A PROFILE OF THE SOUTH AFRICAN TOBACCO MARKET VALUE CHAIN

2017

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1. DESCRIPTION OF THE INDUSTRY

The tobacco market in South Africa contributed approximately R16 billion in excise duty and VAT to the government (excise duties) in 2016/17 marketing season. Private consumer spending on tobacco is approximately R7.7 million adult tobacco users per annum and more (18 years / older). Two classes of tobacco are produced in South Africa – flue-cured and air-cured tobacco. Flue-cured tobacco is mainly used for cigarettes and air-cured tobacco is mainly used as pipe tobacco, snuff and RYO (roll your own) cigarettes.

Approximately 100 countries produce tobacco internationally. The tobacco plant is in the same botanical family as tomatoes, potatoes, peppers or eggplants. Tobacco thrives in poorer soils, providing farmers with a welcome alternative crop. In many cases, it provides a higher income than any other smallholder crops. The major producers are China, India, Brazil, the United States, Turkey, Zimbabwe, Zambia and Malawi. China is the world's largest producer of tobacco and produces over 35 percent of the world's tobacco.

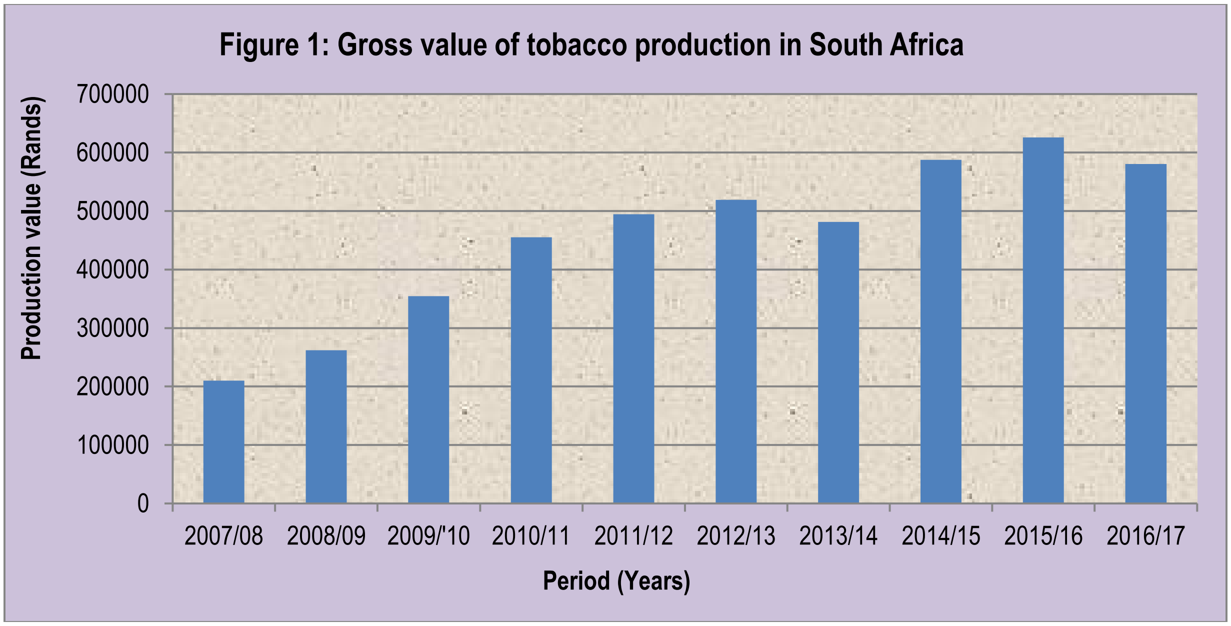
The key consumer estimates of tobacco industry in South Africa during 2016/17 marketing season are depicted below in **Table 1**:

Table 1: Key consumer estimates of tobacco industry in South Africa during 2016/17

Tobacco	Consumption in value
Total cigarette market	R26 to R27 billion
Total duty paid to the market	R21 to R22 billion
Illicit trade market	22% of total market
Employee estimates	108 475
Adult tobacco users	8.2 million are adults users
Total cigarette consumption	19 257 billion sticks
Legal cigarette products	19 257 billion sticks
Consumption of legal products	Decline by 30% over the past ten years

Source: Tobacco Institute of Southern Africa

The contribution of the tobacco industry to the gross value of agricultural production between 2007/08 and 2016/17 has been summarized in Figure 1 below.



Source: Statistics and Economic Analysis, DAFF

The figure indicates that generally, the tobacco industry's contribution to the gross value of agricultural production was from a low base during the first half of the ten year period reaching a maximum of approximately R494 266 in 2011/12 marketing season. During the second half of the ten year period, the tobacco industry contribution to the gross value of agricultural production was from a high base attaining a peak in 2015/16 at approximately R625 970. Between 2012/13 and 2013/14, tobacco gross value of production slightly declined to levels of about R481 608 during 2013/14. There was a 7.3% decrease in tobacco gross value of production in 2016/17 as compared to 2015/16 marketing season.

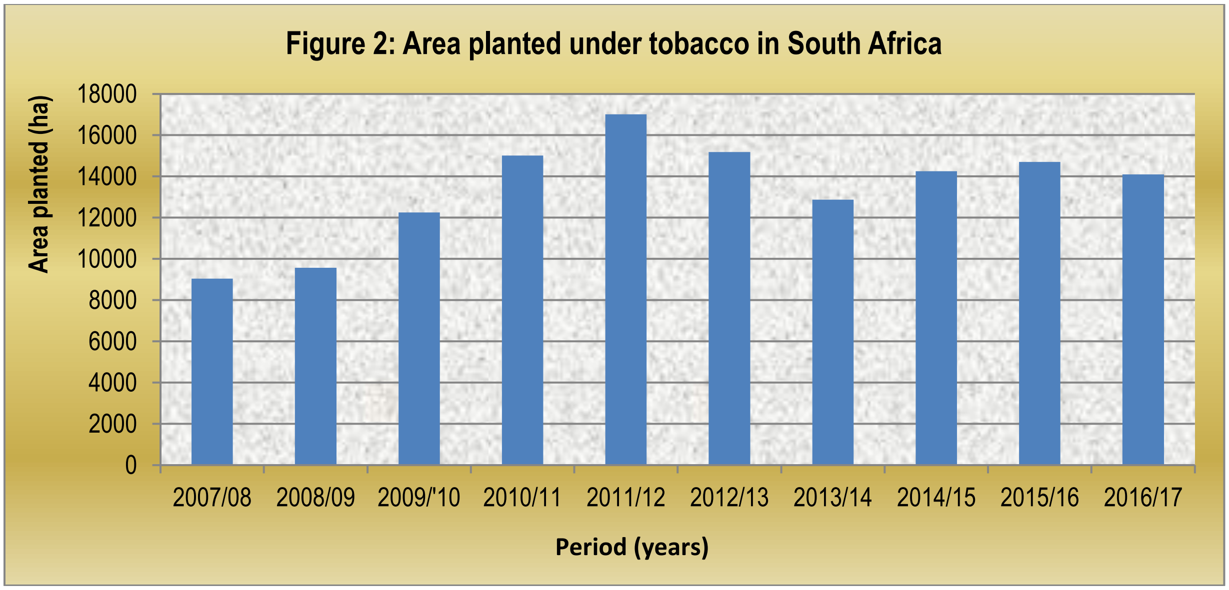
1.1 Local production areas

The major tobacco growing areas in South Africa are the Limpopo province (Ellisras, Mokopane, Naboomspruit, Sterkrivier, Vaalwater), the North West province (Brits, Groot Marico, Rustenburg), Mpumalanga (The Lowveld and the Loskop areas), Eastern Cape (Gamtoos Valley) and the Western Cape (Oudtshoorn).

1.2 Production

The total production of tobacco in South Africa is estimated at 15 000 tons. The total production of tobacco has decreased by 1 000 tons in 2016/17 as compared to 2015/16 marketing season. There are 177 commercial and 80 small scale tobacco growers in South Africa operating on approximately 5 000 hectares of land which indicates a decline in the land size used for tobacco production of approximately 4.9% in 2014/15. Similarly the number of tobacco growers has increased from 186 in 2015 to the current 257 tobacco growers in 2016/17 marketing season.

Figure 2 below shows the area planted with tobacco in South Africa between 2007/08 and 2016/17.



Source: Statistics & Economic Analysis, DAFF

The graph shows that over the past decade, the area planted with tobacco started with an increase in the area planted with tobacco during the period under review. The highest number of hectares under tobacco was achieved in 2011/12 production season with approximately 17 010 hectares under tobacco production. In 2012/13 marketing season of the period under review, the area planted with tobacco in South Africa declined to lower levels of about production 12 870 hectares in 2013/14. In 2014/15, the area planted with tobacco in South Africa slightly increased to levels of about 14 250 hectares. The graph further shows that in 2015/16, the area planted with tobacco in South Africa further increased to levels of about 14 700 hectares. In 2016/17, the area planted with tobacco in South Africa slightly decreased to levels of about 14 100 hectares and that represents 4.1% decrease as compared to 2015/16.

Figure 3 below illustrates total tobacco production in South Africa between 2007/08 and 2016/17 production season. The figure illustrates that tobacco production in South Africa started to increase considerably between 2007/08 and 2016/17 at approximately 9 000 and 14 000 tons respectively. Tobacco production experienced an increase in the first half of a ten year period (2007/8- 2011/12) attaining a peak in 2011/12 with approximately 17 000 tons. It is also evident in the figure that tobacco production trends between 2007/08 and 2016/17 followed the trends as the area planted with tobacco over the same ten year period (see figure 2 above). During the second half of the ten year period (2012/13-2016/17), total tobacco production in South Africa was from a high base attaining a peak in 2012/13 and 2015/16 at approximately 15 000 tons. Between 2012/13 and 2013/14, tobacco production in South Africa experienced a decline to lower levels of about 13 000 tons in 2013/14. The decrease in total tobacco production in 2016/17 of about 1 000 tons, represents 6.7% decrease as compared to 2015/16 production season.

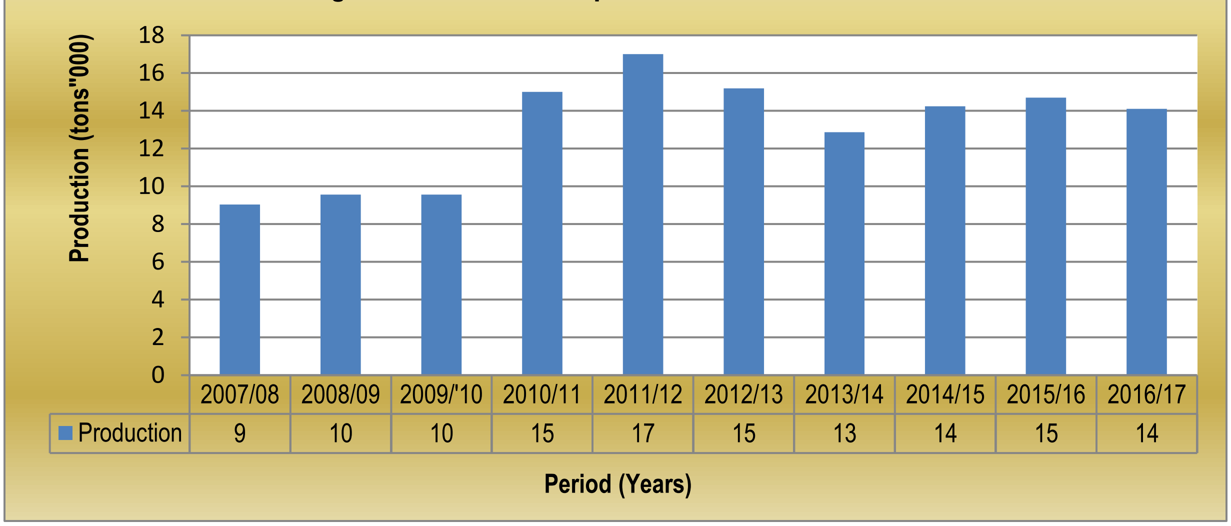


Figure 3:Total tobacco production in South Africa

Source: Statistics & Economic Analysis, DAFF

Table 1 below depicts total tobacco production trends in tons as against the area planted with tobacco in hectares between 2007/08 and 2016/17 production seasons.

Table 2: Tobacco: area planted and total production trends.

Year	2007/08	2008/09	2009/'10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Area planted (ha)	9040	9565	12250	15010	17010	15190	12870	14250	14700	14100
Total productoin in (000 tons)	9	10	10	15	17	15	13	14	15	14

Source: Statistics & Economic Analysis, DAFF

The table depicts that in 2008/09, the area planted with tobacco was 9 565 hectares producing 10 000 tons of tobacco. However in 2009/10 production season the area planted with tobacco increased to 12 250 hectares but the total production remained at 10 000 tons. Table 2 further depicts that area planted with tobacco is generally declining over time and could be as a result of a decline in demand which must have been caused by a ban that has been put on promotion of all tobacco products in South Africa. However, it is evident that in 2012/13 period, the area planted with tobacco experienced a decrease of 1 820 hectares as compared to 2011/12 and that led to a decrease in tobacco production to approximately 15 000 tons which represent 11.8% decrease. In 2013/14, there was a further decline in both the area planted with tobacco and the total tobacco production at approximately 12 870 hectares and 13 000 tons respectively. A 1 000 tons decrease in total tobacco production in 2016/17 represents 6.7% decrease in production as compared to 2015/16 production season. Over the same period, the area planted with tobacco in South Africa slightly decreased to levels of about 14 100 hectares and that represents 4.1% decrease as compared to 2015/16. The table shows that a decrease in total area planted with tobacco result in a decrease in total tobacco production.

Furthermore, over the past 10 years (2007/08 – 2016/17) the government has increased excise duties on cigarettes by more than 750%, culminating in the rapid growth of illicit trade mostly through smuggled tobacco products. This contributed to a decline in the crop of more than 60% over the past ten years, which resulted in an exponential increase in processing costs resulting from very low capacity utilization. Other factors that contributed to the decline of both the area planted and total tobacco production in South Africa during 2013/14 production season was as a result of increasing labour costs, low average producer prices and lack of subsidies that led to the industry to be uncompetitive globally.

Traditionally and globally, China is the biggest producer of tobacco and produces over 35% of the world's tobacco. In the SADC region tobacco is also produced in high volumes by countries such as Zimbabwe, Zambia and Malawi. Zimbabwe has approximately 250 tobacco farmers producing on average of 6 000 tons of tobacco per annum, Uganda has approximately 100 000 farmers producing approximately 35 000 tons of tobacco per annum, Kenya produces approximately 2 000 tons of tobacco per annum, Tanzania has approximately 71 000 farmers that produce about 49 000 tons per annum while Mozambique's 100 000 farmers produce approximately 28 000 tons of tobacco per annum.

1.3 Employment

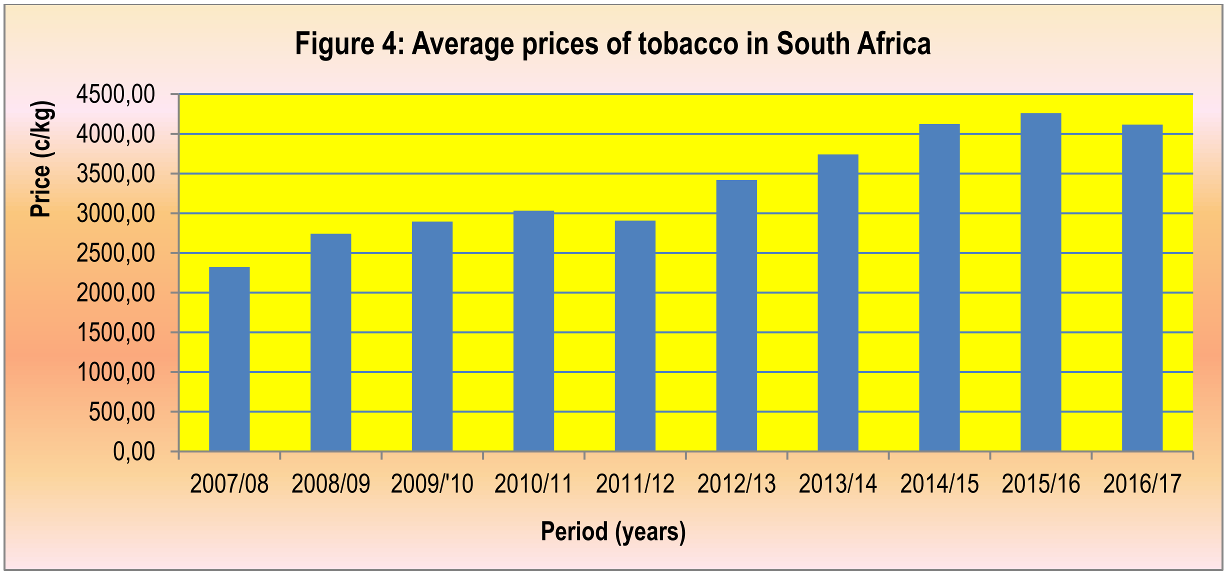
The primary tobacco industry in South Africa employed about 10 000 agricultural farm workers during the 2016/17 marketing season. Tobacco producer organizations employ 800 people, whilst the manufacturing industry employs 3 354 employees over the same period. Tobacco product wholesalers employ 364, formal retailers of tobacco products employ 55 000 people while there is an estimated 60 000 informal traders of tobacco products countrywide. These figures show a decline in employment in the primary tobacco industry from the 2003 figure of 22 840 agricultural workers. In total 108 475 people are dependent on the tobacco industry, mostly in the rural areas of South Africa during 2016/17.

