



The Tobacco Institute of
South Africa

P O Box 7648
ROGGEBAAI
8012

Tel: (021) 421-0011
Fax: (021) 421-0013

Email:
tisa@tobaccosa.co.za

Website:
www.tobaccosa.co.za

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NEWSLETTER

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ONE INDUSTRY BODY

The Tobacco Institute of South Africa (TISA) and Tobacco RSA became one body in January 2006. Both Boards agreed in 2005 that Tobacco RSA should be incorporated into TISA.



TISA represents more than 95% of the legal tobacco industry in South Africa including tobacco growers, leaf dealers and manufacturers of tobacco products.

In the new dispensation all members are equal. To cater for all members whether large or small, the principle of 'one director, one vote' applies. All members have one vote at the AGM regardless of whether they are represented on the Board.



The new TISA Board is made up as follows:

Manufacturing members each have two directors on the Board. The Grower sector has two directors of which one is a paid professional executive employed by the Primary Industry and the other to be a nominated candidate at the discretion of the TISA Board.

Leaf dealers and some of the smaller organisations do not currently seek Board representation. Should Leaf dealers in future require Board representation, they will be given a seat on the Board.

The new body was formed based on the principle that certain issues can be dealt with better together as an industry.

The following Committees have been established to deal with industry issues:

Legislation Committee

This Committee monitors and acts on tobacco control legislation and any other legislation affecting the interests of the industry.

BEE Committee

This Committee will oversee the industry's BEE initiatives, projects and activities.

Committee on Illicit Trade Matters

The single biggest threat to the legal tobacco industry is the growth in illicit trade in tobacco products. This Committee works together with SARS and other government agencies to assist in combating the growing illicit trade problem.

Grower Committee

This Committee will deal exclusively with issues affecting growers and will assist in ensuring a stable and sustainable future for tobacco growing in South Africa.

Research Committee

Industry experts involved in research serve on this Committee. TISA funds research based on the prioritised needs identified in conjunction with growers.



A diagram of the new TISA structure is displayed on page 2.

MESSAGE FROM THE CHAIRMAN OF TISA

Gone are the days where most industries can only have one concern, that of making money. Changes in expectations from society have resulted in industries being managed differently than before, being more responsible, transparent and accountable in what they do.

The tobacco industry produces a product which is widely used globally but comes with health risks. Therefore the industry and the use of the product have to be regulated; the industry is fully supportive of regulation and has a public stance of working with government to achieve its health and other goals with regards to tobacco matters.

However, in regulating the product, there has to be a balanced approach between the health issues on the one side, and the huge economic and social benefits from the industry on the other. Over-regulating and over-taxing could eventually strangle the legal industry, but the product will still be produced by illegal syndicates who don't care about paying taxes, complying with regulation or doing business in a responsible manner.

Tobacco farmers, manufacturers and leaf dealers have all made significant adjustments over the past couple of years in order to remain sustainable, and conduct business in a responsible way towards the environment, the country, and its consumers.

AIMS AND OBJECTS OF TISA

The Tobacco Institute of South Africa (TISA) is a voluntary industry association representing tobacco growers, leaf dealers and manufacturers of tobacco products. The aims and objectives of TISA are to:

Protect the interests and convey the views of the Tobacco Industry in South Africa to all stakeholders and relevant parties.

Not have any commercial role in affairs concerning the growing, purchasing, manufacturing, pricing or marketing of tobacco or tobacco products.

