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AGRICULTURAL OUTLOOK CONFERENCE 1985

AGROCON LANVOKON '85

LANDBOU-VOORUITSKOUINGSKONFERENSIE 1985

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
- SA Agricultural Union

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TOBACCO BOARD

1. INTRODUCTION

Tobacco is marketed under a single-channel pool system. The producers deliver the leaf tobacco to the agents (co-operatives) appointed by the Board to prepare the tobacco for marketing. The production season starts anywhere from June to September, depending on the situation of the production area, with the making of seed beds, the sowing of the seed and the pricking out of the seedlings in the lands.

The co-operatives may receive tobacco from as early as December/January, but the last of the crop could be delivered as late as September. The tobacco that has been delivered to the co-operatives is then prepared for marketing which comprises the grading, reconditioning and packing of the tobacco into the official grades. The marketing season is the period from 1 April to 31 March, during which tobacco is sold to domestic manufacturers of tobacco products or to overseas buyers.

With regard to the consumption of tobacco, in other words the use of tobacco for the manufacture of tobacco products, the period from 1 December to 30 November is regarded as the consumption year. The fact that the production, marketing and consumption periods fall at different times should be borne in mind when the data are compared.

This paper deals with the following aspects: the past and present production, marketing and consumption years, producer, consumer and export prices, as well as a discussion of prospects in the tobacco industry.

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2. THE PRODUCTION OF TOBACCO

With regard to the estimate for the past production season--1983/84--the actual crop of 38,69 million kg came very close to the estimated figure of 38,19 million kg, despite the extremely unfavourable weather conditions experienced.

(A) Scale of production

Production season	Flue-cured	Air-cured	Burley	Oriental	Total
	Million kg				
1983/84	24,83	8,43	4,23	1,20	38,69
1984/85*	25,46	7,36	2,63	1,12	36,57
1985/86*	26,88	11,36	2,94	1,26	42,44

(B) Leaf tobacco marketed

Marketing season	Flue-cured	Air-cured	Burley	Oriental	Total
	Million kg				
1983/84	24,44	6,82	4,02	1,18	36,46
1984/85*	24,25	7,01	2,50	1,07	35,83
1985/86*	25,60	10,82	2,80	1,20	40,42

(C) Gross value of leaf tobacco marketed

Marketing season	Flue-cured	Air-cured	Burley	Oriental	Total
	Million kg				
1983/84	127,80	21,39	18,04	6,07	173,30
1984/85*	135,01	24,29	12,47	6,21	177,98
1985/86*	142,52	35,17	13,94	6,96	198,59

*Estimated

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The production of leaf tobacco (Table A) for the 1983/84 season of the various classes, namely flue-cured, air-cured, burley and oriental increased by 6,7%, 13,6% and 41,1% respectively, and the increase in the total was about 13%. The estimated figures given at Agrocon '84 were for increases of 9,29%, 7,99%, 25,4% and 45,88%.

With regard to the present crop (1984/85), production is estimated on the basis of a total crop of about 36,57 million kg of leaf tobacco, consisting of 25,46 million kg of flue-cured, 7,36 million kg of air-cured, 2,63 million kg of burley and 1,12 million kg of oriental tobacco, which implies respective changes of 4%, -37,8% and -6,6% in the classes. With regard to the 1985/86 crop, attempts are being made to produce the production quota laid down.

2. 1. Production limits

There have been no changes in production limits or quotas and the quota for the 1983/84 production season remained the same as the limit of 36,97 million kg for the 1982/83 season. If this figure is compared with the actual amount of marketable leaf tobacco baled by the co-operatives, viz 36,46 million kg, it is apparent that there is very little difference between the two amounts. With regard to the 1984/85 limit, provision has been made for an increase of about 8%, to 39 972 580 kg. The following table shows the overall changes in the limits and the swing within the various classes of virginia tobacco.

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Year	Flue-cured	Air-cured Light	Air-cured Dark	Burley	Total
	Kilograms				
1983/84	26 000 000	3 420 000	7 654 580	--	36 974 580
+/-	-2%	-1%	-3%		+8%
1984/85	25 600 000	3 370 000	7 452 580	3 550 000	39 972 580
+/-	0%	0%	0%	-21%	-2%
1985/86*	25 600 000	3 370 000	7 452 580	2 800 000	39 222 580

* Estimated

In fixing the production limits, factors that determine the demand for tobacco, such as domestic consumption, exports and changes in the stock position, and factors such as the domestic production and imports, which constitute the supply of tobacco, are taken into account. A quota for burley tobacco was introduced for the 1984/85 season--the first time this kind of tobacco has been subject to a quota.