2. MARKET STRUCTURE

2.1 Domestic market and Prices

Approximately 40-45% of flue-cured tobacco and 60-70% of air-cured tobacco is used for local consumption. Finished tobacco products are distributed through 364 wholesalers, 55 000 retailers and approximately 60 000 small players in the informal market (street vendors, spaza shops, etc.).

Figure 4 below shows average producer prices of tobacco in South Africa between 2007/08 and 2016/17 marketing season.



Source: Statistics & Economic Analysis, DAFF

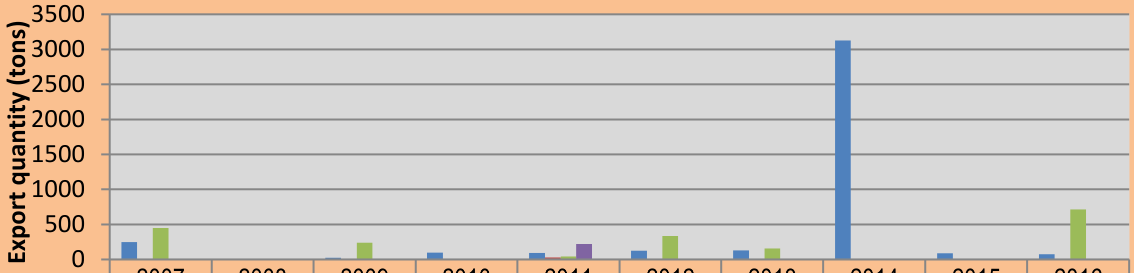
The figure shows that generally, average tobacco producer prices in South Africa consistently increased between 2 323.85 and 4 258.30 cents per kilogram over the past decade. Tobacco average producer prices in South Africa experienced a decline in 2011/12 to lower levels of approximately 2 905.74 cents per kilogram and one of the reasons why there was a decrease is because of the tobacco legislation that was passed during that period which led to age restrictions in terms of tobacco usage, restrictions on advertising and a ban on public smoking. As illustrated in the figure, average producer prices experienced a steady increase from 2007/08 to 2010/11 in response to declining domestic supply situation. Between 2012/13 and 2015/16, there was a constant increase in tobacco average producer prices in South Africa until a peak was attained in 2015/16 at approximately 4 258.30 cents/kg. During 2016/17, the average price decreased to 4 114.70 cents per kilogram which represents 3.4% decrease as compared to 2015/16 marketing season.

3. EXPORT VOLUMES

South Africa exports an average of 607 tons of tobacco not stemmed or stripped per annum. This represents between 50-60% of tobacco not stemmed or stripped that is produced annually. Flue-cured tobacco that is not used for local consumption is exported mainly to Europe, Asia (the Middle East, the Far East) and other African countries. Tobacco qualifies for duty free access to the USA under the Africa Growth and Opportunities Act (AGOA). Generally, tobacco exports from South Africa to various regions of the world attract tariffs of between 2.50% and 18.40%.

Figure 5 below indicates volumes of tobacco exports from South Africa to various regions of the world between 2007 and 2016 marketing season.

Figure 5: Export volumes of tobacco to the World



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Africa	247	2	24	95	92	123	130	3126	89	76
Americas	0	0	0	0	29	0	0	0	0	0
Asia	451	0	238	0	42	337	158	0	0	712
Europe	0	6	0	0	220	0	0	0	0	0
Oceania	1	0	0	0	0	0	0	0	0	0

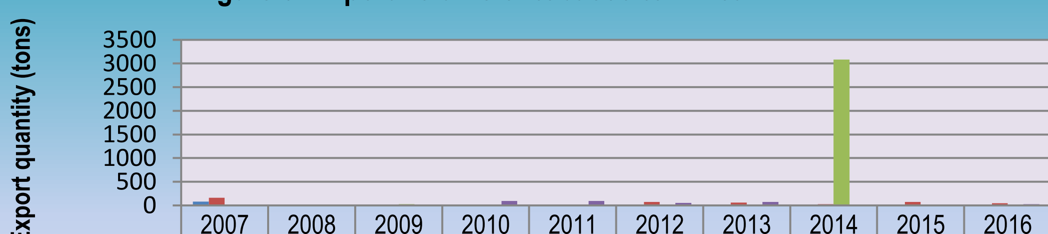
Period (years)

Source: Quantec EasyData

The graph indicates that South Africa's major tobacco export destination is Africa. It is followed by Asia and very low volumes from Europe, Americas and Oceania. Volumes of tobacco from South Africa to Africa started to increase substantially during 2014 and at the same time attained a peak at approximately 3 126 tons. In 2008, South Africa exported very low tobacco volumes of below 3 tons. There were no exports of tobacco from South Africa to Asia in 2008, 2010, 2014 and again in 2015 marketing seasons. Export volumes of tobacco (unmanufactured) to Americas, Asia, Europe and Oceania on average did not exceed 451 tons per annum. The decrease in tobacco exports from South Africa to Africa in 2016 represents 14.6% decrease as compared to 2015 marketing season.

Figure 6 below illustrates export volumes of tobacco (unmanufactured) from South Africa to Africa between 2007 and 2016 marketing season.

Figure 6: Export volume of tobacco to Africa



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Eastern Africa Rest	82	2	0	0	0	0	0	0	0	0
Western Africa	164	0	0	0	0	72	59	25	72	48
SADC (excluding SACU)	1	0	24	0	0	0	0	3086	0	0
SACU (Excluding RSA)	0	0	0	95	92	51	72	15	17	28

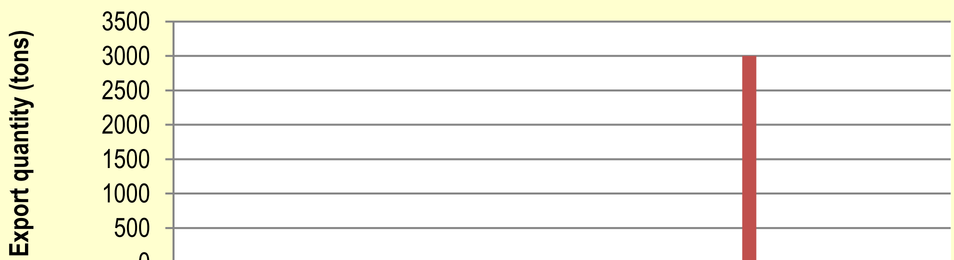
Period (years)

Source: Quantec EasyData

The major export market for tobacco (unmanufactured) from South Africa to Africa was SADC excluding SACU between 2007 and 2016. African regions such as SACU excluding RSA, Eastern and Western Africa had very low volumes of tobacco exports from South Africa to the world of not more than 164 tons per annum during the period under examination. Export volumes of tobacco from South Africa to Western Africa attained a peak in 2007 at approximately 164 tons. Eastern Africa had very low levels of tobacco exports from South Africa of not more than 82 tons per annum. In 2008 and again between 2010 and 2013, there were no tobacco exports from South Africa to the SADC region. In 2014 tobacco exports from South Africa to the SADC region increased to 3 086 tons. In 2015 there was no exports of tobacco (unmanufactured) to SADC.

Figure 7 below depicts exports of tobacco (unmanufactured) from South Africa to the SADC region between 2007 and 2016 marketing season.

Figure 7: Export volume of tobacco (unmanufactured) to SADC



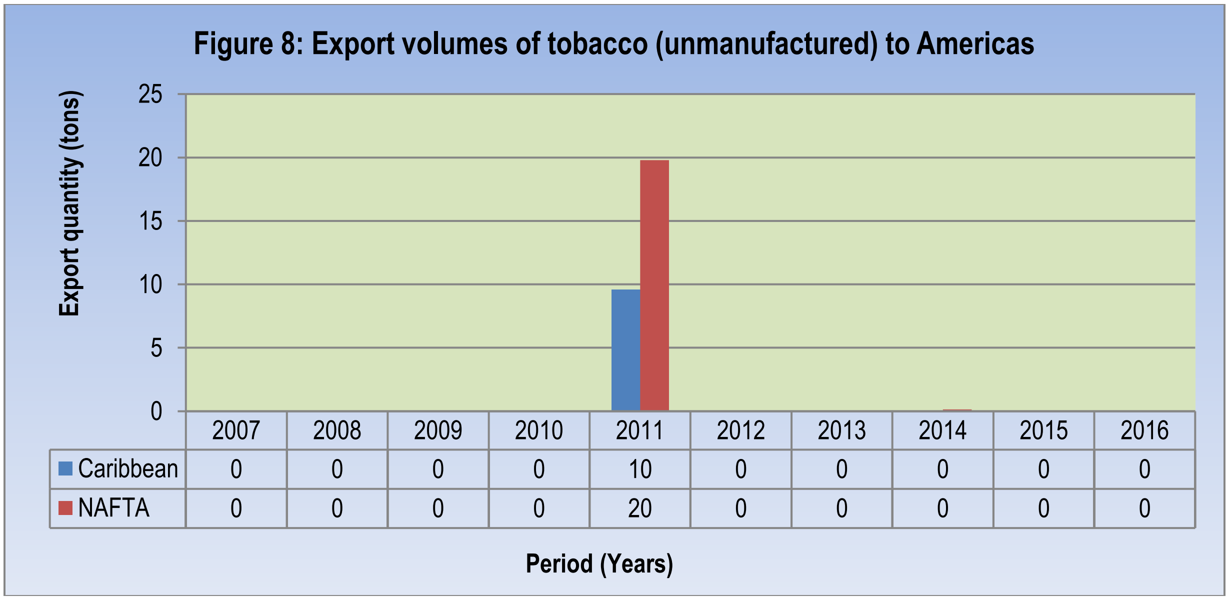
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Democratic Republic of the Congo	0	0	0	0	0	0	0	30	0	0
Mozambique	0	0	0	0	0	0	0	3000	0	0
Zambia	0	0	0	0	0	0	0	30	0	0
Zimbabwe	0	0	24	0	0	0	0	26	0	0

Period (years)

Source: Quantec EasyData

The figure shows that the major export market for tobacco (unmanufactured) from South Africa to the SADC region was Mozambique, with very intermittent export volumes to DRC, Zambia and Zimbabwe. Tobacco export volumes from South Africa to Mozambique were from a low base during the first half of the ten year period (2007-2011). During the second half of the ten year period (2012-2016) under examination, tobacco export volumes from South Africa to Mozambique were from a high base attaining a peak in 2014 at approximately 3 000 tons. There were no exports of tobacco from South Africa to Mozambique between 2007 and 2013. Tobacco exports from South Africa to Zimbabwe, Zambia and DRC were very low and intermittent with no deliveries most of the years between 2007 and 2016. There was no tobacco exported from South Africa to Mozambique in 2015 and 2016 marketing seasons.

Figure 8 below shows exports of tobacco (unmanufactured) from South Africa to the Americas between 2007 and 2016 export season.

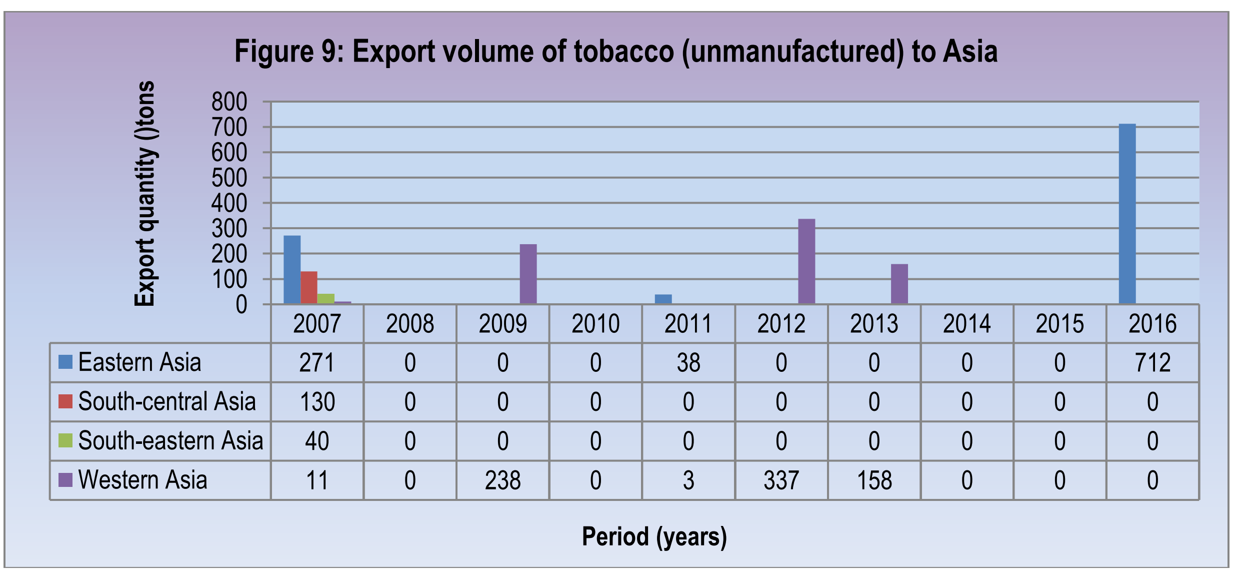


	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Caribbean	0	0	0	0	10	0	0	0	0	0
NAFTA	0	0	0	0	20	0	0	0	0	0

Source: Quantec EasyData

The major export market for tobacco (unmanufactured) from South Africa to the Americas was mainly NAFTA, followed by low tobacco volumes to the Caribbean between 2007 and 2016. South Africa did not export tobacco to NAFTA between 2007 and 2010, and again between 2012 and 2016. Exports of tobacco from South Africa to NAFTA started to increase substantially in 2011 and at the same time attained a peak at approximately 20 tons, while tobacco export volumes from South Africa to the Caribbean started to increase also in 2011 and at the same time attained a peak at approximately 10 tons. There was 100% decline in tobacco exports from South Africa to NAFTA in 2012, 2013, 2014, 2015 and 2016 as compared to 2011 marketing season.

Figure 9 below illustrates exports of tobacco (unmanufactured) from South Africa to Asia between 2007 and 2016.



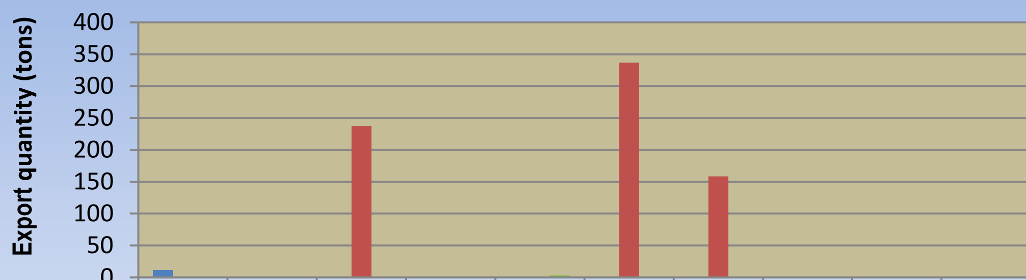
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Eastern Asia	271	0	0	0	38	0	0	0	0	712
South-central Asia	130	0	0	0	0	0	0	0	0	0
South-eastern Asia	40	0	0	0	0	0	0	0	0	0
Western Asia	11	0	238	0	3	337	158	0	0	0

Source: Quantec EasyData

The major export market for tobacco (unmanufactured) from South Africa to Asia was mainly Western Asia, followed by Eastern Asia and South-central and South-eastern Asia. During the first half of the ten year period (2007-2011), export volumes of tobacco from South Africa to Western Asia were from a low base attaining a maximum of 238 tons in 2009. Exports of tobacco from South Africa to Western Asia were from a high base during the second half of the ten year period (2012-2016) under review attaining a peak in 2012 at approximately 337 tons. Export volumes of tobacco from South Africa to Eastern Asia were from a high base during the first half of the ten year period (2007-2011) under examination attaining a peak in 2007 at approximately 271 tons. Exports to South-central Asia attained a peak in 2007 at approximately 130 tons. There was 100% decline in tobacco exports from South Africa to Western Asia in 2016 as compared to 2013 marketing season.

Figure 10 below indicates exports of tobacco (unmanufactured) from South Africa to Western Asia between 2007 and 2016.

Figure 10: Export volume of tobacco (unmanufactured) to Western Asia



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
United Arab Emirates	11	0	0	0	0	0	0	0	0	0
Armenia	0	0	238	0	0	337	158	0	0	0
Turkey	0	0	0	0	3	0	0	0	0	0

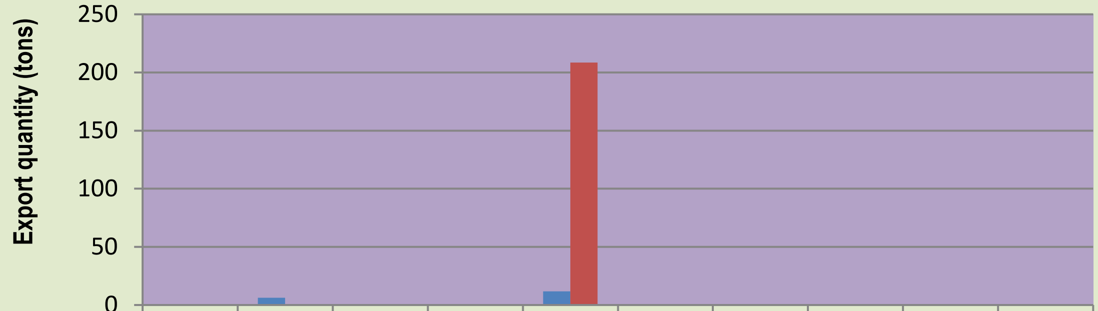
Period (years)

Source: Quantec EasyData

The major export market for tobacco from South Africa to Western Asia was mainly Armenia, followed by very low export volumes to the United Arab Emirates and Turkey. Export volumes of tobacco from South Africa to Armenia were from a low base during the first half of the ten year period under examination reaching a maximum of 238 tons in 2009. Volumes to Armenia were from a high base during the second half of the ten year period attaining a peak in 2012 at approximately 337 tons. Volumes of tobacco exports from South Africa to United Arab Emirates and Turkey were very low during the period under review and not more than 12 tons respectively. There were no tobacco export volumes from South Africa to Armenia between 2007 and 2008, and again between 2010 and 2011. There were also no exports of tobacco from South Africa to Armenia between 2014 and 2016 marketing seasons. There was a 100% decline in tobacco exports from South Africa to Armenia in 2016 as compared to 2013 marketing season.

