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Contents

	<u>Page</u>
I. EDITORIAL	1
II. ECONOMIC TENDENCIES IN THE SOUTH AFRICAN AGRICULTURE	4
III. ARTICLES	
1. Kaffircorn Production and the Bantu Beer Industry by A.P. Scholtz and L.M.D. Vorster	6
2. The Marketing of Leaf Tobacco in South Africa by J.D.R. Henstock	16
3. Financial Assistance to Farmers in terms of the Agricultural Credit Act, 1966 (No.28 of 1966) - Contributed by the Department of Agricultural Credit and Land Tenure	21
4. A Comprehensive View of and Basic Approach to Agricultural Policy by J.B. de Swardt	23
IV. STATISTICS	30
V. GENERAL, COMMENTS AND ANNOUNCEMENTS	37

The Marketing of Leaf Tobacco in South Africa

by

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In South Africa leaf tobacco may be sold by producers only under a system of compulsory co-operative marketing. Before dealing with the functioning of the system of receipt and sale of tobacco leaf, the reasons which led to the establishment by producers of co-operative societies (and companies) and the subsequent formation of a central co-operative company, viz. The Central Co-operative Tobacco Co. of S.A. Ltd. (Centabak) will be briefly stated.

FACTORS WHICH CONTRIBUTED TO THE PRESENT METHOD OF MARKETING

Prior to 1909 tobacco was produced in confined areas mainly in the neighbourhood of Rustenburg, Piet Retief and Oudtshoorn. Each producer handled his own crop and sold it direct to manufacturers and other buyers such as shopkeepers and itinerant traders. From this it follows that producers were dependent upon the buyers for the prices they received.

In 1909 the tobacco growers in the neighbourhood of Rustenburg formed the Magaliesbergse Koöperatiewe Tabakplantersvereniging (M.K.T.V.) in accordance with the Co-operative Agricultural Societies Act, 1908, of the Transvaal. The members of the M.K.T.V. continue to produce the major portion of the South African crop. Between 1911 and 1921 the annual production in South Africa amounted to about 14 million lb. Increased co-operative action during subsequent years, not only ensured the advantage of collective selling, but also that of bulk storage, uniform gra-

ding, treatment and preparation of the leaf for the market. Under the circumstances prevailing at the time these co-operatives experienced difficulties, however, because of disloyalty of members and in an endeavour to resolve the position, the Government was induced during 1925 to amend the Co-operative Societies Act (Act No. 28 of 1922) to provide inter alia that tobacco growers constituting a minority in a specific area could be compelled to deliver their tobacco crops intended for sale, solely to the co-operative society serving that area.

This provision of the Act could, however, only be applied after an application of a co-operative society had succeeded on the grounds:

- (i) that its members constituted more than 75 per cent of all growers in the area to be proclaimed, and
- (ii) that their combined crops amounted to at least 75 per cent of the output of the area.

This compulsory one-channel selling was advantageous in some respects, but it also created problems which resulted in surpluses followed by price reductions.

During 1926 the established co-operative societies formed a central co-operative company (Centabak) which could act for all its affiliated members jointly in the marketing and price determination of their leaf tobacco. Because the provisions of the Tobacco Control Act of 1932 (as administered by the Department of Agriculture) were at that stage insufficient

for effective control, the first Tobacco Control Board was constituted in 1935 in accordance with an amendment to the Act of 1932 (Proclamation No. 119 of 1935). The most important powers granted to the new Control Board were to prohibit growers from selling their leaf except through certain designated co-operative societies, and with the approval of the Minister to fix the prices at which the co-operatives could sell leaf in the domestic market. The determination of selling prices by the Control Board was subsequently combined with a system of allocation of producers' stocks to ensure that every buyer obtained a fair share of the crop based on his usings during the previous year. At the same time it ensured that every co-operative obtained its share in the market. Competitive practices were thus eliminated in so far as the purchasing of leaf tobacco was concerned.

In accordance with the present Tobacco Control Scheme the Republic is divided into defined areas each of which is served by a co-operative society. Producers are required to deliver their tobacco to the co-operative society concerned for treatment, grading, packing and sale. During recent years most of these co-operatives have incurred considerable capital expense for better, more modern and mechanized facilities and aids especially in the form of spacious valuation, grading and store rooms as well as mechanized transport and handling equipment, in order to improve efficiency in the handling and treatment of the product.

According to the Control Scheme all manufacturers of and wholesale dealers in leaf tobacco are required to be registered with the Tobacco Control Board and must furnish the Board with certain statistical information every month. By mutual agreement between the manufacturers and wholesale leaf dealers on the one hand and producers through their co-operative societies and Centabak on the other, the former undertake inter alia not to purchase any leaf tobacco in South Africa except from the agents of the Tobacco Control Board.