2. 2. Production potential

If the domestic production of marketable leaf tobacco is to be increased, emphasis needs to be placed on technological developments in the fields of cultivar development and cultural practices, taking account of the use of inputs, particularly in respect of fertilising, curing and fermentation techniques and in the field of mechanisation where this is possible.

2. 3. Problems facing the tobacco industry

When it comes to the delivery of a particular quantity and quality of leaf tobacco, the tobacco industry is faced with certain aspects that are beyond the producer's control, as well as with the factors for which he is partly responsible.

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As is widely known, during the past few production seasons there has been a serious drought, which has again brought the importance of water as a limiting resource to the attention of both the producer and the consumer. Because tobacco is produced largely under irrigation in South Africa, production is dependent not only on the quantity of water but also on its quality. It is important for this reason that the extent of the pollution of our rivers should again be brought to the attention of those in authority. If the requirement laid down for the chlorine content of tobacco is to be complied with, the chlorine content of the irrigation water should not exceed 25 parts per million. Most of the irrigation schemes that supply water to tobacco producers do not meet this requirement and in some dams the chlorine content is as high as 50 p.p.m. The pollution of our water resources is detrimental not only to the tobacco producer but also to any agricultural producer who is dependent on water as a factor of production. Coupled with the drought was the adverse effect of a hot, dry humidity on the curing of leaf tobacco, especially the curing of light or dark air-cured, burley and oriental tobacco, as the technique is a natural process. Weather conditions have no effect on the curing of flue-cured tobacco as this process is artificial. Next to the production process (growing) of the tobacco, the curing process makes the most important contribution to the final quality of the tobacco.

A further problem is the dependence of the industry on labour and the fact that the industry does not readily lend itself to mechanisation. The labour problem is complicated by an enormous fluctuation in the need for and the availibility of labour during a particular production year; furthermore the wage bill accounts for a very high percentage of total production costs. At present the high cost of finance, the worsening cost/price squeeze and the debt burden are having a limiting effect on expansion or diversification of the farming unit.

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3. LOCAL AND OVERSEAS MARKETS

3. 1. Domestic consumption

The demand for leaf tobacco for the manufacture of tobacco products is derived from the demand by the consumer for the final product in the form of cigarettes, pipe tobacco, snuff, twist, cigars and small cigars. The demand for the final commodity is relatively inelastic, since there is no immediate substitute or replacement for "smoke". The demand for tobacco is also affected by a number of factors, such as income elasticities, habits, differences in taste, preferences, and the prices of the products.

Owing to the present economic downturn, accompanied by a rising unemployment rate, inflation and increasing pressure from anti-smoking organisations, the consumption of tobacco products can be expected to remain constant or even to drop.

The domestic consumption of the various classes of tobacco is shown in the following table:

Class of tobacco	Year 1983	1984*	1985*
	Million kg		
Flue-cured	25,20	24,92	24,17
Light air-cured	3,29	2,59	2,43
Dark air-cured	6,31	6,86	6,56
Burley	3,08	2,91	3,00
Oriental	1,12	1,08	1,09
Total	39,00	38,36	37,27

* Estimated

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It was expected that the total consumption of leaf tobacco for 1983 would increase by 1,5% as against the 1982 consumption of 39,30 million kg. Specifically, increases of 1,2%, 5% and 12,1% in the consumption of flue-cured, air-cured and oriental tobacco respectively, and a drop of 10% in the consumption of burley were expected. However, consumption realised as follows: -2%, +6,4%, -9% and -3% in the consumption of flue-cured, air-cured, burley and oriental tobacco, respectively, with a total drop of less than 1%.

The decline in the consumption of flue-cured tobacco and the rise in that of air-cured tobacco may be ascribed partly to the deteriorating economy and the switch to the more traditional forms of smoking, such as the smoking of pipes and snuff, instead of cigarettes. The 1983 consumption of flue-cured tobacco for the manufacture of cigarettes amounted to 86%, instead of the estimated 89% and the consumption of flue-cured tobacco for the manufacture of snuff and pipe tobacco was 2% higher than the estimated 11%. With regard to the consumption of air-cured tobacco for the manufacture of tobacco products, 19,7% and 78,4% were used for cigarettes and pipe tobacco respectively. It is estimated that consumption during 1984 will amount to a total of 38,36 million kg and that the consumption of flue-cured, air-cured, burley and oriental tobacco will alter as follows: 1,1%, -1,5%, -5,7% and -3% respectively, which would mean a total decrease of 1,6%. If the present economic conditions continue a further decline in the consumption of tobacco is predicted for 1985.