Figure 11 below illustrates exports of tobacco (unmanufactured) from South Africa to Europe between 2007 and 2016.

Figure 11: Export volumes of tobacco (unmanufactured) to Europe



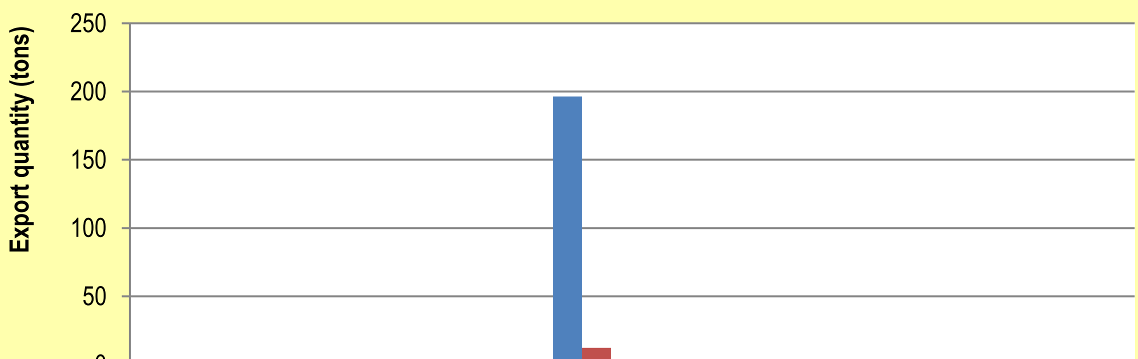
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Eastern Europe	0	6	0	0	12	0	0	0	0	0
European Union	0	0	0	0	208	0	0	0	0	0

Source: Quantec EasyData

The major export market for tobacco from South Africa to Europe was mainly the European Union, followed by very low tobacco export volumes to Eastern Europe. Export volumes of tobacco from South Africa to the European Union were from a low base during the first half of the ten year period under examination reaching a maximum of 208 tons in 2011. Exports to the European Union were constant at 0 tons during the second half of the ten year period. There was a 100% decline in tobacco export volumes from South Africa to the European Union between 2012 and 2016 as compared to 2011 marketing season.

Figure 12 below depicts exports of tobacco (unmanufactured) from South Africa to European Union between 2007 and 2016.

Figure 12: Export volumes of tobacco (unmanufactured) to European Union



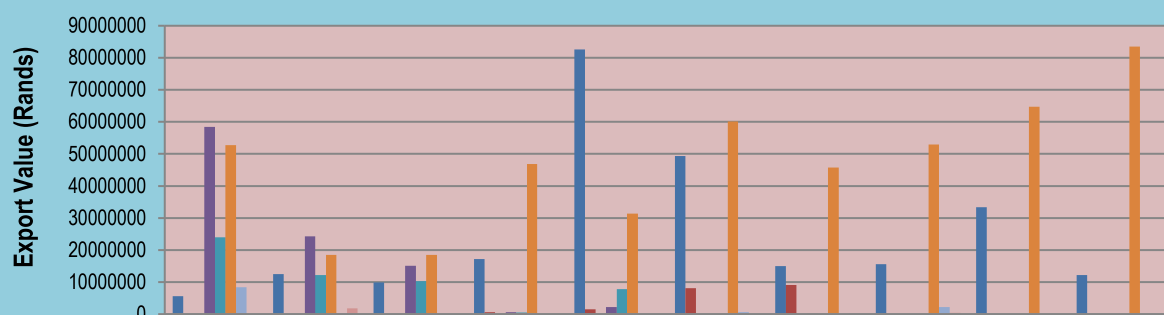
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Belgium	0	0	0	0	196	0	0	0	0	0
Germany	0	0	0	0	12	0	0	0	0	0

Source: Quantec EasyData

The major export market for tobacco from South Africa to the European Union was mainly Belgium, followed by very low tobacco export volumes to Germany. Export volumes of tobacco from South Africa to Belgium were from a low base during the first half of the ten year period attaining a peak at 196 tons in 2011, while tobacco exports from South Africa to Belgium were from a high base during the second half of the ten year period under examination. There was a 100% decline in tobacco exports from South Africa to Belgium between 2012 and 2016 as compared to 2011 marketing season.

Figure 13 below indicates the value of tobacco (unmanufactured) exports by provinces of the Republic of South Africa to the world between 2007 and 2016.

Figure 13: Value of tobacco exports (unmanufactured) by Provinces



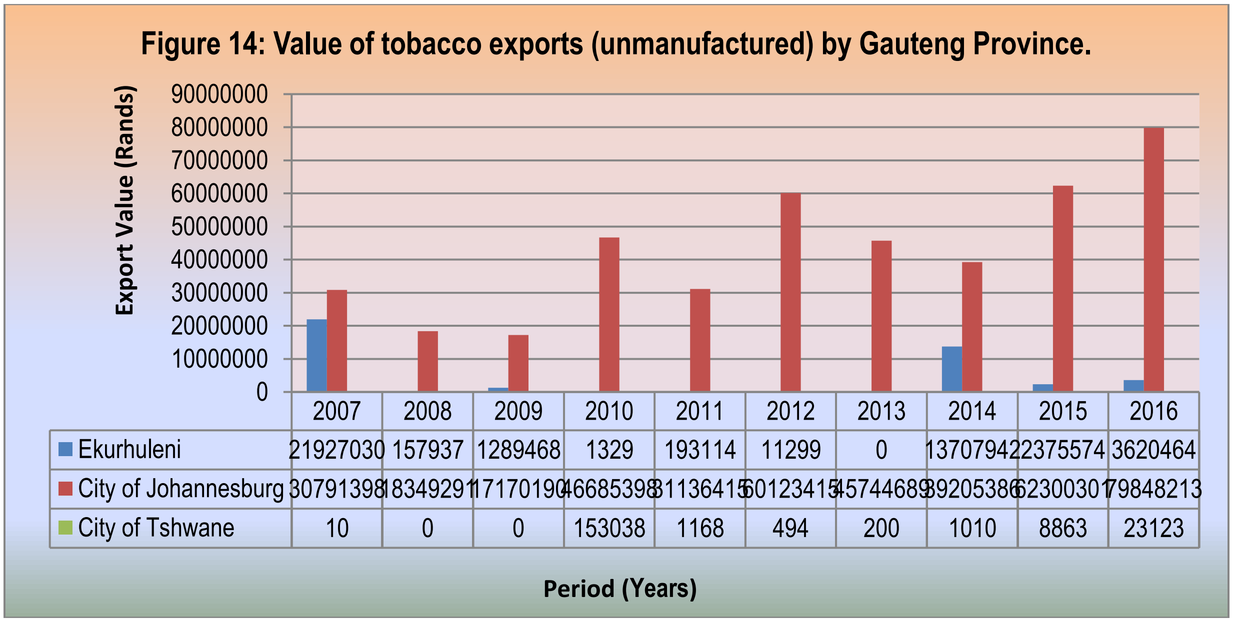
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Western Cape	5553382	12475999	9891311	17195038	82640488	49300942	14987768	15621822	33370789	12191350
Eastern Cape	6761	365	0	638754	1516457	8070332	9125047	0	0	0
Free State	0	0	0	0	0	0	0	0	0	163116
KwaZulu-Natal	58444827	24275616	15107394	613035	2184309	678	163501	1348	16576	97453
North West	24005724	12193746	10322730	499627	7754268	0	49650	6451	0	3770
Gauteng	52718439	18507228	18459657	46839765	31330697	60135207	45744889	52914338	64684738	83491800
Mpumalanga	8357373	200521	0	0	0	612425	27082	2228139	140	240
Limpopo	0	1803663	147628	0	0	0	206270	430055	0	2700

Period (Years)

Source: Quantec EasyData

The figure indicates that tobacco (unmanufactured) exports from South Africa to the world were mainly from Gauteng province, followed by the Western Cape and KwaZulu-Natal provinces during the period under review (2007-2016). Tobacco (unmanufactured) exports from Gauteng province to the world were from a high base during the first half of the ten year period reaching a maximum of R52.7 million in 2007. Tobacco (unmanufactured) exports from Gauteng province to the world were from a low base during the second half of the ten year period attaining a peak of approximately R83.5 million in 2016. Exports from the Western Cape province to the world attained their peak in 2011 at approximately R82.6 million. Tobacco (unmanufactured) exports from KwaZulu-Natal province to the world attained a peak in 2007 at approximately R58.4 million. Mpumalanga, Eastern Cape, North West and Limpopo provinces had very low exports of tobacco from South Africa to the world during the period under scrutiny. There was a 63.5% decrease in exports value of tobacco (unmanufactured) from Gauteng province to the world in 2016 as compared to 2015 marketing season.

Figure 14 below shows the value of tobacco exports by Gauteng province of South Africa to the world between 2007 and 2016 export season.

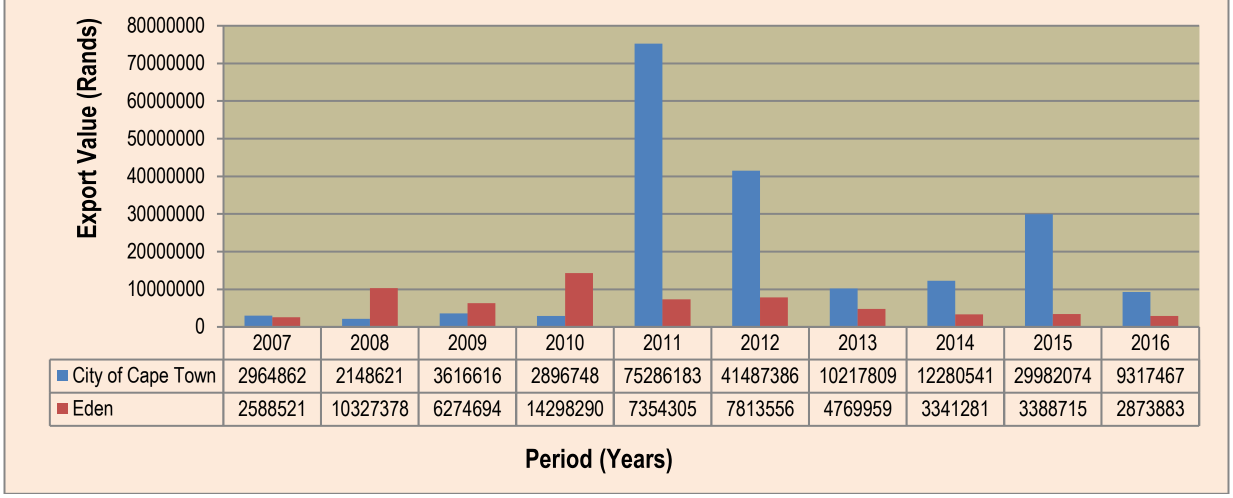


	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Ekurhuleni	21927030	157937	1289468	1329	193114	11299	0	13707942	2375574	3620464
City of Johannesburg	30791398	18349291	17170190	46685398	31136415	60123415	45744689	39205386	62300301	79848213
City of Tshwane	10	0	0	153038	1168	494	200	1010	8863	23123

Source: Quantec EasyData

Exports from Gauteng province to the world were mainly from the City of Johannesburg Metropolitan Municipality, followed by Ekurhuleni Metropolitan Municipality during the period under review (2007-2016). Exports from the City of Johannesburg to the world were from a low base during the first half of the ten year period reaching a maximum of R46.6 million in 2010. Tobacco (unmanufactured) exports from the City of Johannesburg to the world were from a high base during the second half of the ten year period attaining a peak in 2016 at approximately R79.8 million. Tobacco (unmanufactured) exports from Ekurhuleni Metropolitan Municipality to the world attained a peak in 2007 at approximately R21.9 million. Tobacco (unmanufactured) exports from Tshwane Metropolitan Municipality were very low and not more than R154 000 per annum. There was an increase of 28.2% in exports of tobacco (unmanufactured) from the the City of Johannesburg to the world in 2016 as compared to 2015 marketing season.

Figure 15 below depicts value of tobacco (unmanufactured) exports from the Western Cape province to the world between 2007 and 2016 marketing season.



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
City of Cape Town	2964862	2148621	3616616	2896748	75286183	41487386	10217809	12280541	29982074	9317467
Eden	2588521	10327378	6274694	14298290	7354305	7813556	4769959	3341281	3388715	2873883

Figure 15: Value of tobacco exports (unmanufactured) by Western Cape Province.

Source: Quantec EasyData

Tobacco (unmanufactured) exports from Western Cape province to the world were the City of Cape Town Metropolitan Municipality, followed by Eden District Municipality during the period under review (2007-2016). Exports from the City of Cape Town Metropolitan municipality to the world were from a low base during the first half of the ten year period reaching a maximum of R75.2 million in 2011. Tobacco (unmanufactured) exports from the City of Cape Town Metropolitan Municipality to the world were from a high base during the second half of the ten year period attaining a peak in 2012 at approximately R41.4 million. Exports from Eden District municipality to the world attained a peak in 2010 at approximately R14.3 million. There was a decrease of 68.9% in exports of tobacco (unmanufactured) from the City of Cape Town Metropolitan municipality to the world in 2016 as compared to 2015 marketing season.

Figure 16 below illustrates the value of tobacco (unmanufactured) exports by KwaZulu-Natal province to the world between 2007 and 2016 marketing season. Over the past ten years, eThekwini Metropolitan Municipality commanded the greatest market share of tobacco (unmanufactured) exports from KwaZulu-Natal province to the world with no competition from other municipal regions. Tobacco (unmanufactured) exports from eThekwini were from a high base during the first half of the ten year period attaining a peak in 2007 at approximately R58.4 million, while exports declined substantially during the second half of the period under examination to low levels of about R678 in 2012. There was an increase of 488% in exports of tobacco (unmanufactured) from eThekwini Metropolitan Municipality to the world in 2016 as compared to 2015 marketing season.

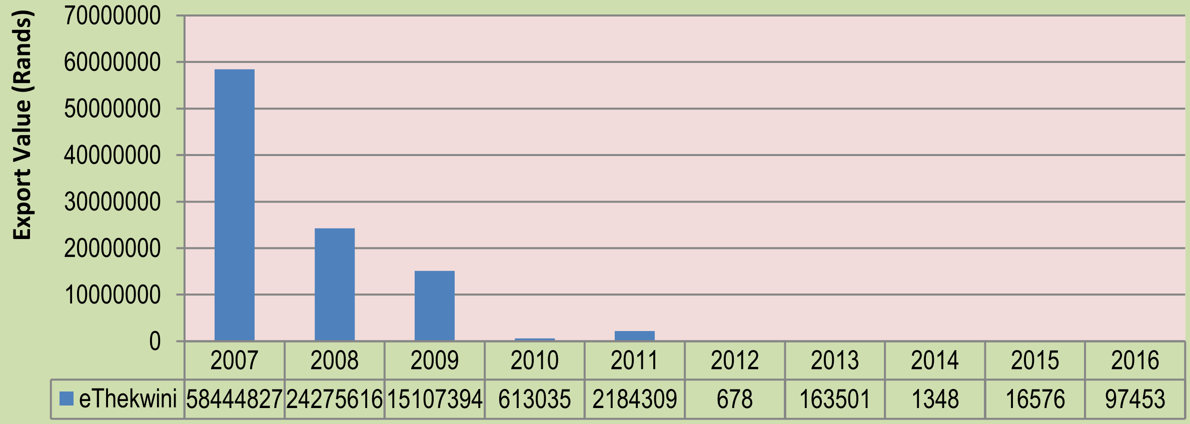


Figure 16: Value of tobacco exports (unmanufactured) by KwaZulu Natal Province

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
eThekwini	58444827	24275616	15107394	613035	2184309	678	163501	1348	16576	97453

Source: Quantec EasyData

Figure 17 below depicts value of tobacco (unmanufactured) exports by Limpopo province of South Africa to the world between 2007 and 2016 export season.