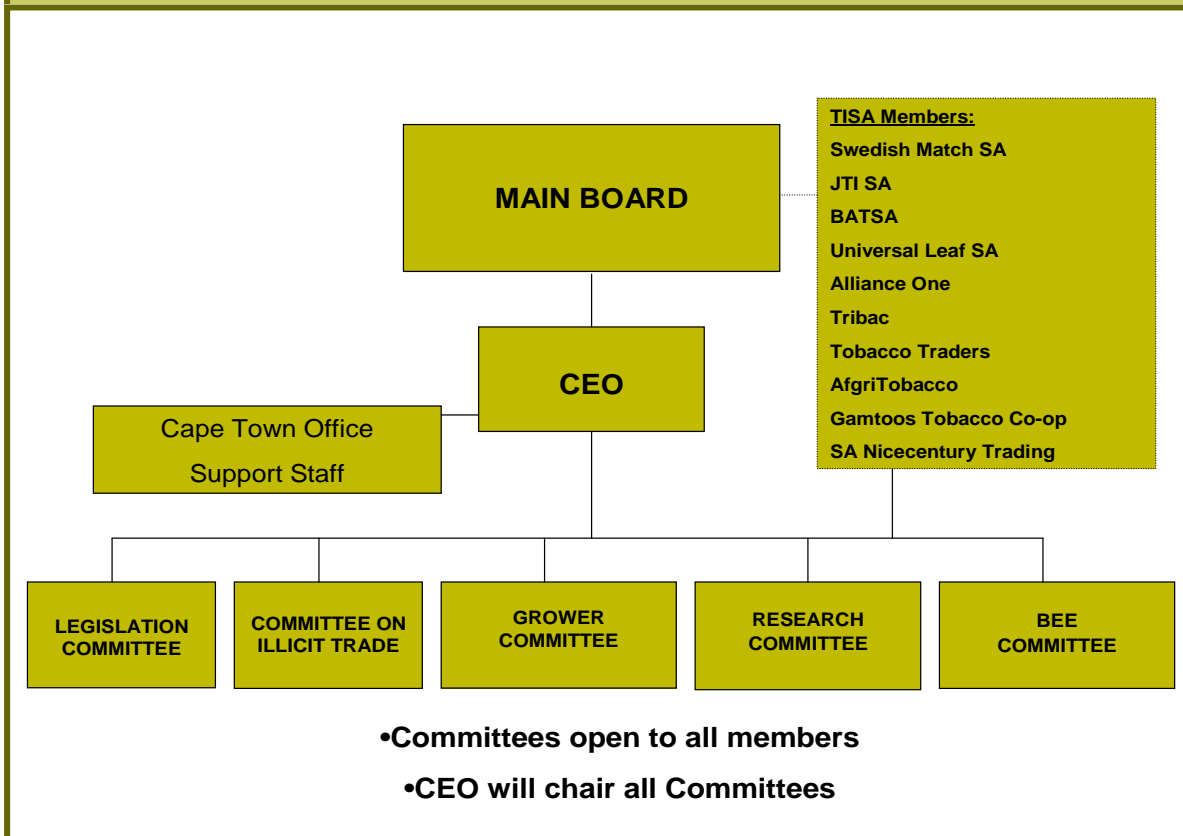
Assist in protecting all of the rights, including the constitutional and common law rights of the Tobacco Industry in South Africa

The fanatical and unbalanced onslaught on the tobacco industry has to be tapered down; it is blown out of proportion when compared to other burning priorities in our country.

The tobacco industry is committed to this country. We will continue to grow tobacco and manufacture quality products and while doing this, we will build this country and also make a living for ourselves. We have nothing to hide; in fact we are proud of how we do our business. We plead with our government to sit with us and talk sensibly about all issues relating to tobacco matters, we are ready at any time to do so.

Francois van der Merwe
Chairman

NEW TISA STRUCTURE



FARM SUPERVISORS CERTIFICATION CEREMONY



Certificates were awarded on 24 July 2006 to candidates who successfully completed a 30 day Tobacco Farm Supervisor course presented by the Mpumalanga Agricultural Skills Development and Training Company. The ceremony was held in Groblersdal and hosted by AfgriTobacco.

Youth Smoking Prevention Programme

During August 2006 TISA distributed material to 20 000 retailers across South Africa to assist these retailers not to sell tobacco products to young people under the age of 18 years.

The Programme launched in March 2003 entered its fourth phase this year. Independent measurement has confirmed the success of the campaign in terms of raising awareness around the problem of tobacco product sales to the under-aged.

The Programme has been refreshed with a new look to complement the plaques already up in many retail outlets.



Black Tobacco Farmers in the Mpumalanga Province

In the Badplaas region, TISA and the MADC (Mpumalanga Agricultural Development Corporation) have formed a partnership to assist interested farmers in learning the trade of growing tobacco. The industry learnt valuable lessons from previous project failures at Hereford and others, and this time round things are done in a different way.

The most important factor is to identify farmers who are really interested in agriculture as a way of living. Once the right farmers are identified, it is possible for such farmers to make a living from tobacco and other crops in deep rural areas, given they receive guidance and assistance from an industry and a financier.

For the past two years, a number of farmers have grown tobacco in this area. Through a process of elimination, 4 farmers have remained and will continue growing flue cured, dark air cured and burley tobacco for the new season.

The size of the plantings varies between 4 and 15 hectares. TISA provides extension services to these farmers through an agronomist, while MADC provides funding to the farmers. These 4 farmers have fully repaid their loans during the past crop and have the potential to become independent farmers in the next year or so.

The aim is to only work with farmers who show commitment, as forced participation for the wrong reasons has proved to fail in the past. Although this might mean slower growth in numbers, it will be sustainable in the longer term.

The involvement of TISA in the development of black farmers is not aimed at the production of tobacco only, but, to develop farmers to be successful in multiple cropping and also to be sustainable. TISA's goal is to eventually be instrumental in making a difference in the lives of people where we operate.

STUDENTS PRACTICAL TRAINING 2006

Three promising black Agriculture students were selected by TISA to undergo their practical training in the tobacco industry during 2006.

The students are based in the Groblersdal tobacco growing region in Mpumalanga. Funding is provided by TISA while an experienced Agronomist, Deon Meyer, acts as mentor to the students guiding them through all aspects of their practical training.