3. 2. Tobacco imports

Importers of tobacco or tobacco products have to pay customs duty, which has the effect of protecting the domestic market. Tobacco imports are shown in the following table. (The period is from 1 April to 31 March.)

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	Class of tobacco	1983/84	1984/85*
		Kilograms	
Trade agreement:	Flue-cured	907 185	907 185
	Burley	226 796	226 796
Duty-free:	Flue-cured	55 300	--
	Dark air-cured	2 796 247	4 078 819
	Burley	336 484	--
Rebate of duty:	Flue-cured	7 725 114	2 973 345
Duty paid:	Flue-cured	--	--
	Light air-cured	59 372	--
	Dark air-cured	--	--

* Estimated

3. 3. Tobacco exports

Exports of South African tobacco are confined to old, regular overseas customers and the industry has no intention of opening up new markets abroad, either at present or in the long term. The following table shows exports of leaf tobacco over the past few marketing seasons:

Marketing season	Flue-cured	Air-cured	Burley	Oriental	Total
	Million kg				
1983/84	2,49	--	0,96	0,006	3,456
1984/85*	5,49	--	0,71	0,003	6,203
1985/86*	3,00	--	--	--	3,000

* Estimated

In determining an export policy for tobacco, several factors or aspects have to be borne in mind. These include the following:

(i) Political relations--the risk attached to forming trade links with South Africa prevents many overseas buyers from buying our tobacco;

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(ii) Continuity of supply--as a result of the fact that certain tobacco products consist of specific mixtures, which cannot be changed over a short period, manufacturers have to be certain of the constant long-term availability of the tobacco required. As a result of the changeable climate South Africa cannot guarantee a constant supply of tobacco;

(iii) Domestic prices--our local prices are too high for us to be truly competitive on the international market with other exporting countries;

(iv) Domestic market--the export of certain grades or classes of tobacco could create problems for the local manufacturers of tobacco products.

3. 4. The Development of substitutes

Despite experiments and research carried out overseas it has never been possible to find a substitute for the smoking of tobacco.

4. SELLING PRICES

4. 1. Minimum selling and producer prices

Minimum selling prices are reviewed annually, and are laid down for each specific grade of each class of tobacco. The agents of the Board are obliged to sell tobacco to the various registered processors at these prices.

The producer price can only be determined after the crop in question has been sold and the pools have been wound up and the marketing costs involved have been recovered. These costs include the reconditioning, handling and packing costs of the agents and the levy payable to the Board on the tobacco.

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It is possible for the producer price to vary from region to region, depending on the policy of the co-operative (agent) concerned. The average producer price is about 25% to 30% lower than the average selling price. The producer prices for the various classes of tobacco are shown in Annexure II.

4. 2. Export prices

The prices of tobacco that is exported are determined by means of negotiations with the overseas buyer of the tobacco. If the price realises below the domestic price, the Board can subsidise the export price difference.

4. 3. Consumer prices

The Board has no influence on the fixing of the prices of tobacco products, and the prices are determined by the processors and the wholesalers and retailers. Factors such as the cost of the raw materials used, manufacturing and distributing costs, excise and sales tax play a leading role in determining the prices.

5. REVIEW AND FUTURE PROSPECTS

The gross value or crop value of tobacco for the 1982/83 season amounted to R147,2 million which is 5,4% of the total value of field crop production. In relation to the gross value of production in the agricultural sector i.e. the value of field crop, horticultural and pastoral production combined, of R7 568,25 million, tobacco's share is about 1,94%. (ABSTRACT OF AGRICULTURAL STATISTICS)

Despite the tobacco industry's relatively small share in agriculture, it plays an important part in satisfying the consumer's overall needs.

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Private consumer spending on tobacco in 1983 was about R1 252,0 million which represents about 7,4% of total spending on food, liquor and tobacco.

When specific quality requirements were imposed, especially with regard to the chlorine content of tobacco, producers were forced out of the industry because the soil and irrigation water being used for tobacco growing could not meet the requirements. The extent to which our water resources are becoming polluted is disquieting and it is not only the interests of the tobacco industry that are affected but those of agriculture as a whole. The Vaal River may be cited as an example.