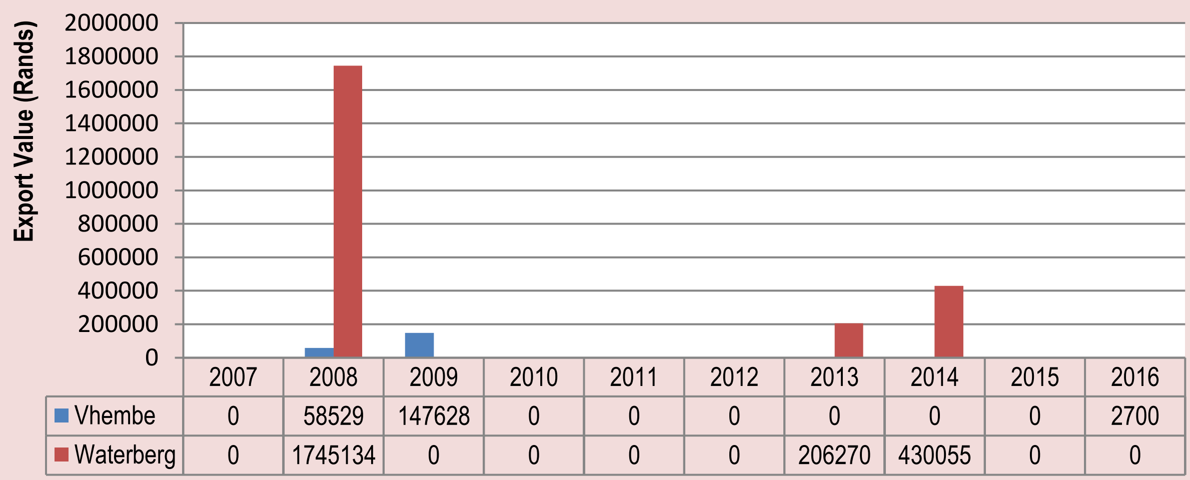


Figure 17: Value of tobacco exports (unmanufactured) by Limpopo Province

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Vhembe	0	58529	147628	0	0	0	0	0	0	2700
Waterberg	0	1745134	0	0	0	0	206270	430055	0	0

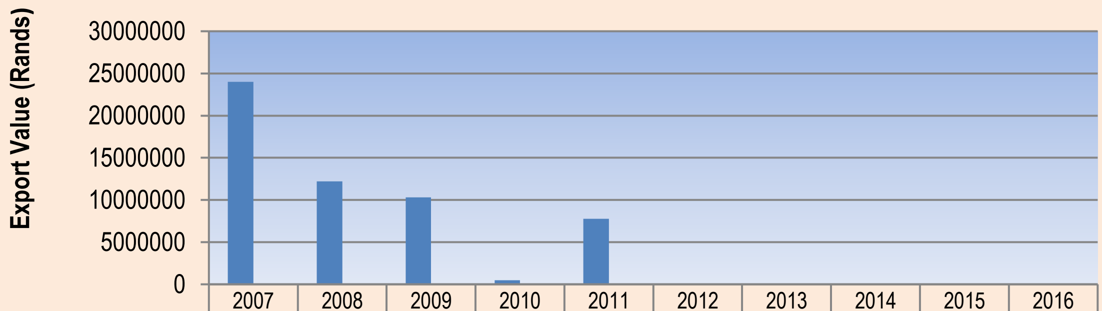
Source: Quantec EasyData

The Waterberg District Municipality commanded the greatest market share of tobacco (unmanufactured) exports from Limpopo province to the world during the period under review with minimal competition from Vhembe District Municipality. Tobacco (unmanufactured) exports from Waterberg District Municipality to the world increased in 2008, and a decline occurred in 2009 until an increase was attained in 2013 at approximately R206 270. There were no tobacco (unmanufactured) exports from Waterberg District Municipality to the world in 2007, and again between 2009 to 2012 and 2015 to 2016 marketing seasons.

During the period under review, Vhembe District Municipality only managed to export tobacco (unmanufactured) to the world in 2008 and 2009 at approximately R58 529 and R147 628 respectively, and again in 2016 at approximately R2 700. There was a 100% decline in exports of tobacco (unmanufactured) from the Waterberg District Municipality to the world in 2016 as compared to 2014 marketing season.

Figure 18 below indicates the value of tobacco (unmanufactured) exports from North West Province of South Africa to the world between 2007 and 2016 marketing season.

Figure 18: Value of tobacco exports (unmanufactured) by North West Province



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Bojanala	24005724	12193746	10322730	499627	7754268	0	49650	0	0	3770
Dr Ruth Segomotsi Mompati	0	0	0	0	0	0	0	6451	0	0

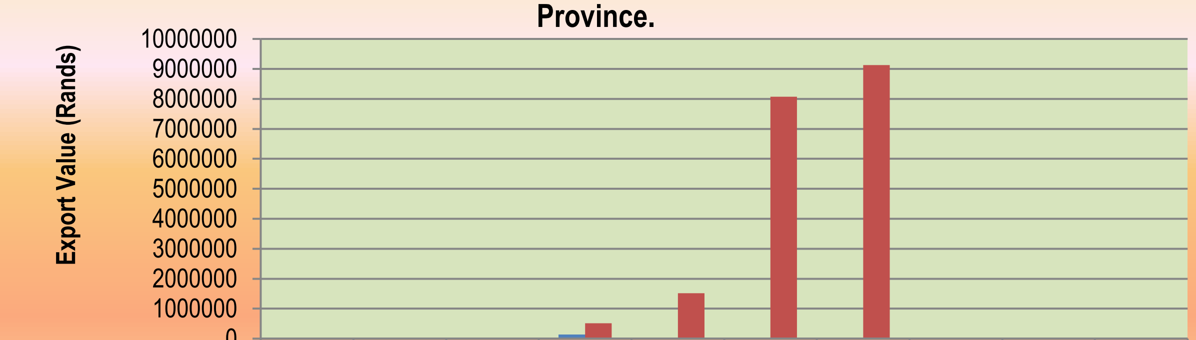
Period (Years)

Source: Quantec EasyData

Bojanala District Municipality commanded the greatest market share of tobacco (unmanufactured) exports from North West province to the world during the period under review with very minimal competition from Dr. Ruth Segomotsi Mompati District Municipality. Tobacco (unmanufactured) exports from Bojanala District Municipality to the world were from a high base during the first half of the ten year period (2007 to 2011), reaching a peak in 2007 at approximately R24 million. Exports of tobacco (unmanufactured) from Bojanala District Municipality to the world experienced a consistent decline between 2008 and 2015 to lower levels of about R0 in 2015. In 2012 and again in 2014 and 2015, there were no tobacco (unmanufactured) exports from Bojanala District municipality to the world. There was a slight increase in tobacco (unmanufactured) exports from Bojanala District Municipality to the world in 2013 of approximately R49 650. There was a 100% increase in exports of tobacco (unmanufactured) from Bojanala District Municipality to the world in 2016 as compared to 2015 marketing season.

Figure 19 below shows the value of tobacco (unmanufactured) exports from Eastern Cape province to the world between 2007 and 2016 marketing seasons. Over the past decade (2007-2016), Buffalo City Metropolitan Municipality commanded the greatest market share of tobacco (unmanufactured) exports from the Eastern Cape province to the world, followed by Nelson Mandela Metropolitan Municipality. Exports from Buffalo City Metropolitan Municipality to the world started to increase substantially in 2010 to approximately R513 262 until a peak was attained in 2013 at approximately R9.1 million. Tobacco (unmanufactured) exports from Nelson Mandela Metropolitan Municipality to the world were low and not more than R125 500 per annum. There were no tobacco (unmanufactured) exports from Buffalo City Metropolitan Municipality to the world in 2009 and again in 2014, 2015 and 2016. South Africa only exported tobacco (unmanufactured) from Nelson Mandela Metropolitan Municipality to the world in 2010 at approximately R125 492. There was a 100% decline in exports of tobacco (unmanufactured) from Buffalo City Metropolitan Municipality to the world in 2016 as compared to 2013 marketing season.

Figure 19: Value of tobcco exports (unmanufactured) by Eastern Cape Province.

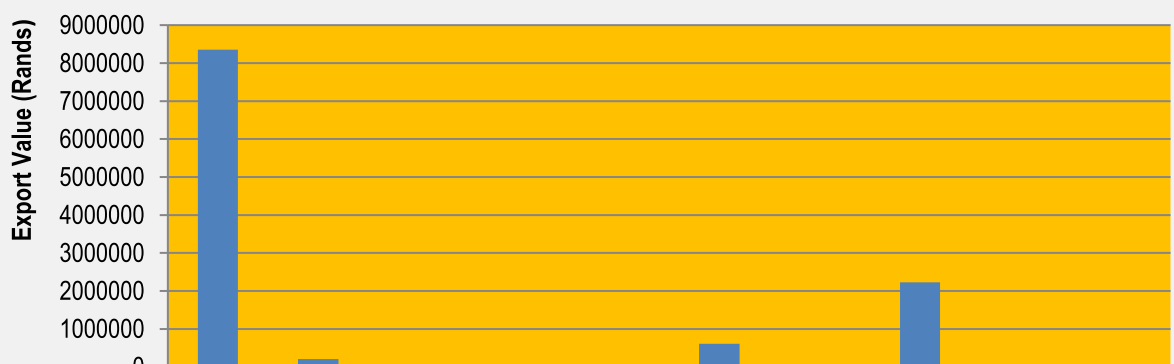


	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Nelson Mandela Bay	0	0	0	125492	0	0	0	0	0	0
Buffalo City	6761	365	0	513262	1516457	8070332	9125047	0	0	0

Source: Quantec EasyData

Figure 20 below illustrates the value of tobacco (unmanufactured) exports from Mpumalanga province to the world between 2007 and 2016.

Figure 20: Value of tobacco exports (unmanufactured) by Mpumalanga Province



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Ehlanzeni	8357373	200521	0	0	0	612425	27082	2228139	140	240

Source: Quantec EasyData

The Ehlanzeni District Municipality commanded the greatest market share of tobacco (unmanufactured) exports from Mpumalanga province to the world during the period under examination. Tobacco (unmanufactured) exports from Ehlanzeni District Municipality to the world were from a high base during the first half of the ten year period under review attaining a peak in 2007 at approximately R8.4 million. Tobacco (unmanufactured) exports from Ehlanzeni District Municipality to the world were from a low base during the second half of the ten year period under review attaining a maximum of approximately R2.2 million in 2014. There was a 71.4% increase in exports of tobacco (unmanufactured) from Ehlanzeni District Municipality to the world in 2016 as compared to 2015 marketing season.

3.1 Share Analysis

Table 3 below indicates that Gauteng province commanded the greatest market share of tobacco exports between 2007 and 2016, followed by Western Cape province. This trend indicates that the greatest percentages of tobacco exports (unmanufactured) were recorded as originating from both Gauteng and Western Cape provinces with small exports recorded for KwaZulu-Natal, North West provinces and other provinces during the period under examination.

Table 3: Share of provincial tobacco exports to the total South African tobacco exports (%)

Year Province	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Western Cape	3.72	17.96	18.34	26.14	65.89	41.74	21.32	21.94	34.03	12.71
Eastern Cape	0.00	0.00	0.00	0.97	1.21	6.83	12.98	0.00	0.00	0.00
Free State	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.17
KwaZulu-Natal	39.20	34.95	28.01	0.93	1.74	0.00	0.23	0.00	0.02	0.10
North West	16.10	17.56	19.14	0.76	6.18	0.00	0.07	0.01	0.00	0.00
Gauteng	35.36	26.65	34.23	71.20	24.98	50.91	65.07	74.32	65.96	87.02
Mpumalanga	5.61	0.29	0.00	0.00	0.00	0.52	0.04	3.13	0.00	0.00
Limpopo	0.00	2.60	0.27	0.00	0.00	0.00	0.29	0.60	0.00	0.00

Source: Calculated from Quantec EasyData

In the Western Cape province, tobacco exports occur mainly through the City of Cape Town Metropolitan municipality (see table 4 below), followed by Eden District Municipality with menial exports recorded from the Cape Winelands District Municipality between 2007 and 2016 (see Table 4).

Table 4: Share of the district tobacco exports to the total Western Cape tobacco exports (%)

Year District	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
City of Cape Town	53.39	17.22	36.56	16.85	91.10	84.15	68.17	78.61	89.85	76.43
Eden	46.61	82.78	63.44	83.15	8.90	15.85	31.83	21.39	10.15	23.57

Source: Calculated from Quantec EasyData

Table 5 below illustrates that in the Eastern Cape province tobacco exports occurred mainly through the Buffalo City Metropolitan municipality, followed by low tobacco exports from Nelson Mandela Bay District Municipality during the period under scrutiny.

Table 5: Share of district tobacco exports to the total Eastern Cape tobacco exports (%)

Year / District	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Nelson Mandela Bay	0.00	0.00	0.00	19.65	0.00	0.00	0.00	0.00	0.00	0.00
Buffalo City Metro	100.00	100.00	0.00	80.35	100.00	100.00	100.00	0.00	0.00	0.00

Source: Calculated from Quantec EasyData

Table 6 below indicates that in Limpopo province exports of tobacco originated mainly from the Waterberg District Municipality throughout the period under review.

Table 6: Share of district tobacco exports to the total Limpopo tobacco exports (%)

Year / District	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Vhembe District	0.00	3.25	100.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
Waterberg District	0.00	96.75	0.00	0.00	0.00	0.00	100	100	0.00	0.00

Source: Calculated from Quantec EasyData

In the KwaZulu-Natal province tobacco exports originated mainly from the eThekwini Metropolitan Municipality with no competition from other districts over the past ten years (see Table 7 below).

Table 7: Share of district tobacco exports to the total KwaZulu-Natal tobacco exports (%)

Years / District	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
eThekwini Metro	100	100	100	100	100	100	100	100	100	100

Source: Calculated from Quantec EasyData

Table 8 below illustrates that in North West province, exports of tobacco originated mainly from the Bojanala District Municipality throughout the period under review.

Table8: Share of district tobacco exports to the total North West tobacco exports (%)

Years / District	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Bojanala District	100.00	100.00	100.00	100.00	100.00	0.00	100.00	0.00	0.00	100.00
Dr Ruth Segomotsi Mompati	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00	0.00	0.00

Source: Calculated from Quantec EasyData

Table 9 below indicates that in Gauteng province, the City of Johannesburg Metropolitan Municipality commanded the greatest market share of tobacco exports over the past decade.

Table 9: Share of district tobacco exports to the total Gauteng tobacco exports (%)

Years / District	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Ekurhuleni Metro	41.59	0.85	6.99	0.00	0.62	0.02	0.00	25.91	3.67	4.34
City of Johannesburg	58.41	99.15	93.01	99.67	99.38	99.98	100.00	74.09	96.31	95.64
City of Tshwane	0.00	0.00	0.00	0.33	0.00	0.00	0.00	0.00	0.01	0.03

Source: Calculated from Quantec EasyData

Table 10 below shows that in Mpumalanga province, Ehlanzeni District Municipality commanded the greatest market share of tobacco exports to the world during the period under review.

Table 10: Share of district tobacco exports to the total Mpumalanga tobacco exports (%)

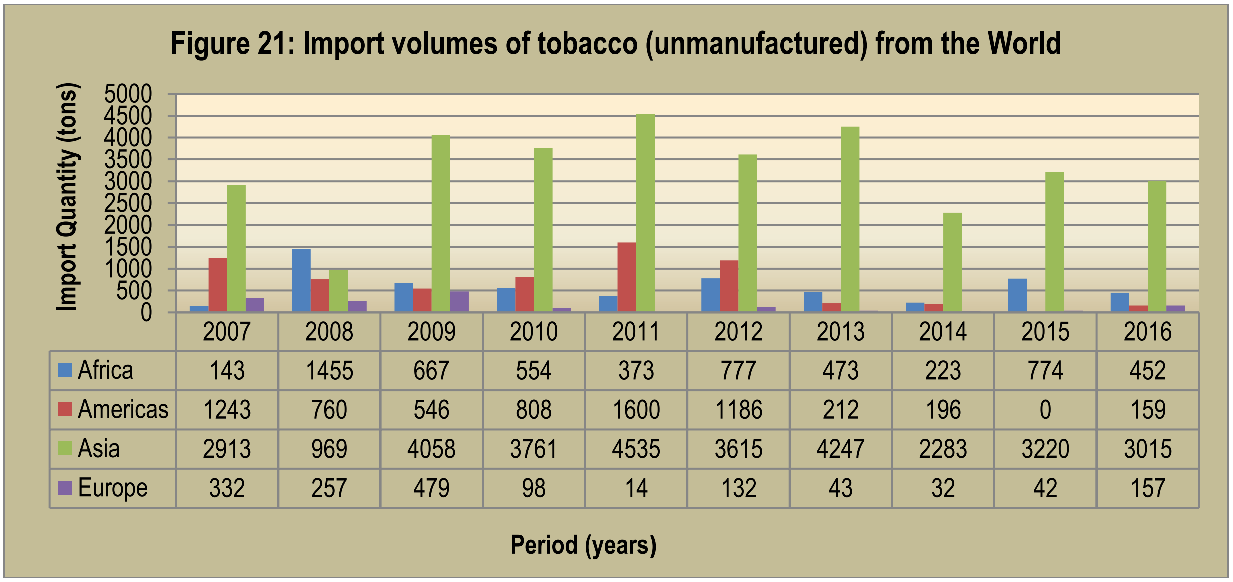
Years / District	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Ehlanzeni District	100.00	100.00	0.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00

Source: Calculated from Quantec EasyData

4. IMPORTS VOLUMES

On average, South Africa imported approximately 1 170 tons of tobacco (unmanufactured) per annum and a total of around 46 802 tons between 2007 and 2016 with highest import volumes attained from Asia. The volumes of imports of tobacco (unmanufactured) are shown in Figure 21 over a ten year period and the analysis reveals that South Africa is a net importer of tobacco (unmanufactured). Import volumes have increased above export volumes since 2007 because tobacco manufacturers are importing more raw materials of tobacco due to a substantial decline in domestic production and some tobacco manufacturers have begun importing finished tobacco products. The labour laws and costs involved in tobacco production also have an impact towards the decline of production and export volumes.