On each delivery the producer receives an advance from his society of 65 to 75 per cent of the total value of the load. After valuation his tobacco is immediately pooled with the deliveries of other producers whereupon it loses its identity. Valuation prices are based on published minimum sale prices to manufacturers and wholesale leaf dealers. After receipt of his advance the producer normally has to wait until the end of that season for his deferred payment of 25 or 35 per cent. Very often he receives a further bonus payment based on the value of his tobacco in relation to total pool deliveries from a possible surplus pool yield after the tobacco has been finally treated and graded. In practice it often happens that the total amount of the final payments exceeds that of the advance.

THE ALLOCATION OF TOBACCO: DOMESTIC MARKETING

As mentioned previously, the co-operative producer organisations are affiliated with the Central Co-operative Tobacco Co. of S.A. Ltd. The marketing of all Virginia leaf tobacco produced in South Africa is undertaken by this organisation in so far as both local sales and exports are concerned. Centabak was registered during 1926 under the Co-operative Societies Act as a central co-operative company with limited liability. At present the affiliated member co-operative societies and companies of Centabak are:

Die Magaliesbergse Koöperatiewe Tabakplantersvereniging.
Die Kango Koöperatiewe Tabakmaatskappy, Beperk.
Die Potgietersrusse Tabakkoöperasie, Beperk.
Vaalrivier Koöperatiewe Tabakboere Vereniging.
Die Gamtoos Koöperatiewe Tabakmaatskappy, Beperk.
Katrivier Tabak Koöperatiewe Maatskappy, Beperk.
Laeveldse Tabakkoöperasie, Beperk.
Die Westelike Provinsie Koöperatiewe Tabakkwekers Maatskappy, Beperk.

Apart from the fact that Centabak acts on behalf of all its members and endeavours to promote their interests collectively, it also controls the sales of leaf tobacco to local manufacturers and wholesale leaf dealers. The physical handling of the leaf is undertaken by the individual tobacco co-operative societies in accordance with the Tobacco Control Scheme, and Centabak, although not involved in this physical handling of the product, administers the Allocation Scheme by which Virginia leaf tobacco produced in South Africa and Swaziland is made available to local buyers.

Leaf tobacco is sold and made available to local manufacturers and wholesale leaf dealers in accordance with the Allocation Scheme. Under the scheme every buyer is allocated his pro rata share of each crop in relation to his requirements and stock replenishment, based on his usings the previous year. Fluctuations in the quantities sold or used therefore have a direct bearing on a buyer's future allocations. Such an allocation also presupposes that the buyer will purchase a run of the crop, i.e. grade for grade in direct proportion to the crop or the available supplies. For each type or class of Virginia leaf a fixed series of grades with appropriate prices have been proclaimed and published. In some instances these grades are grouped. This arrangement thus provides for the allocation of groups of grades to manufacturers depending on whether they manufacture pipe tobacco or cigarettes. Price is the main consideration in this connection.

The negotiations with local buyers are undertaken and finalised by Centabak whereafter its affiliated members proceed with delivery of the stocks. At this stage a formal contract is concluded between the buyer and each tobacco co-operative society.

After the conclusion of a formal agreement between each manufacturer (and wholesale leaf dealer) and each co-operative society for the purchase by the former of the allocated percentage of the crop in

each specified class of tobacco, the leaf is invoiced monthly to buyers as from the 15th of April of each year. Invoicing is effected on the basis of allocated percentages of the quantity of tobacco finally packed during the previous calendar month. Payment must thereupon be effected within 30 days from the date of invoice, otherwise interest becomes payable on the outstanding amount. The buyer and the society are free to arrange for storage of the purchased leaf at the society's warehouses at fees determined annually by Centabak and which forms part of the sale agreement.

Should a manufacturer or wholesale leaf dealer not take up his full allocation at the beginning of the year and should he subsequently, during the year apply for an additional allocation, this can be granted in terms of the provisions of the Allocation and Storage Schemes provided stocks are available at that stage. In this instance the applicant will be called upon to pay storage fees and interest on the tobacco so allocated. Should an applicant have availed himself in the first instance of his full allocation at the beginning of the year, the payment of storage fees and interest on an additional allocation does not apply.

The fact that wholesale leaf dealers are registered or may obtain registration with the Tobacco Board affords them the right under the Allocation Scheme to purchase their leaf requirements direct from the co-operative societies affiliated with Centabak. A wholesale leaf dealer may only purchase leaf for making snuff and may thereafter dispose of it through the retail trade only in leaf form. Should he dispose of the tobacco as milled snuff he would be classified as a manufacturer. Consumers are mainly Bantu who normally purchase small quantities of untreated and unmanufactured leaf. It is the practice in some instances for wholesale leaf dealers to repack the leaf in smaller and more attractive containers before disposing of it through the retail trade. It has been found that the majority of leaf manufacturers show very little interest in this trade although in a few instances manufacturers do

in fact also act as wholesale leaf dealers. The need for wholesale leaf dealers as distribution agents of unmanufactured snuff leaf through the retail trade is thus apparent.