The emphasis should fall on the production of quality tobacco and not on quantity. The price composition of the various grades has been so adjusted that it will serve as an incentive to producers to move in that direction. Other factors that should be singled out include the dependence of the tobacco producer on labour as an input in tobacco production, with the cost of other inputs such as fertilisers, chemical weedkillers, fuel and mechanical equipment playing a major part in the decision-making process on the farm enterprise. The fact that the debt burden in agriculture has risen dramatically and cash flow problems occur, underlines the need for the producer to review his financial position; extension could be expended to this aspect.

Despite all the problems the producer is faced with, tobacco growing can yield one of the highest financial returns per hectare, when compared with other cash crops such as vegetables.

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The State earns millions of rands from customs and excise duties and sales tax. According to estimates in 1983 the State collected R449,07 million from customs and excise duties, R388,0 million of which was excise duties, the remainder being made up of customs and excise duties on imported processed and unprocessed tobacco. Customs and excise duties of R436,08 million were collected during 1982, and the State earns a further income from sales tax. The gross value of tobacco for the 1983/84 marketing season amounted to R173,3 million, with a production of 36,46 million kg. The State's income from excise duties on a kilogram of marketable tobacco delivered amounts to about R10,64, whereas the producer who delivers that tobacco earns an average of about R3,50 per kilogram. It may be asked whether this does not represent a lopsided division of income.

With regard to the future, the industry is striving to be more self-sufficient, to improve the quality of the tobacco, to maintain a balance between the supply of and the demand for tobacco and to become more market-orientated.

OMVANG VAN PRODUKSIE / VOLUME OF PRODUCTION: 1976/77---1984/85 BYLAAG I/ANNEXURE I

Jaar eindigende 31 Maart/Year ending 31 March

(Miljoen kilogram/Million kilogram)

KLASSE TABAK / CLASSES OF TOBACCO	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85*	1985/86*
Oonddroog/Flue-cured	16.85	19.74	27.89	27.91	30.35	21.73	18.51	23.25	24.83	25.46	26.88
Lugdroog/Air-cured	8.3	9.67	9.2	12.54	13.74	9.53	5.48	6.63	8.43	7.36	11.36
Burley	1.48	1.87	2.18	2.38	2.42	2.19	2.62	3.5	4.23	2.63	2.94
Orientaal/Oriental	0.86	0.81	1.25	1.13	1.2	1.15	1.15	0.85	1.2	1.12	1.26
TOTAAL/TOTAL	27.49	32.09	40.52	43.96	47.71	34.6	27.76	34.23	38.69	36.57	42.44

GEMIDDELDE PRODUSENTE-PRYSE VIR DIE VERSKILLENDE KLASSE TABAK: BYLAAG II/ANNEXURE II

AVERAGE PRODUCER PRICES FOR THE VARIOUS CLASSES OF TOBACCO: 1975/76---1983/84

(Sent per kilogram/Cent per kilogram)

KLASSE TABAK / CLASSES OF TOBACCO	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84*
Oonddroog/Flue-cured	170.19	208.12	228.17	202.33	237.93	268.88	266.14	388.54	405.13
Lugdroog/Air-cured	88.63	113.95	125.72	130.75	134.55	149.46	168.8	170.2	191.11
Burley	126.06	150.94	168.11	153.43	185.29	197.05	268.34	321.04	292.99
Orientaal/Oriental	158.87	188.88	181.13	210.38	226	264.76	296.48	417.85	471.34
TOTAAL/TOTAL	142.85	171.49	199.83	179.61	201.97	231.94	251.07	340.44	349.93

UITVOER VAN BLAARTABAK / EXPORTS OF LEAF TOBACCO: 1975/76---1984/85 BYLAAG III/ANNEXURE III

(Miljoen kilogram/Million kilogram)

KLASSE TABAK / CLASSES OF TOBACCO	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85*	1985/86*
Oonddroog/Flue-cured	4.83	6.47	3.97	9.79	5.63	4.39	2.97	3.32	2.49	5.49	3.000
Lugdroog/Air-cured	1.27	0.71	0.71	0.62	1.03	0.42	0.18	0.3	---	---	---
Burley	---	---	---	0.35	---	0.09	0.1	0.15	0.96	0.71	---
Orientaal/Oriental	0.1	0.08	0.12	0.07	0.09	0.02	0.02	0.04	0.006	0.003	---
TOTAAL/TOTAL	6.2	7.26	4.8	10.83	6.75	4.92	3.27	3.81	3.46	6.2	3.000