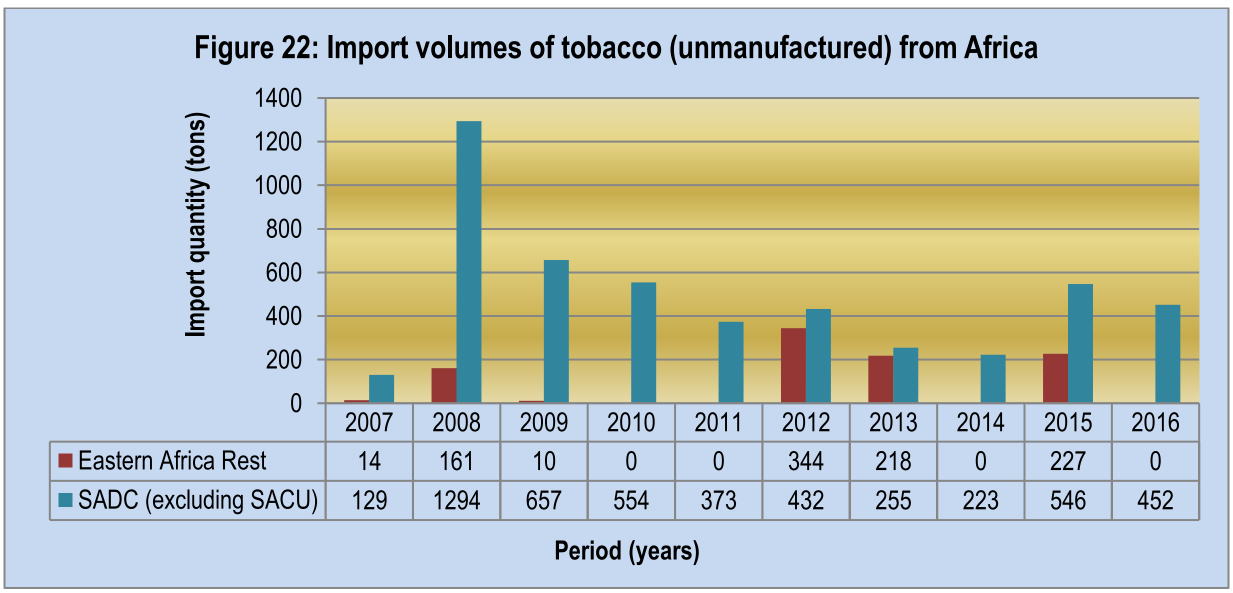
Figure 21 below depicts imports of tobacco (unmanufactured) from the world into South Africa between 2007 and 2016. Tobacco import volumes from the world into South Africa were mainly from Asia, followed by Americas and Africa between 2007 and 2016. Over the past decade, tobacco import volumes from Asia into South Africa were from a low base during the first half of the ten year period (2007-2011), attaining a maximum of 4 535 tons in 2011. Tobacco import volumes from Asia into South Africa were from a high base during the second half of the ten year period (2012-2016) attaining a peak in 2013 at approximately 4 247 tons. Import volumes of tobacco from Americas into South Africa also attained a peak in 2011 at approximately 1 600 tons. Generally, South Africa received low volumes of tobacco (unmanufactured) imports between 2007 and 2016 from various regions of the world. There was a decrease of 6.4% in import volumes of tobacco (unmanufactured) from Asia into South Africa in 2016 as compared to 2015 marketing season.



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Africa	143	1455	667	554	373	777	473	223	774	452
Americas	1243	760	546	808	1600	1186	212	196	0	159
Asia	2913	969	4058	3761	4535	3615	4247	2283	3220	3015
Europe	332	257	479	98	14	132	43	32	42	157

Source: Quantec EasyData

Figure 22 below shows import volumes of tobacco (unmanufactured) from Africa into South Africa between 2007 and 2016.



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Eastern Africa Rest	14	161	10	0	0	344	218	0	227	0
SADC (excluding SACU)	129	1294	657	554	373	432	255	223	546	452

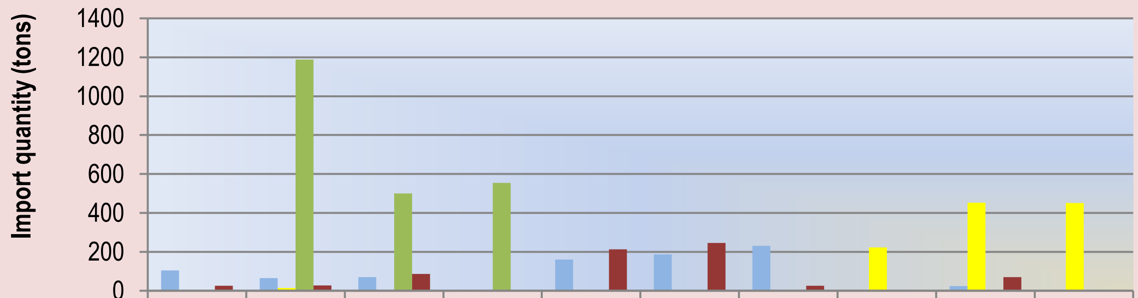
Source: Quantec EasyData

Imports from Africa into South Africa were mainly from SADC region (excluding SACU) between 2007 and 2016. Eastern Africa had very minimal import volumes of tobacco into South Africa during the same period. Tobacco import volumes from the SADC region into South Africa were from a high base during the first half of the ten year period (2007-2011), attaining a peak in 2008 at approximately 1 294 tons. Tobacco import volumes from the SADC region into South Africa were from a low base during the second half of the ten year period, reaching a maximum of 546 tons in 2015. South Africa imported very low tobacco volumes from SADC Region in 2007 at approximately 129 tons. Import volumes of tobacco originating from Eastern Africa were intermittently low between 2007 and 2016 and were not more than

344 tons per annum. There was a decrease of 17.2% in tobacco import volumes from SADC (excluding SACU) into South Africa in 2016 as compared to 2015 marketing season.

Figure 23 below illustrates import volumes of tobacco (unmanufactured) from the SADC region into South Africa between 2007 and 2016.

Figure 23: Import volumes of tobacco (unmanufactured) from SADC



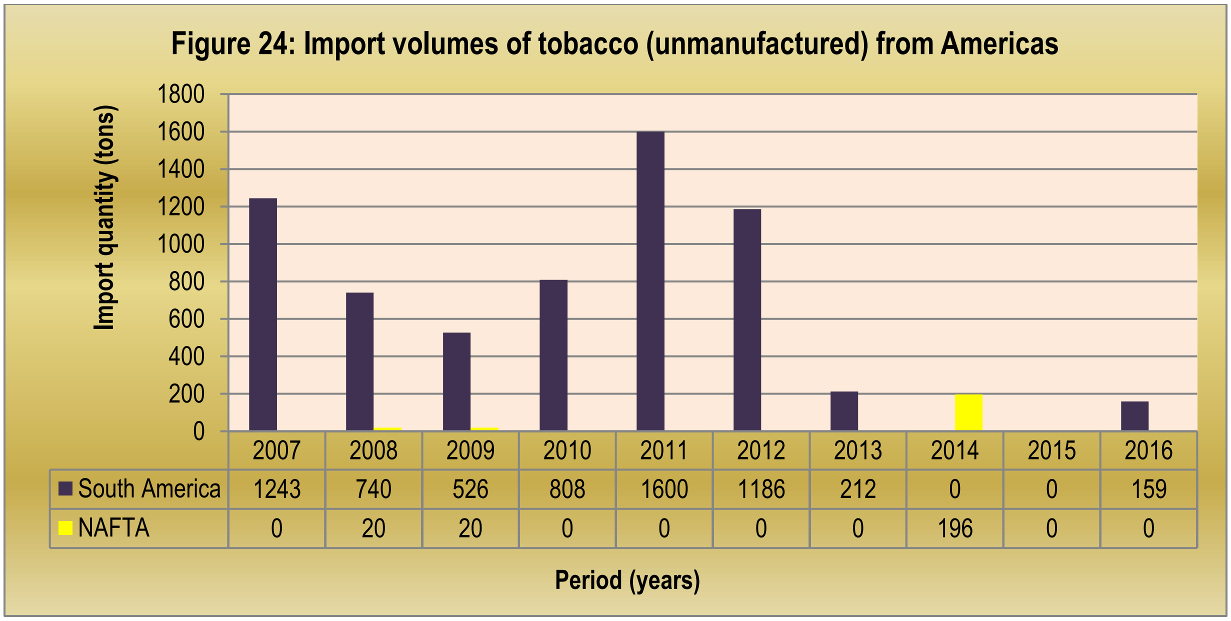
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Malawi	104	66	70	0	160	187	230	0	25	0
Mozambique	0	14	0	0	0	0	0	223	452	452
Zambia	0	1188	500	554	0	0	0	0	0	0
Zimbabwe	25	27	86	0	213	246	25	0	69	0

Period (years)

Source: Quantec EasyData

Tobacco import volumes from SADC into South Africa were mainly from Zambia, followed by Malawi and Zimbabwe between 2007 and 2016. Imports from Zambia into South Africa were from a high base during the first half of the ten year period (2007-2011), attaining a peak in 2008 at approximately 1 188 tons. There were no imports from Zambia into South Africa during the second half of the ten year period (2012-2016) under review. Imports from Malawi into South Africa attained a peak in 2013 at approximately 230 tons. In 2012, tobacco imports from Zimbabwe into South Africa attained a peak at approximately 246 tons. There was a 100% decline in tobacco imports from Zambia into South Africa between 2011 and 2016.

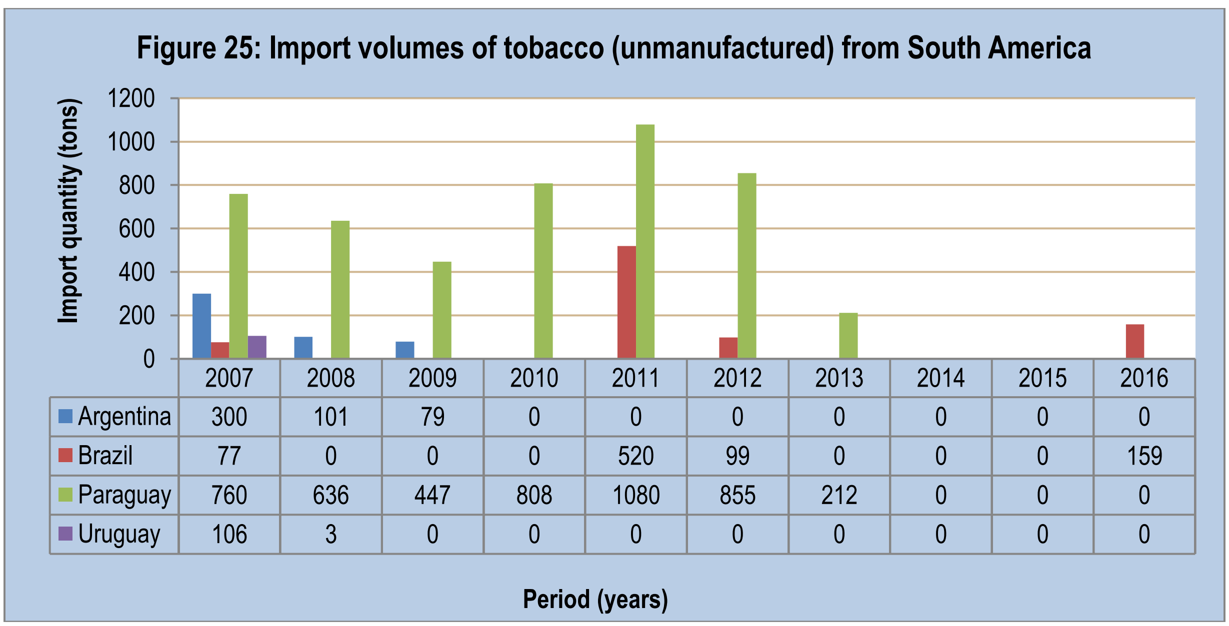
Figure 24 below indicates import volumes of tobacco (unmanufactured) from the Americas into South Africa between 2007 and 2016. South America commanded the greatest share of tobacco import volumes from Americas into South Africa between 2007 and 2016. NAFTA had very low levels of tobacco import volumes from Americas into South Africa of not more than 200 tons per annum during the period under examination. Tobacco imports from South America into South Africa were from a high base during the first half of the ten year period (2007-2011), attaining a peak in 2011 at approximately 1 600 tons. Tobacco import volumes from South America into South Africa were from a low base during the second half of the ten year period (2012-2016) and the peak was attained in 2012 at approximately 1 186 tons. Between 2007 and 2016, there was a substantial decline in tobacco import volumes from South America into South Africa to lower levels of about 526 tons in 2009 and 212 tons in 2012. During 2016, there was a decline in tobacco imports from South America into South Africa and that represents 100% decline as compared to 2013 marketing season.



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
South America	1243	740	526	808	1600	1186	212	0	0	159
NAFTA	0	20	20	0	0	0	0	196	0	0

Source: Quantec EasyData

Figure 25 shows tobacco import volumes from South America into South Africa between 2007 and 2016.

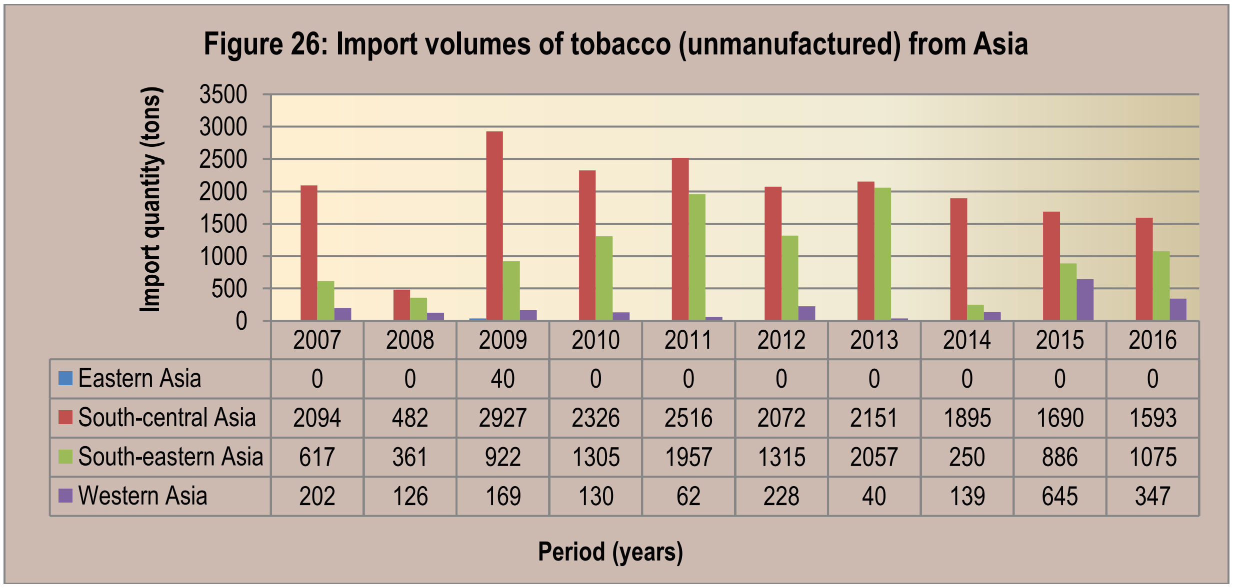


	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Argentina	300	101	79	0	0	0	0	0	0	0
Brazil	77	0	0	0	520	99	0	0	0	159
Paraguay	760	636	447	808	1080	855	212	0	0	0
Uruguay	106	3	0	0	0	0	0	0	0	0

Source: Quantec EasyData

The greatest share of tobacco import volumes from South America into South Africa originated mainly from Paraguay, followed by Brazil and minimal volumes from Argentina and Uruguay. On average, tobacco imports from Paraguay into South Africa were from a high base during the first half of the ten year period (2007-2011) attaining a peak in 2011 at approximately 1 080 tons. During the second half of the ten year period (2012-2016), tobacco import volumes from Paraguay into South Africa were from a low base although a maximum peak was attained in 2012 at approximately 855 tons. There were low imports of tobacco from South America into South Africa between 2007 and 2016. Tobacco import volumes from Brazil into South Africa attained a peak in 2011 at approximately 520 tons. In 2016, there were no tobacco imports from Paraguay into South Africa.

Figure 26 below depicts tobacco imports (unmanufactured) from Asia into South Africa between 2007 and 2016.

