Flue-cured										
1. Bemark/Marketed (Miljoen kg/Million kg)	19.39	26.8	27.41	25.6	21.06	18.19	22.98	24.44	24.14	27.60
2. Waarde/Value (Miljoen rand/Million rand)	47.7	73.14	77.31	81.05	73.37	73.47	112.3	127.8	134.37	167.20
(II) Lugdroog/Air-cured										
1. Bemark/Marketed (Miljoen kg/Million kg)	9.45	8.51	11.67	10.71	8.96	5.33	5.94	6.82	7.24	8.20
2. Waarde/Value (Miljoen rand/Million rand)	13.15	13.44	19.11	20.15	17.74	11.63	16.3	21.39	21.76	28.00
(III) Burley										
1. Bemark/Marketed (Miljoen kg/Million kg)	1.84	2.1	2.16	2.12	2.11	2.53	3.3	4.02	2.49	2.20
2. Waarde/Value (Miljoen rand/Million rand)	3.49	4.52	4.84	5.29	6.07	8.11	14.6	18.04	12.46	13.30
(IV) Orientaal/Oriental										
1. Bemark/Marketed (Miljoen kg/Million kg)	0.82	1.13	1.01	1.05	1.18	1.12	0.84	1.18	1.02	1.02
2. Waarde/Value (Miljoen rand/Million rand)	1.84	2.56	2.52	3.03	3.48	3.86	3.99	6.07	5.18	7.10
(V) Totaal/Total										
1. Bemark/Marketed (Miljoen kg/Million kg)	31.5	38.54	42.25	39.48	33.31	27.17	33.06	36.46	34.89	39.02
2. Waarde/Value (Miljoen rand/Million rand)	66.18	93.66	103.78	109.52	100.66	97.07	147.19	173.3	173.71	215.60

*BERAAM
*ESTIMATE

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OMVANG VAN PRODUKSIE/VOLUME OF PRODUCTION: 1976/77 — 1985/86*

BYLAAG I/ADDENDUM I

KLASSE TABAK CLASSES OF TOBACCO	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86*
	Jaar eindigend 31 Maart/Year ending 31 March (Miljoen kilogram/Million kilogram)									
Oonddroog/Flue-cured	19,74	27,89	27,91	30,35	21,73	18,51	23,25	24,83	24,41	28,22
Lugdroog/Air-cured	9,67	9,20	12,54	13,74	9,53	5,48	6,63	8,43	7,77	8,01
Burley	1,87	2,18	2,38	2,42	2,19	2,62	3,50	4,23	2,62	2,66
Orientaal/Oriental	0,81	1,25	1,13	1,20	1,15	1,15	0,85	1,20	1,06	1,15
TOTAAL/TOTAL	32,09	40,52	43,96	47,71	34,60	27,76	34,23	38,69	35,86	40,04

GEMIDDELDE PRODUSENTEPRYS VIR DIE VERSKILLENDE KLASSE TABAK:
AVERAGE PRODUCER PRICES FOR THE VARIOUS CLASSES OF TOBACCO: 1976/77 — 1984/85*

BYLAAG II/ADDENDUM II

KLASSE TABAK CLASSES OF TOBACCO	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85*
	(Sent per kilogram/Cent per kilogram)								
Oonddroog/Flue-cured	208,12	228,17	202,33	237,93	268,88	266,14	388,54	386,19	398,69
Lugdroog/Air-cured	113,95	125,72	130,75	134,55	149,46	168,80	170,20	219,32	210,40
Burley	150,94	168,11	153,43	185,29	197,05	268,34	321,04	325,49	365,37
Orientaal/Oriental	188,88	181,13	210,38	226,00	264,76	296,48	417,85	487,00	400,00
TOTAAL/TOTAL	171,49	199,83	179,61	201,97	231,94	251,07	347,44	346,28	355,49

UITVOER VAN BLAARTABAK/EXPORTS OF LEAF TOBACCO: 1976/77 — 1985/86*

BYLAAG III/ADDENDUM III

KLASSE TABAK CLASSES OF TOBACCO	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86*
	(Miljoen kilogram/Million kilogram)									
Oonddroog/Flue-cured	6,47	3,97	9,79	5,63	4,39	2,97	3,32	2,49	5,62	6,85
Lugdroog/Air-cured	0,71	0,71	0,62	1,03	0,42	0,18	0,30			
Burley			0,35		0,09	0,10	0,15	0,96	1,07	0,20
Orientaal/Oriental	0,08	0,12	0,07	0,09	0,02	0,02	0,04	0,006	0,003	
TOTAAL/TOTAL	7,26	4,80	10,83	6,75	4,92	3,27	3,81	3,46	6,693	7,05

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TOBACCO

SUMMARY

1. EVALUATION OF 1985 FORECAST

With reference to the 1985 forecast the estimated production for the 1984/85 season was aimed at a total quantity of 36,57 million kg which would have represented a decline of 5,48 percent. The production, however, realized lower at a total of 35,86 million kg, representing a decline of 7,31 percent. The most considerable difference occurred in the flue-cured class for which an increase of 2,5 percent was predicted, as against the eventual decline of 1,7 percent. (If it is borne in mind that flue-cured tobacco is responsible for approximately 65 percent of the total production, this is a considerable decline in relation to the country's crop).

As far as the consumption of leaf tobacco is concerned, the total of 38,98 million kg in 1984 showed a decline of approximately 0,05 percent as against the expected decline of 1,6 percent. The reason for this is to be found in the general economic performance which still moves in a recessionary phase. A further decline of approximately 5,2 percent to 36,93 million kg, is also projected for 1985, compared with the 1984 consumer year.