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Estimated*

BLAARTABAK BEMARK EN BRUTO WAARDE

MARKETING OF LEAF TOBACCO AND GROSS VALUE 1976/77---1984/85

BYLAAG IV

ANNEXURE IV

KLASSE TABAK CLASSES OF TOBACCO	Jaar eindigende 31 Maart/Year ending 31 March 1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85*	1985/86*
(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	24.25	25.60
2. Waarde/Value (Miljoen rand/Million rand)	47.7	73.14	77.31	81.05	73.37	73.47	112.3	127.8	135.01	142.52
(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	7.01	10.82
2. Waarde/Value (Miljoen rand/Million rand)	13.15	13.44	19.11	20.15	17.74	11.63	16.3	21.39	24.29	35.17
(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	2.50	2.80
2. Waarde/Value (Miljoen rand/Million rand)	3.49	4.52	4.84	5.29	6.07	8.11	14.6	18.04	12.47	13.94
(IV) Oriëntaal/Oriental										
1. Bemark/Marketed (Miljoen kg/Million kg)	0.82	1.13	1.01	1.05	1.18	1.12	0.84	1.18	1.07	1.20
2. Waarde/Value (Miljoen rand/Million rand)	1.84	2.56	2.52	3.03	3.48	3.86	3.99	6.07	6.21	6.96
(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	35.83	40.42
2. Waarde/Value (Miljoen rand/Million rand)	66.18	93.66	103.78	109.52	100.66	97.07	147.19	173.3	177.98	198.59

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Estimate*

BINNELANDSE VERBRUIK VAN DIE VERSKILLENDE KLASSE TABAK VIR DIE VERVAARDIGING VAN TABAKPRODUKTE:

BYLAAG V

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

LOCAL CONSUMPTION OF THE VARIOUS CLASSES OF TOBACCO FOR THE MANUFACTURE OF TOBACCO PRODUCTS: 1975---1984 ANNEXURE V

Klas tabak en tabakprodukte vervaardig Class of tobacco and products manufactured	1976	1977	1978	1979	1980	1981	1982	1983	1984*	1985*
1. Oonddroog/Flue-cured										
1.1. Sigarette/Cigarettes	16.68	16.69	16.1	18.2	19.28	20.67	22.6	21.84	21.55	20.74
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	3.37	3.44
1.3. Ander tabakprodukte/Other tobacco products	--	--	--	--	--	--	--	--	--	--
Totaal/Total	20.16	20.19	19.63	21.93	22.61	23.78	25.74	25.2	24.92	24.17
2. Lugdroog/Air-cured										
2.1. Sigarette/Cigarettes	2.57	2.43	2.09	1.86	2	1.99	2	1.89	1.84	1.74
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	7.43	7.09
2.3. Ander tabakprodukte/Other tobacco products	0.21	0.19	0.32	0.31	0.32	0.13	0.11	0.18	0.18	0.16
Totaal/Total	12.39	12.06	11.23	10.32	10	8.82	9.02	9.6	9.45	8.99
3. Burley										
3.1. Sigarette/Cigarettes	2.39	2.18	2.24	2.53	3.03	3.16	3.2	2.93	2.77	2.87
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	0.14	0.13
3.3. Ander tabakprodukte/Other tobacco products	--	--	--	--	--	--	--	--	--	--
Totaal/Total	2.42	2.22	2.28	2.78	3.57	3.51	3.38	3.09	2.91	3.00
4. Oriëntaal/Oriental										
4.1. Sigarette/Cigarettes	0.90	0.83	0.84	0.88	1	1.04	1.11	1.02	0.99	1.01
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	0.09	0.08
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	1.08	1.09
5. Alle klasse/All classes										
5.1. Sigarette/Cigarettes	22.54	22.13	21.27	23.47	25.31	26.86	28.91	27.68	27.14	26.36
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	11.04	10.75
5.3. Ander tabakprodukte/Other tobacco products	0.21	0.19	0.32	0.31	0.32	0.13	0.11	0.18	0.18	0.16
Totaal/Total	35.96	35.38	34.06	35.96	37.26	37.22	39.75	39.01	38.36	37.27

Beraam*

Estimate*