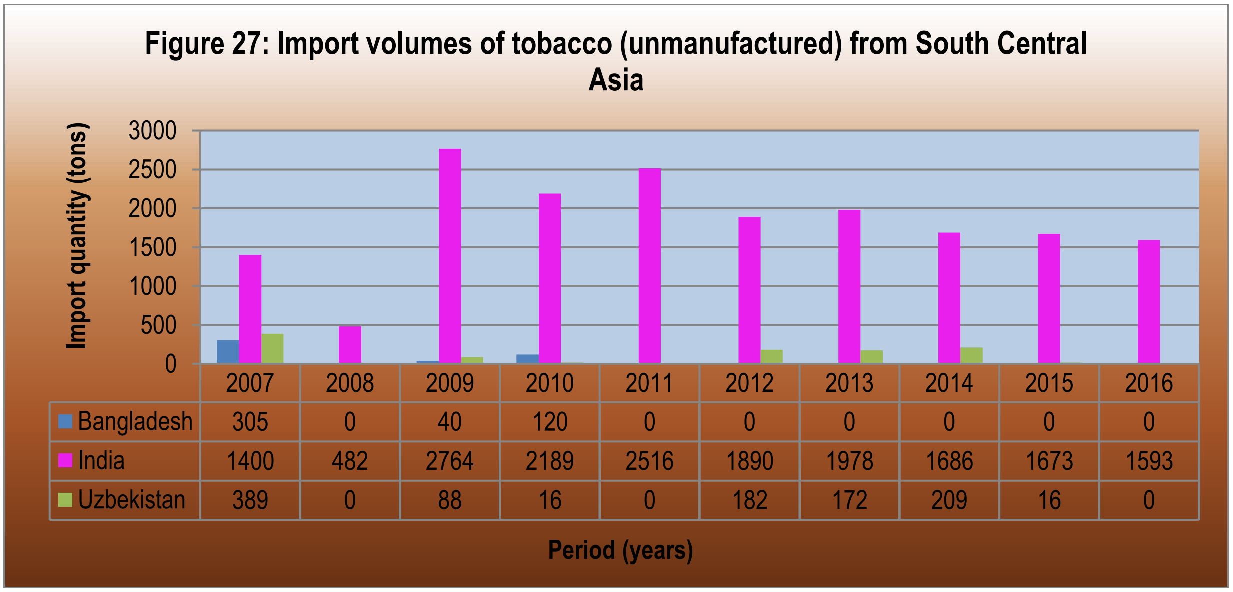


	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Eastern Asia	0	0	40	0	0	0	0	0	0	0
South-central Asia	2094	482	2927	2326	2516	2072	2151	1895	1690	1593
South-eastern Asia	617	361	922	1305	1957	1315	2057	250	886	1075
Western Asia	202	126	169	130	62	228	40	139	645	347

Source: Quantec EasyData

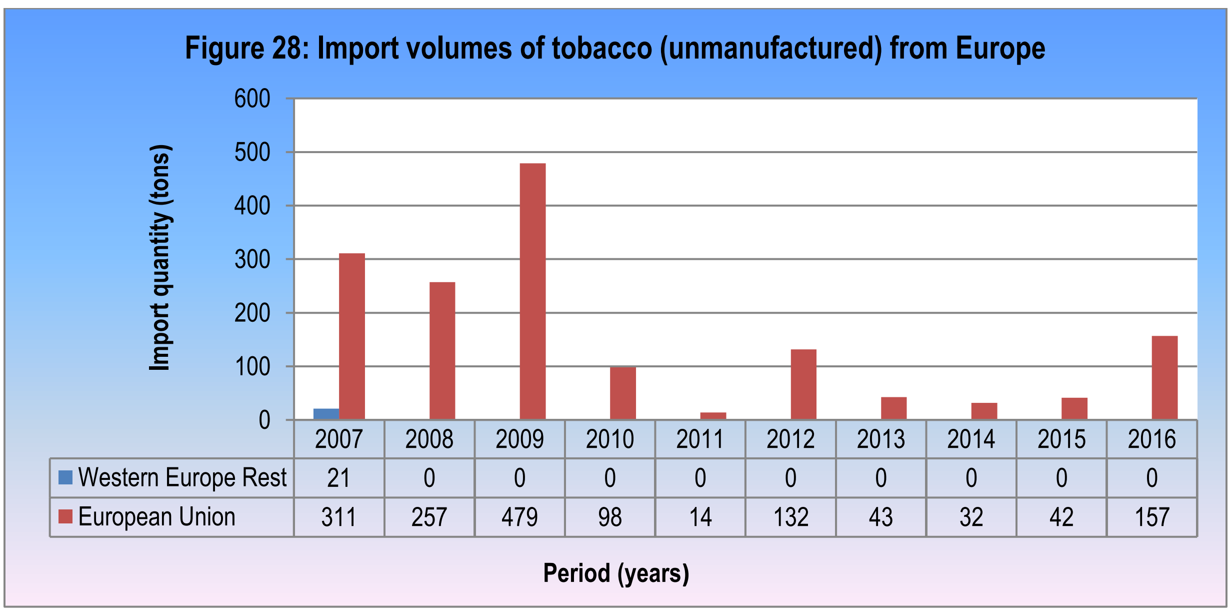
South-central Asia commanded the greatest share of tobacco imports from Asia into South Africa, followed by South-eastern Asia and low volumes of tobacco from Western Asia between 2007 and 2016. Tobacco import volumes from South-central Asia into South Africa were from a low base during the first half of the ten year period (2007-2011), attaining a peak in 2009 at approximately 2 927 tons. During the second half of the ten year period (2012-2016), tobacco import volumes from South-central Asia into South Africa were from a high base reaching a maximum of 2 151 in 2013. Imports from South-eastern Asia into South Africa attained a peak in 2013 at approximately 2 057 tons while imports from Western Asia into South Africa attained a peak in 2015 at approximately 645 tons. In 2016, tobacco import volumes from South-central Asia into South Africa decreased by 5.7% as compared to 2015 marketing season.

Figure 27 below indicates tobacco imports from South-central Asia into South Africa between 2007 and 2016. India commanded the greatest share of tobacco import volumes from South-central Asia into South Africa, followed by Uzbekistan and Bangladesh between 2007 and 2016. Import volumes from India into South Africa were from a low base during the first half of the ten year period (2007-2011), attaining a peak in 2009 at approximately 2 764 tons. During the second half of the ten year period (2012-2016), tobacco import volumes from India into South Africa were from a high base, attaining a peak in 2013 at approximately 1 978 tons. Import volumes from Uzbekistan into South Africa attained a peak in 2007 at approximately 389 tons while imports from Bangladesh into South Africa attained a peak in 2007 at approximately 305 tons. In 2016, tobacco import volumes from India into South Africa slightly decreased and that represents 4.8% decrease as compared to 2015 marketing season.



Source: Quantec EasyData

Figure 28 below depicts tobacco imports from Europe into South Africa between 2007 and 2016.

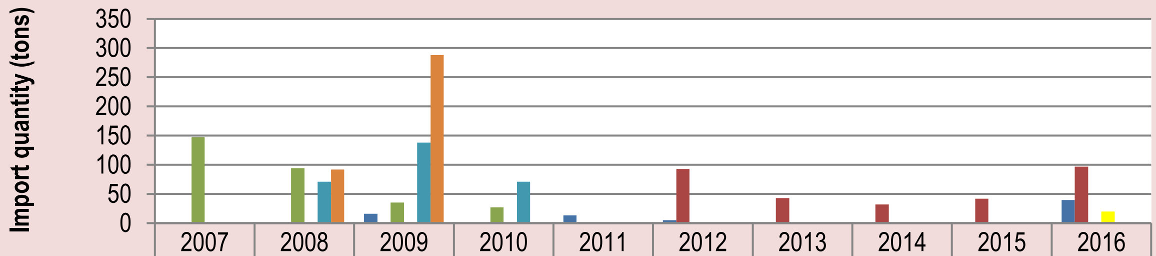


Source: Quantec EasyData

The European Union commanded the greatest share of tobacco imports from Europe into South Africa, followed by Western Europe between 2007 and 2016. Imports from the Europe Union into South Africa were from a high base during the first half of the ten year period, attaining a peak in 2009 at approximately 479 tons. During the second half of the ten year period, tobacco import volumes from the European Union into South Africa were from a low base, reaching a maximum of approximately 157 tons in 2016. Imports from Western Europe into South Africa were low and not more than 21 tons per annum. During 2016 marketing season, tobacco import volumes from the European Union into South Africa increased by 273.8% as compared to 2015 marketing season.

Figure 29 below shows tobacco imports (unmanufactured) from the European Union into South Africa between 2007 and 2016.

Figure 29: Import volumes of tobacco (unmanufactured) from European Union



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Belgium	0	0	16	0	13	5	0	0	0	40
Bulgaria	0	0	0	0	0	93	43	32	42	97
Germany	147	94	35	27	0	0	0	0	0	0
France	0	0	2	0	0	0	0	0	0	20
Greece	0	71	138	71	0	0	0	0	0	0
Netherlands	0	92	288	0	0	0	0	0	0	0

Source: Quantec EasyData

The Netherlands commanded the greatest market share of tobacco import volumes from the European Union into South Africa, followed by Greece, Bulgaria and Germany between 2007 and 2016. Import volumes of tobacco from Germany into South Africa started to decrease in 2007 and at the same time attained a peak at approximately 147 tons. Imports from Greece into South Africa attained a peak in 2009 at approximately 138 tons. Imports from the Netherlands into South Africa attained a peak in 2009 at approximately 288 tons. Between 2007 and 2011, there were no tobacco imports from Bulgaria into South Africa. Between 2011 and 2016, there were no tobacco imports from Greece, Netherlands and Germany into South Africa. Imports from Bulgaria into South Africa increased positively in 2016 and that represents 140% increase as compared to 2015 marketing season.

5. MARKET ACCESS

Table 11 below shows import tariffs applied by importing countries to tobacco (unmanufactured) exports from South Africa during 2016 marketing season. Import markets of tobacco from South Africa to the world applied high import tariffs ranging between 05.00% and 18.40% during 2016 export season. Countries such as DRC, Mozambique, Zimbabwe and Belgium charged 0.00% import tariff to tobacco from South Africa during 2016 export season.

Table 11: Tariffs applied by other countries to tobacco (unmanufactured) exports from South Africa in 2016

Importing Country	Product Description	Trade Regime Description.	Applied Tariffs.	Total Ad Valorem Equivalent Tariff
Congo, Democratic Rep of	Tobacco (unmanufactured)	MFN duties (Applied)	2.50%	2.50%
		Preferential tariff for RSA	0.00%	0.00%
Mozambique	Tobacco (unmanufactured)	MFN duties (Applied)	10.00%	10.00%
		Preferential tariff for RSA	0.00%	0.00%
Zimbabwe	Tobacco (unmanufactured)	MFN duties (Applied)	15.00%	15.00%
		Preferential tariff for RSA	0.00%	0.00%
UAE	Tobacco (unmanufactured)	MFN duties (Applied)	5.00%	5.00%
Armenia	Tobacco (unmanufactured)	MFN duties (Applied)	0.00%	0.00%
Belgium	Tobacco (unmanufactured)	MFN duties (Applied)	18.40%	18.40%
		Preferential tariff for SADC Countries	0.00%	0.00%

Source: ITC (Mac Map)

Table 12 below indicates import tariffs applied by South Africa to tobacco (unmanufactured) from the world during 2016 export season. Exporters of tobacco to South Africa from Asia and Europe experienced high import tariffs that ranged between 8.80% and 145.00% during the 2016 export season. South Africa has a free trade agreement with SADC countries such as Zambia, Zimbabwe and Malawi and as such there were no tariff charges (0.00%) during 2016. Preferential tariffs from South Africa to some of the European Union countries such as Bulgaria, Greece and Netherlands are also applied at 0,00% import tariff. South Africa applied high tariffs of between 8.80% and 145.16% to its suppliers of tobacco (unmanufactured) during 2016 trade season.

Table 12: Tariffs applied by RSA to imports of tobacco (unmanufactured) from the world in 2016

Exporting Country	Product Description	Trade Regime Description.	Applied Tariffs.	Total Ad Valorem Equivalent Tariff
India	Tobacco (unmanufactured)	MFN duties (Applied)	145.16%	145.16%
			8.80%	8.80%
Uzbekistan	Tobacco (unmanufactured)	MFN duties (Applied)	145.16%	145.16%
			8.80%	8.80%
Bangladesh	Tobacco (unmanufactured)	MFN duties (Applied)	145.16%	145.16%
			8.80%	8.80%
Zambia	Tobacco (unmanufactured)	MFN duties (Applied)	145.16%	145.16%
			8.80%	8.80%
		Preferential tariff for SADC Countries	0.00%	0.00%
Malawi	Tobacco	MFN duties (Applied)	145.16%	145.16%

	(unmanufactured)		8.80%	8.80%
		Preferential tariff for SADC Countries	0.00%	0.00%
Bulgaria	Tobacco (unmanufactured)	MFN duties (Applied)	145.16%	145.16%
			8.80%	8.80%
		Preferential tariff for EU Countries	0.00%	0.00%
Paraguay	Tobacco (unmanufactured)	MFN duties (Applied)	145.16%	145.16%
			8.80%	8.80%
Brazil	Tobacco (unmanufactured)	MFN duties (Applied)	145.16%	145.16%
			8.80%	8.80%
Greece	Tobacco (unmanufactured)	MFN duties (Applied)	145.16%	145.16%
			8.80%	8.80%
		Preferential tariff for EU Countries	0.00%	0.00%
Netherlands	Tobacco (unmanufactured)	MFN duties (Applied)	145.16%	145.16%
			8.80%	8.80%
		Preferential tariff for EU Countries	0.00%	0.00%

Source: ITC (Mac Map)

6. PROCESSING

In South Africa the processing facilities partly belong to tobacco farmers in the form of companies or co-operatives. Farmers are paid for their tobacco at the point of delivery according to a valuation being placed on every bale of tobacco. After this, the tobacco is processed and packed according to specifications of manufacturers and/or leaf dealers. In South Africa the value added by processing the tobacco belongs to the farmers.

Tobacco merchants or leaf dealers are also part of the primary industry. These companies are known as intermediary buyers. They buy processed tobacco from processing plants according to specifications of their clients, who are manufacturers of tobacco products. In South Africa the leaf dealers mostly buy tobacco from grower co-operatives or companies, although some air cured tobacco is bought directly from contracted growers.

Two methods of drying the leaf are used-artificially dried tobacco and that which is dried under natural climatic conditions. After the drying process the leaf is graded according to colour, size and texture. Flue-cured tobacco is used mainly for cigarette manufacture while air-cured tobacco is mainly used as pipe tobacco, snuff and Roll Your Own (RYO) cigarettes.

In May of 2005 British American Tobacco (BAT) launched a new product category called smokeless Snus (pronounced s-noo-s) in South Africa and Sweden simultaneously. Snus is a less harmful smokeless tobacco fully imported from Sweden and currently on trial at 241 tobacco outlets in Gauteng. It consists of small sachets of moist tobacco, which look a little like a tea bag and are about the size of a thumb nail. The sachet is placed under the upper lip; it is not lit or chewed but held in the mouth, typically for 30 minutes before being discarded.

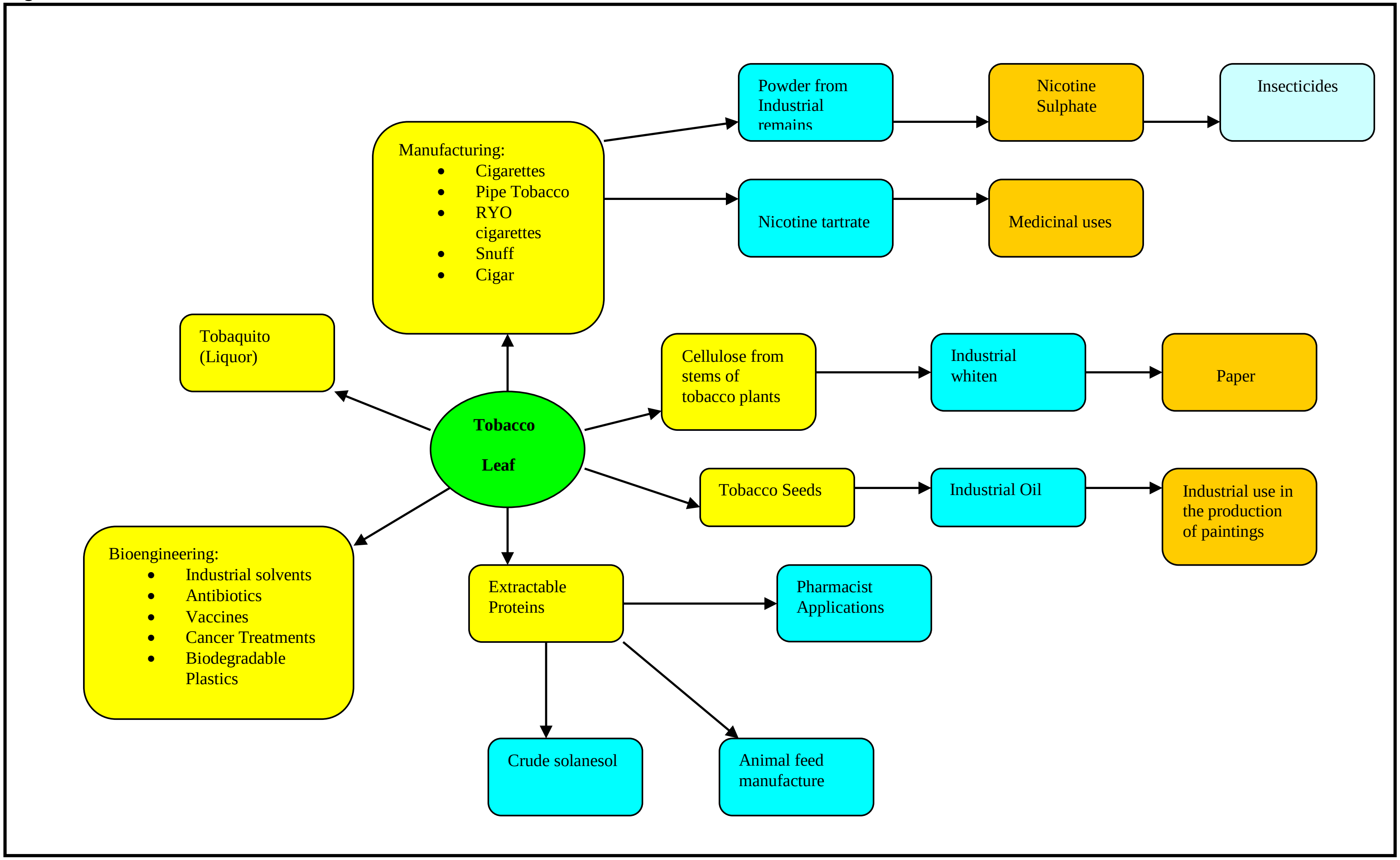
6.1 Tobacco Value Chain Tree

Leaf tobacco is popularly used by tobacco manufacturing companies across the world to manufacture tobacco products such as cigarettes, pipe tobacco, roll-your-own cigarettes, snuff and cigars. However the product also has many other alternative uses as depicted in Figure 30.