2. PRODUCTION

An important aspect with regard to the production of tobacco is the period between planting, production, and delivery to the co-operative up to and including the marketing of the tobacco. In a case where a specific crop is handled over a period of 24 months, it can lead

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to pressure on the cash flow position of the producer, especially in view of the cost price squeeze situation and relatively high inflation sensitivity.

The production of tobacco for the 1985/86 season is estimated at 28,22, 8,01, 2,66 and 1,55 million kg for the classes flue-cured, air-dried, burley and oriental respectively. As far as production for the 1986/87 season is concerned, production is estimated to fall within the set production limits.

2.1 PRODUCTION LIMITS

The quotas for the 1984/85 season were raised in total by 8 percent. Comparison of this figure with the performance of the producer as far as marketable tobacco delivered to co-operatives is concerned (1984/85), shows an underperformance of approximately 15 percent (only for Virginian tobacco).

The production limit for the 1986/87 season was raised by a further 3,8 percent to 40,723 million kg, compared with the 1985/86 season, in order to accommodate certain quality adjustments.

2.2 PRODUCTION POTENTIAL

The potential of tobacco production is a function of fertilisation, climate, management and technological development. It is therefore of the utmost importance that the producer will bear the application, availability and influence of these factors in mind, when planning and executing the production process.

The fact that the production of tobacco is immensely labour-intensive and that mechanisation exists only at a relatively low level, will place increasing pressure on the producer, in the near future.

3. LOCAL AND OVERSEAS MARKETS

3.1 DOMESTIC CONSUMPTION

In this context consumption is seen as the use of leaf tobacco in the manufacture of tobacco products. The type of product manufactured, based on consumer preference and demand, determines the demand for the specific grade and class of tobacco. In the manufacture of cigarettes, mainly flue-cured tobacco is used, while burley tobacco is used virttually exclusively for its burning ability and aromatic qualities in the cigarette.

As far as the prospects for 1986 are concerned, the present declining tendency of 2,4 percent is expected to continue to 36,05 million kg. (The consumption for the two previous years 1984 and 1985 are 38,98 and an estimated 36,93 million kg respectively). These changes are represented by a decline of 2,5, 10,9 and 4,4 percent in the flue-cured, light and dark air-cured, and an increase of 6,4 and 0,9 percent in burley and oriental tobacco respectively. The decline can be directly attriuted to the recessionary conditions in which the economy presently finds itself, with a lowered spending income, a decline in private consumer spending, an increase in unemployment and a high inflation rate, with the political unrest exercising a further influence. The domestic consumption of the different classes of tobacco for the manufacture of tobacco products for 1986 is estimated at 24,92, 1,97, 4,79, 3,33 and 1,04 million kg. for the classes flue-cured, light air-cured, dark air-cured, burley and oriental tobacco respectively.

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3.2 IMPORTATION OF TOBACCO

The importation of leaf tobacco takes place under various schemes, namely: imports according to trade agreement, rebate of duty, duty-paid and duty-free, depending on circumstances. It is attempted, as far as possible, to meet the requirements of the manufacturer by means of domestic production. Tobacco is usually imported in order to provide for specific taste preferences or to supplement domestic shortages.

3.3 EXPORT OF TOBACCO

In view of the tobacco industry's ability to compete with overseas competitors, the extent of exports is limited as far as possible to the marketing of small quantities of mainly surplus tobacco to maintain an overseas market.

4. SELLING PRICES

4.1 MINIMUM SELLING AND PRODUCER PRICES

The minimum selling prices at which tobacco is sold by agents of the Board to the various processors, are revised annually and are determined for each specific grade of each class.

The average producer price is approximately 25 to 30 percent lower than the average selling price. The average producer price for the 1984/85 production season is estimated at a level of 355,49 cent per kilogram, which is approximately 10 cent higher than for the previous season's (1983/84) 346,28 cent per kilogram.

4.2 EXPORT PRICES

The prices of tobacco to be exported, are determined by means of negotiations with the overseas purchaser. If necessary, the Board can subsidise the difference in the export price.

4.3 CONSUMER PRICES

The Board has no direct say in the determination of the prices of tobacco products since these are determined by manufacturers of tobacco products, wholesalers and retailers.

FUTURE PERSPECTIVE

The tobacco industry plays an important role in the economic prosperity of South Africa. According to the Abstract of Agricultural Statistics, the tobacco industry is responsible for a contribution of about 5,4 percent to the gross value of agricultural production and about 2 percent to the total gross value of agriculture. (The figures are based on the 1983/84 season). About 76 000 people are provided with employment, of whom approximately 89 percent is directly concerned with the physical production of tobacco. (About 1,9 labourers are employed per hectare as against approximately one labourer per 66 hectare in the agricultural sector).

An aspect which needs to be emphasized, is the fact that the industry supplies a product to the tertiary market to which a certain consumer value and need fulfilment is attached, with an own character for inflation sensitivity, competitive ability and spending pattern. A degree of substitution might occurs within the market between the consumption of cigarettes and pipe tobacco due to the circumstances of high unemployment, inflation and low spending income.

As far as the producers are concerned, far greater challenges will confron them in the coming year, especially if the drought should continue and prices of inputs esculate at the present rate.

As far as the future of marketable leaf tobacco is concerned, there will always be a market for a tobacco of a high quality. The producer will, however, have to realise that increasing emphasis will be placed on the quality of leaf tobacco, especially by local manufacturers and that grading regulations will be applied strictly, especially in view of the surplus on the world market.

Despite all the problems with which the producer is faced, tobacco production delivers some of the best financial yields per hectare in agriculture.