The Tobacco Industry Control Board decided a few years ago to consider applications for registration as a wholesale leaf dealer only from applicants whose sales would exceed 50,000 lb annually. This restriction was imposed to prevent every retailer from applying for registration as a wholesale leaf dealer.

By the nature of things the allocation to each buyer is based on an estimate of the crop for the year, thus there is always a possibility that the actual and estimated allocations may differ. In practice the arrangement functions fairly well and comparatively few discrepancies occur which could hamper the activities of the manufacturer. If supplies are available every buyer is at liberty to obtain additional stocks in accordance with the run of grades then available from the co-operative societies through Centabak or, if necessary, to import stocks subject of course to paying the normal import duty. In terms of the present Trade Agreement between South Africa and Rhodesia, manufacturers in the Republic may each year import two million pounds of flue-cured tobacco free of duty. This quantity is divided among manufacturers by the Department of Agricultural Economics and Marketing in consultation with the Tobacco Control Board.

Arising from the large surpluses produced from 1958 onwards, a further scheme was introduced which operates along with the Allocation Scheme. This new scheme, known as the Storage Scheme, was introduced in collaboration with the local buyers, the Tobacco Control Board and the producer co-operative societies through Centabak. The main object of the scheme is to arrange for the collective storage of surplus stocks by the first three parties mentioned. With tobacco manufacturers it is the practice to store leaf for a year or longer to allow it to mature.

This therefore fits in with the objects of the Storage Scheme.

After the stocks of manufacturers have been replenished up to the prescribed minimum under the Storage Scheme i.e. 18 months in the case of cigarette manufacturers and 12 months in the case of pipe tobacco manufacturers, the Tobacco Control Board assumes financial responsibility for the storage of a quantity of surplus leaf equal to 6 months total usings in respect of each specific type i.e. flue-cured, light air-cured, Burley etc. All surplus tobacco is normally stored by the co-operative societies in their warehouses. In respect of those quantities qualifying for storage under the Storage Scheme the Board compensates the co-operative societies by way of storage fees and interest payments on the selling price of the leaf. Surplus quantities which do not come under this storage arrangement remain the responsibility of the producers. After buyers have received their annual allocations they are at liberty to exchange stocks or sell types they do not require.

The exchanging of stocks by manufacturers and wholesale leaf dealers has tended to play a diminishing role as a result of the grouping of grades in the light leaf types as well as the institution of sub-divisions of the various classes of tobacco and the allocation of these sub-divisions for specified uses only. A further contributing cause that led to the curtailment of this practice came from the decision to allocate flue-cured and light air-cured leaf independently whereas it was the practice formerly to regard the two types as one for allocation purposes. The nett result is that manufacturers and wholesale leaf dealers at present receive only those types which they actually require and the exchanging of stocks occurs only to a very limited extent or not at all.

FOREIGN SALES OF TOBACCO

In accordance with periodic proclamations under the Tobacco Control Scheme, Centabak has been appointed the sole agent

for the export of S.A. Virginia leaf tobacco. For Turkish leaf tobacco the Western Province Co-operative Tobacco Growers' Co. Ltd., acts as sole exporter.

Although sales for export do not equal domestic sales, exports have, during recent years, with the assistance of certain S.A. manufacturers, increased considerably as shown in the table.

Local sales and exports of leaf tobacco,
1958 to 1966

	All grades		
	Local sales	Exports	Total
	lb	lb	lb
1958	57,160,919	3,772,669	60,933,588
1959	55,359,773	6,009,854	61,369,627
1960	32,794,492	9,099,546	41,894,038
1961	48,201,201	9,923,780	58,124,981
1962	37,060,085	21,931,228	58,991,313
1963	41,859,843	18,249,435	60,145,278
1964	50,786,161	17,625,854	68,412,015
1965	45,179,811	16,953,963	62,133,774
1966	54,477,505	18,568,553	73,046,058

Selling for export has thus become a more important aspect of marketing par-

ticularly in respect of administration, quality control of the product and all other special requirements pertaining to exports. The locating of export markets and the subsequent negotiations are undertaken by Centabak. The determination of available supplies for export, the establishment of export prices and other contractual agreements are undertaken every year by Centabak, while the physical handling (including the treatment of the leaf in accordance with the directions of the buyers) is undertaken by the affiliated co-operative societies where special facilities for the treatment and handling of the leaf for export are available.

The whole question calls for continuous personal attention and vigilance and it is essential therefore that senior officials of the Company call personally on existing and potential overseas buyers to investigate the possibilities of expansion and to maintain regular exports. The export of leaf was considered to be of lesser importance prior to 1958, but since then the industry has had to cope with large surpluses and the quantities exported, as shown in the table, have increased rapidly. Although there are no large surpluses at present, every endeavour is made to maintain existing contacts with foreign clients and to supply their requirements in anticipation of times when markets have to be found for larger surpluses.