The nicotine contained in the powder of industrial remains (tobacco waste) can be recovered as nicotine sulphate and used to manufacture insecticides that can be used against plant hoppers and leaf hoppers in crops. Being an insecticide of plant origin, it does not pollute the environment like other chemical insecticides and is less toxic compared to other chemical preparations. The nicotine tart rate from the manufacturing process can also be used in some medicines. Tobacco plants can further be used as hosts during bioengineering processes that could be used to produce antibiotics, vaccines, cancer treatments, other medicines, biodegradable plastics and industrial solvents.

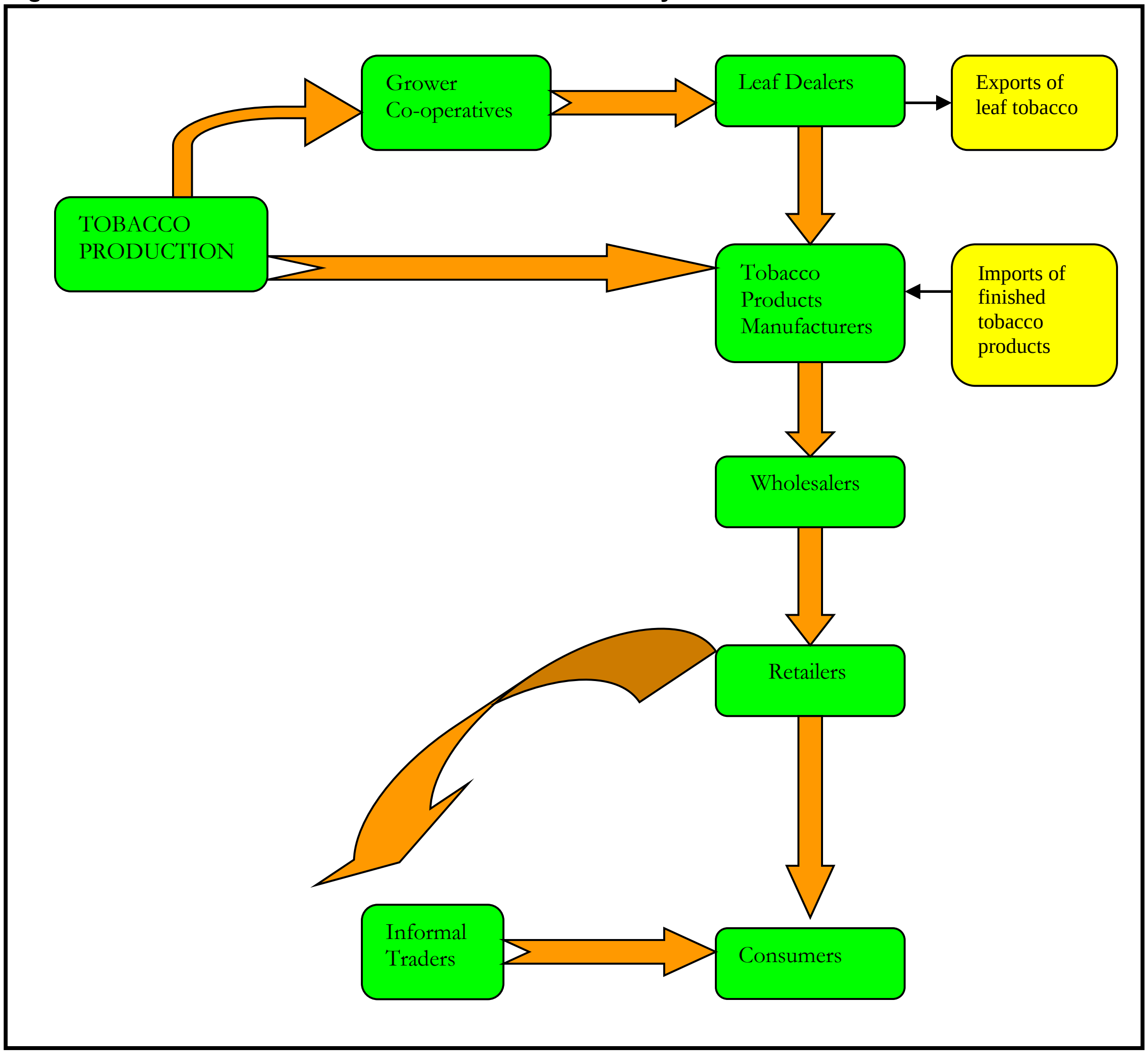
Green tobacco leaf can also be used to extract proteins for use in manufacturing animal feeds. The residue which remains after expelling the green liquid can be used for solvent extraction of solanesol, a high-value alcohol which can be used in the synthesis of cardiac drugs, anti-hemorrhagic vitamins and anti-sterility vitamins. The oil contained in the seeds of tobacco can be extracted and used in the production of paintings. Furthermore, the cellulose contained in the stems of the tobacco plant and its industrial whiten can be extracted and transformed into paper to print and to write.

Figure 30: Tobacco Value Chain Tree



6.2 Market value chain

Figure 31: Market value chain for the Tobacco Industry



Farmers produce leaf tobacco and, after curing the tobacco crop they grade the leaves into different leaf portions, qualities and colours and pack them into grades as bales of 30-50kg. The packed tobacco leaves are then sold directly to tobacco manufacturers or to co-operative companies where the tobacco is evaluated and the farmer is paid. Leaf dealers (traders) buy the tobacco from the cooperatives and sell to tobacco manufacturers. As mentioned earlier, there are imports of leaf tobacco from various countries and exports of finished tobacco products by some tobacco manufacturers and traders.

7. MARKET INTELLIGENCE

Table 13: List of importing markets for tobacco (unmanufactured) exported by South Africa in 2016

Importers	Trade indicators						Average tariff (estimated) faced by South Africa (%)
	Value exported in 2016 (USD thousand)	Share in South Africa's exports (%)	Quantity exported in 2016	Growth in exported value between 2012-2016 (%, p.a.)	Growth in exported quantity between 2012-2016 (%, p.a.)	Growth in exported value between 2015-2016 (%, p.a.)	
World	7305	100	2655	-10	4	-36	
Georgia	2356	32.3	891	240	59	-30	12
Germany	1476	20.2	313	3	12	-67	0
Sweden	1214	16.6	168	-4	2	-29	0
Tanzania, United Republic of	767	10.5	285				
Lesotho	431	5.9	42	111	50	31	0
United States of America	275	3.8	37				
Swaziland	245	3.4	17	4	-29	75	0
Nigeria	238	3.3	75	-34	-29	29	
United Arab Emirates	135	1.8	60				
Botswana	63	0.9	4	-20	-35	15	0
China	59	0.8	712				10
Indonesia	37	0.5	50				5
Mozambique	5	0.1	2				
Namibia	3	0	0	-61		-84	0

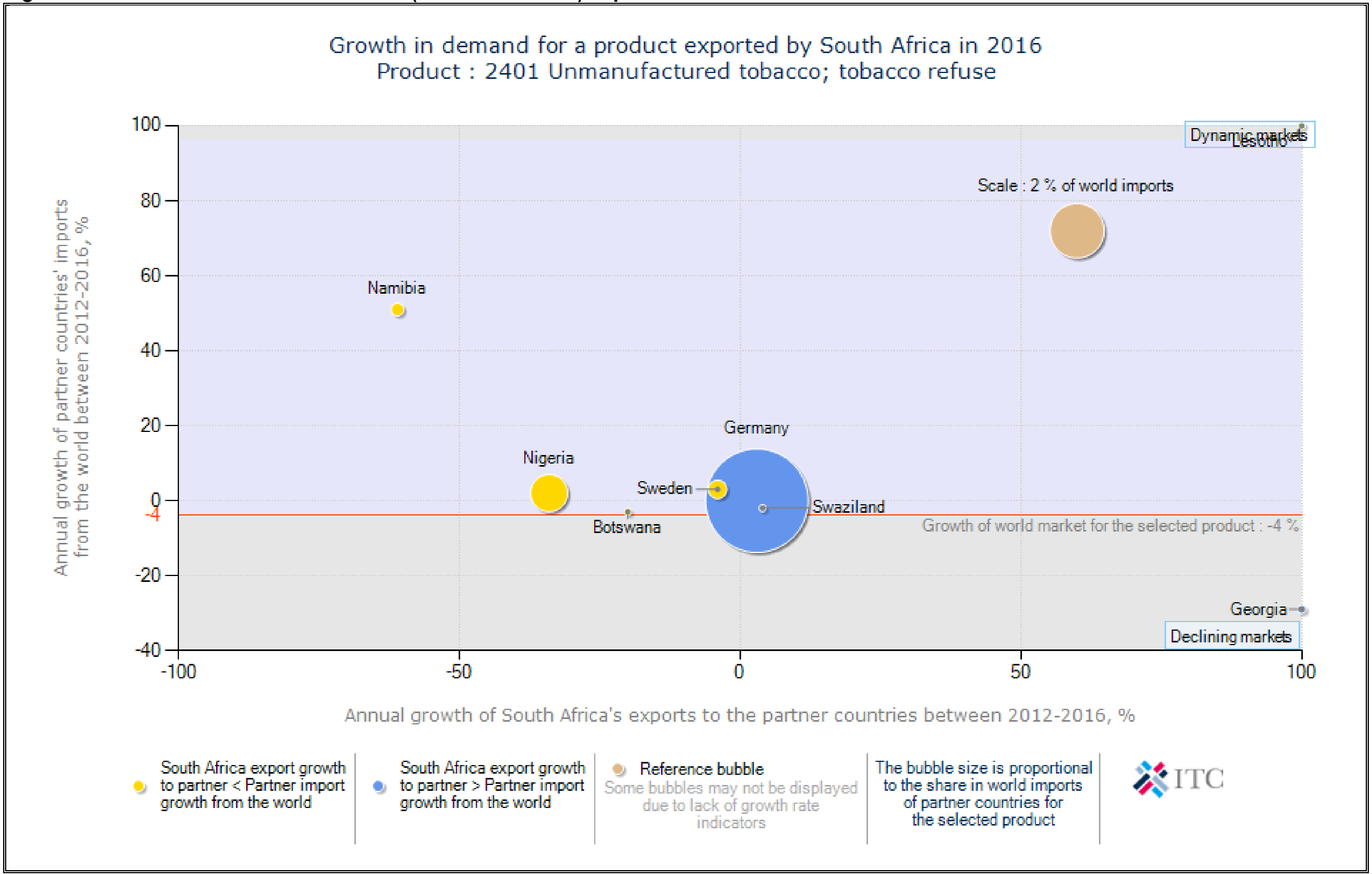
Source: ITC Trade Map

Table 13 indicates the list of importing countries of tobacco (unmanufactured) from South Africa in 2016. In the same period under review, South Africa exported a total of 2 655 tons of tobacco (unmanufactured) to the world of which the greatest quantities were exported to Georgia, followed by Germany and Sweden. Georgia imported 891 tons during the year 2016. Germany experienced export value of 1 476 US Dollars with export volume of approximately 313 tons during 2015.

Sweden saw a decrease in tobacco exports value by 4% while exports quantity increased by 2% between 2012 and 2016. During the same period under examination, there was an increase in exports of tobacco (unmanufactured) from South Africa to Lesotho by 111% in value and 50% in quantity.

It is further evident in the table that during the same period under review, there was a negative decline in exports of tobacco from South Africa to Nigeria and Botswana of between 34% and 20% in value and between 29% and 35% in quantity respectively.

Figure 32: Growth in demand for tobacco (unmanufactured) exported from South Africa in 2016

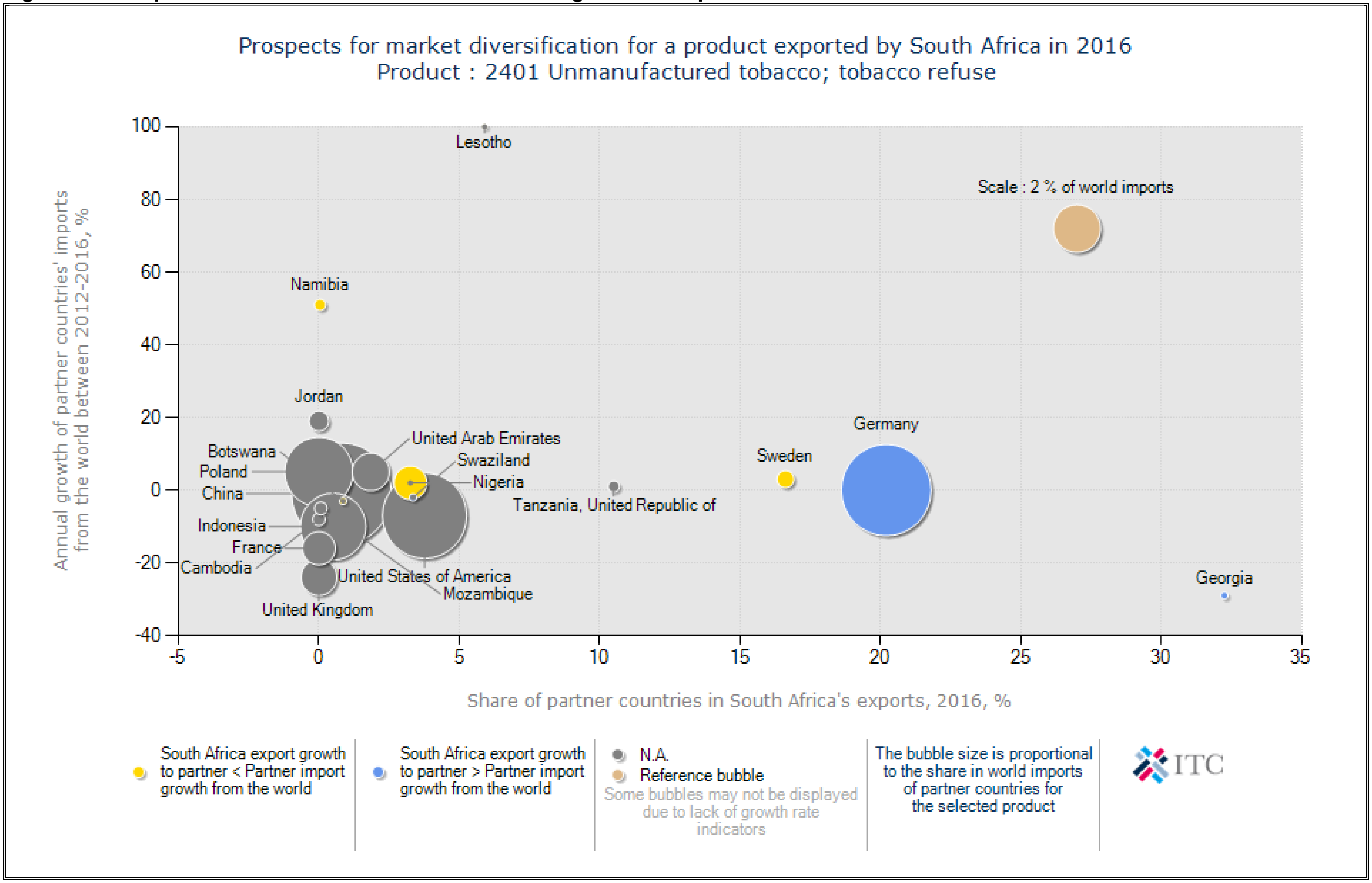


Source: ITC Trade Map

The bubble graph in Figure 32 depicts the growth and performance of tobacco (unmanufactured) exports by the South African tobacco industry in 2016. Germany and Nigeria were the biggest markets for tobacco (unmanufactured) between 2012 and 2016. Between 2012 and 2016, export markets such as Georgia experienced an increase in terms of growth of South Africa's tobacco exports to the world. In countries such as Nigeria and Botswana, imports of tobacco from South Africa have declined while their imports from the world have increased during the period under scrutiny.

Between 2012 and 2016, Georgia and China imported more tobacco volumes of about 891 and 712 tons from South Africa than any other countries of the world. Annual growth of South Africa's exports of tobacco to Germany and Georgia increased by 3% and 240% respectively. Lesotho and Swaziland were the most attractive markets in terms of growth for South African tobacco during the period under examination.

Figure 33: Prospects for market diversification for smoking tobacco exported from South Africa in 2016



Source: ITC Trade Map

Figure 33 shows the prospects for market diversification for tobacco (unmanufactured) exported by South Africa to the world in 2016. Between 2012 and 2016, Germany and Nigeria were the biggest markets for tobacco (unmanufactured) from the world. Sweden’s annual growth of partner countries imports of tobacco from the rest of the world declined by 4% per annum between 2012 and 2016, while South Africa’s market share to Sweden grew to 16.6%. Georgia had the biggest market share of 32.3% in South Africa’s tobacco exports during 2016 marketing season. If South Africa had to diversify its tobacco export markets, potential markets would be Sweden, United Republic of Tanzania and Lesotho.

Table 14: List of supplying markets for tobacco (unmanufactured) imported by South Africa in 2016

Exporters	Trade indicators						Average tariff (estimated) applied by South Africa (%)
	Value imported in 2016 (USD thousand)	Share in South Africa's imports (%)	Quantity imported in 2016	Growth in imported value between 2012-2016 (%, p.a.)	Growth in imported quantity between 2012-2016 (%, p.a.)	Growth in imported value between 2015-2016 (%, p.a.)	
World	136806	100	36630	3	4	1	
Zimbabwe	55252	40.4	19056	10	18	113	0
Brazil	39284	28.7	7532	12	19	-25	115.8
India	12187	8.9	2937	-13	-19	-12	115.8
Mozambique	7910	5.8	1419	56	56	-44	0
Philippines	4309	3.1	1167	-7	-13	-7	115.8
Malawi	4161	3	995	-17	-15	333	0
Turkey	3062	2.2	347	45	49	-58	115.8
Zambia	2323	1.7	1021	81	69	96	0
Italy	1972	1.4	384	-59	-11		0
China	1645	1.2	414	-33	-40	37	115.8
Germany	1233	0.9	176	-14	-15	-85	0
Tanzania, United Republic of	1110	0.8	297	16	10	271	0
Bulgaria	926	0.7	103	-47	-3		0
Bangladesh	417	0.3	183	-67	-32		115.8
Uganda	310	0.2	85	-11	2	-84	115.8

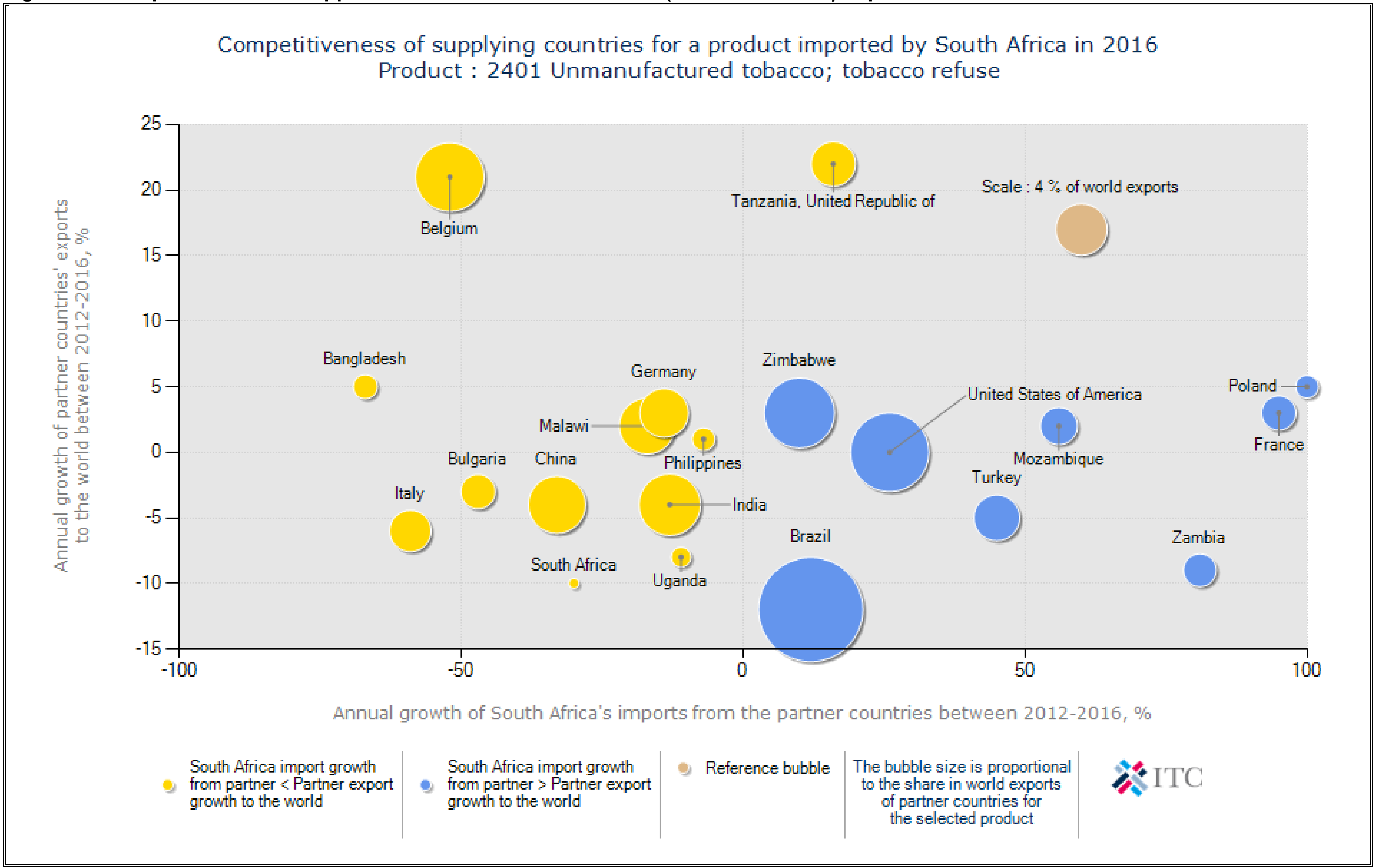
Exporters	Trade indicators						Average tariff (estimated) applied by South Africa (%)
	Value imported in 2016 (USD thousand)	Share in South Africa's imports (%)	Quantity imported in 2016	Growth in imported value between 2012-2016 (%, p.a.)	Growth in imported quantity between 2012-2016 (%, p.a.)	Growth in imported value between 2015-2016 (%, p.a.)	
United States of America	204	0.1	195	26	214		115.8
Belgium	116	0.1	40	-52	-17		0
France	94	0.1	23	95	128	-82	0
Poland	62	0	11	145	134	-73	0

Source: ITC Trade Map

Table 14 illustrates the list of supplying markets from the world for tobacco (unmanufactured) imported by South Africa from the world in 2016. During the period under scrutiny, South Africa imported a total of 36 630 tons of tobacco (unmanufactured) from the world and that means South Africa is a net importer of tobacco (unmanufactured) as the country exported only 2 655 tons in 2016. The greatest volumes of tobacco (unmanufactured) were imported from Zimbabwe, followed by Brazil and India during 2016. Zimbabwe's market share in South Africa's imports was 40.4%, Brazil's share was 28.7% and India's share was 8.9% in 2016.

Between 2012 and 2016, there was an increase in tobacco imports from Zimbabwe in value and quantity terms of about 10% and 18% respectively. Tobacco imports from Brazil experienced an increase in value and quantity at 12% and 19% respectively. Tobacco imports from India experienced a decline in value and quantity at 13% and 19% respectively. Countries such as Zambia, Turkey and Mozambique were the most attractive markets for tobacco (unmanufactured) imported by South Africa during 2016.

Figure 34: Competitiveness of suppliers to South Africa for tobacco (unmanufactured) imports in 2016



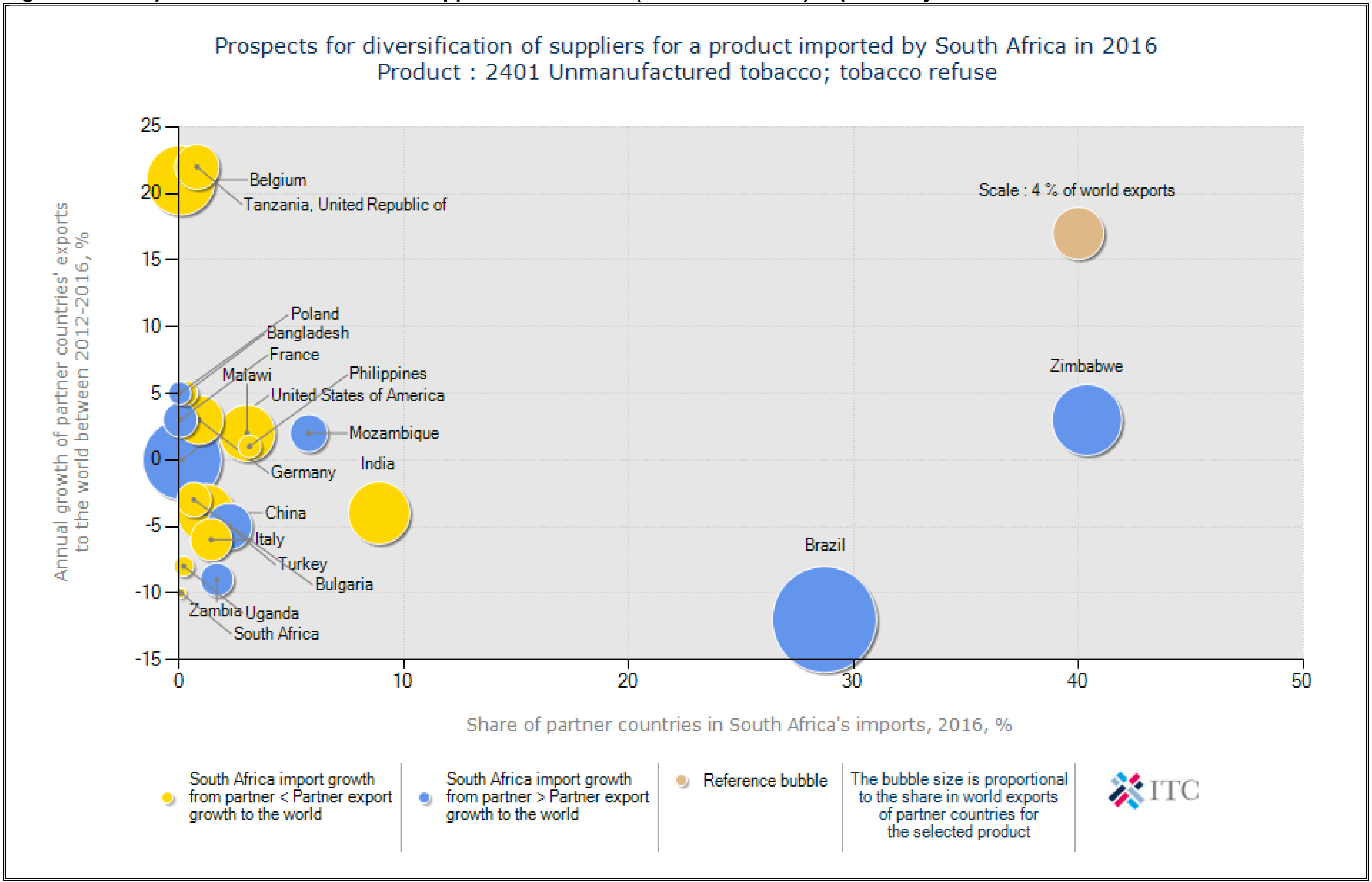
Source: ITC (Trade Map)

Figure 34 illustrates the competitiveness of suppliers for tobacco (unmanufactured) imported by South Africa from the world during 2016. Belgium, China and India were the biggest markets for tobacco (unmanufactured) during 2016. Between 2012 and 2016, France, Zambia and Poland were the most competitive suppliers of tobacco (unmanufactured) for the South African tobacco market. Between 2012 and 2016, South Africa's tobacco imports from France, Zambia and Poland were growing at a rate that is faster than their export growth to the rest of the world.

By adding a horizontal line representing the world market growth and a vertical line representing the average growth of South Africa's import of this product, the following conclusions can be made:

- The annual growth of South Africa's imports for tobacco from India was growing less than world's imports between 2012 and 2016.
- South Africa's annual growth imports for tobacco from India were growing at a very slow pace and even slower with world exports over the same period.
- The annual growth of South Africa's imports for tobacco from Zimbabwe was growing at a slow pace than world's exports over the same period under examination.

Figure 35: Prospects for diversification of suppliers for tobacco (unmanufactured) imported by South Africa in 2016



Source: ITC Trade Map

Figure 35 indicates the prospects for diversification of suppliers for tobacco (unmanufactured) imported by South Africa from the world during 2016. India, China and Malawi were the biggest suppliers of tobacco (unmanufactured) imported by South Africa over the same period. The bubble graph also indicates that if South Africa were to diversify its suppliers of tobacco, small markets exist in Zambia, Mozambique and Turkey. The very small markets of tobacco mentioned above are exporting less tobacco to South Africa but more to the world between 2012 and 2016 marketing season.

8. EMPOWERMENT ISSUES AND TRANSFORMATION IN THE SECTOR

At **Honingklip** near Badplaas in the Mpumalanga province, three black farmers are currently producing tobacco. TISA (Tobacco Institute of South Africa) funds the bulk of the project manager's salary and provides extension services to the farmers. The Mpumalanga Agricultural Development Corporation is also closely involved with this project, funding all production costs and part of the project manager's salary.

9. ORGANIZATIONAL ANALYSIS

9.1 Challenges

The growth of illicit trade in tobacco products has gone from non-existent a decade ago to the current 15% of the entire industry. The alarming growth in illegal trade of tobacco products in South Africa is estimated to be between 1 – 2 billion sticks per annum. Various factors that include high excise duties, drought and the stronger rand also pose serious challenges to the industry's competitiveness. Excise duties have increased by 470% over the past ten years, and have resulted in the decline of the legal market by a third and a rapid growth in the illegal market. The illegal market could be as high as 15% countrywide and growing.

9.2 Opportunities and Strengths

In the tobacco industry there exist good relations between the growers and the manufacturers and/or the leaf dealers and, there is a potential to grow crop size and improve the quality. The grower organizations are technically well advanced and most of the major South African tobacco manufacturers are world players.

China, the world's largest consumer of cigarette tobacco, continues to show interest in South African tobacco. A Protocol on Phytosanitary Requirements for the export of South African tobacco leaf to China was signed on 06th February 2007. With the interest of the Chinese in South African tobacco leaf, this protocol creates huge potential for South African tobacco farmers and the greatest challenge will be to increase the crop size and ensure stable supply to China.

10. TOBACCO PRODUCER ORGANIZATIONS/CO-OPERATIVES

10.1 LIMPOPO TOBACCO PROCESSORS

PO Box 69
RUSTENBURG
0030

10.2 GAMTOOS TOBACCO CO-OPERATIVE

PO Box 5
PATENSIE
6335

10.3 MOKOPANE TOBACCO
PO Box 4819
MOKOPANE
0600

11. LEAF MERCHANTS/ LEAF DEALERS

11.1 UNIVERSAL LEAF SOUTH AFRICA
PO Box 7509
RUSTENBURG
0300

11.2 TOBACCO TRADERS
PO Box 487
CONSTANTIA
7848

11.3 ALLIANCE ONE INTERNATIONAL
PO Box 787
NORTHLANDS
2116

11.4 TRIBAC
Po Box 652799
BENMORE
2010

11.5 VIRGINIA LEAF COMPANY (Pty) LTD
PO Box 412796
HYDE PARK
2024

12. CIGARETTE MANUFACTURERS

12.1 BRITISH AMERICAN TOBACCO SOUTH AFRICA (PTY) LTD
PO Box 631
CAPE TOWN
8000
Head Office: Stellenbosch

12.2 JAPANESE TOBACCO INTERNATIONAL SOUTH AFRICA
Private Bag X 39
RIVONIA

2128

12.3 MASTERMIND TOBACCO SA (PTY) LTD
PO Box 7185
EAST LONDON
5200

12.4 GALLAHER SA
P O Box 14504
WADEVILLE
1422

12.5 PHILIP MORRIS SOUTH AFRICA
MILNERTON, CAPE TOWN

13. PIPE AND SNUFF TOBACCO MANUFACTURERS

13.1 SWEDISH MATCH SA: LEORNARD DINGLER (Pipe and Snuff)
PO Box 215
BENONI
1500

13.2 SWEDISH MATCH SA: BEST BLEND (Pipe)
PO Box 63
RUSTENBURG
0300

13.3 MLP DISTRIBUTORS (Medicated/treated snuff)
PO Box 9975
JOHANNESBURG
2000

13.4 VAN ERKOMS TABAKKE (EDMS) BPK (Pipe and Snuff)
PO Box 1889
MOKOPANE
0600

13.5 WORLD CLASS CONNECTION TRADING (PTY) LTD
(Roll Tobacco for export)
PO Box 46
OUDTSHOORN
6620

13.6 AJ PADIA TOBACCO MERCHANTS
PO Box 2030
DURBAN
4000

13.7 KTC HS SPIES & BROERS
PO Box 46
OUDTSHOORN
6620

Although the companies listed above represent approximately 95% of the industry in RSA, there are a number of other tobacco companies and importers who are also operating in the country. These companies include amongst others the following:

- African Affiliated Tobacco;
- Apollo Tobacco;
- Brasant Enterprises (Affiliate of Swedish Match);
- Capital Tobacco;
- Imperial Tobacco;
- SA Nicecentury Trading CC; and
- Shutel Tobacco.

11. ACKNOWLEDGEMENTS

The following organizations are acknowledged:

The Tobacco Institute of South Africa (TISA)
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P.O. Box 631
Stellenbosch
7599
Tel: (021) 888 3973
Website: www.batsa.co.za

Directorate: Statistics & Economic Analysis
Department of Agriculture, Forestry and Fisheries
Tel: (012) 319 8042, Fax: (012) 319 8031

Quantec Easydata
P.O.Box 35466
Menlo Park
Pretoria
0102
Tel: 012 361 5154
Website: www.quantec.co.za

International Trade Centre (ITC)
Palais des Nations
Geneva 10
Switzerland
Tel: +41 (0) 22 730 05 24
Fax: +41 (0) 22 730 05 77
Website: http://www.trademap.org

ITC Market Access Map
Website: http://www.macmap.org/South Africa