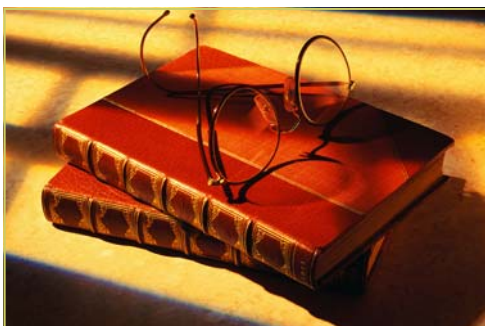
The ultimate aim of this initiative is to empower these students to build a sustainable career in Agriculture in South Africa.



From left to right:
Tshifhiwa Radzilani; Lucky Shirami; Gordon Tau

TOBACCO CONTROL LEGISLATION—UPDATE

The SA Cabinet on 22 March 2006 approved the Tobacco Products Control Amendment Bill for submission to Parliament. The Bill was submitted to Parliament on 4 April 2006. Thereafter, the Bill was checked by the State Law Advisors and referred back to the Department of Health.



On 1 September 2006, a notice appeared in the Government Gazette indicating that the Minister of Health intends tabling the Tobacco Products Control Amendment Bill, 2006 in Parliament shortly. On 13 September 2006 the Bill was formally tabled in Parliament. The Bill presented does not deal with all the issues contained in previous drafts since 2003. It briefly deals with the following issues:

1. New and amended definitions
2. Control over the smoking of tobacco products in public places including in hospitality establishments and workplaces.
3. Standards for the manufacture and export of tobacco products.
4. The Minister of Health's power to make regulations.

5. Increases in the fines for transgressions e.g. for an individual smoker smoking in a non-smoking area, the fine will be a maximum of R 500.
6. Amendments to the Preamble of the Principal Act including reference to smokeless tobacco products.

Issues not included in this Bill such as raising the age of sale from 16 to 18 years and Point of Sale communication is expected to be dealt with at a later stage in a separate bill.

The Portfolio Committee on Health published a notice in the Sunday Press on 24 September 2006 inviting stakeholders to submit written submissions to the Committee by 13 October 2006. Public hearings will be held in the week of 23 to 27 October. Stakeholders may be invited to make verbal representations to the Committee based on their written submissions. The Committee will aim to process the Bill before Parliament commences recess on 17 November 2006. If however this is not possible, the Bill will be held over until Parliament reopens in 2007.

The Tobacco Institute of South Africa has been and will continue to closely monitor developments and actively engage with key role players involved in the legislative process to ensure that the tobacco industry's views are heard.

TAR AND NICOTINE LEVELS - 1 JUNE 2006

As of 1 June 2006, the tar yield of cigarettes marketed in the Republic of South Africa may not be greater than 12 mg per cigarette and the nicotine yield not greater than 1.2 mg per cigarette.

37th MEETING OF THE ITGA AFRICA REGION

South Africa hosted the 37th meeting of the Africa region of the International Tobacco Growers Association from 4 to 7 June 2006 in Cape Town.

Representatives from Zambia, Uganda, Tanzania, Malawi and Kenya attended the meeting.

The newly appointed President of the ITGA Mr Benicio Werner and the Chief Executive of the ITGA Mr Antonio Abrunhosa traveled from Brazil and Portugal respectively to attend the meeting.



Mr Antonio Abrunhosa, CE of the ITGA addressing the 37th meeting of the ITGA Africa region

Delegates presented their country reports at the meeting. 2006/7 crop estimates for the various countries are:

Malawi

Burley	128 million kg
Virginia	26 million kg
NDDF	530 000 kg
SDF	150 000 kg

Uganda

Burley	4 million kg
Dark Fire-Cured	200 000 kg
Flue-cured	16 million kg

Kenya

Dark Fire-cured	1.5 million kg
Flue-cured	13.5 million kg

Zambia

Burley	20 million kg
Virginia	26 million kg

Tanzania

Burley	300 000kg
Dark Fire-cured	4.7 million kg
Flue-cured	55 million kg

The TISA Chairman briefed the meeting on current issues in the South African tobacco industry including farming industry developments and the alarming growth in the illicit trade of tobacco products. The briefing also explained that more stringent tobacco control legislation was on the cards for South Africa and this legislation would most probably form the blueprint for other countries in Africa.

The Chairman of TISA was invited by the ITGA to do a presentation on SA tobacco control legislation and how the industry is dealing with the legislative process at a conference of the ITGA in Italy later this year.

One day was set aside for sight-seeing and delegates were treated to a tour of the Cape Winelands.

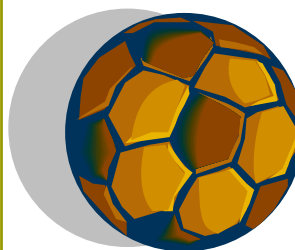
Delegates with TISA staff at the Fairview cheese and wine farm near Paarl



A copy of the ITGA's quarterly publication, the Tobacco Courier is available on the TISA website at www.tobaccosa.co.za

WORLD CUP 2010

TISA recently stated in the Media that it will not lobby the Department of Health for any relaxing of the laws on tobacco advertising for the 2010 Soccer World Cup.



The CEO of TISA however pointed out to the DOH that many thousands of smoking foreigners will be entering the country which means mechanisms will need to be put in place to make these visitors aware of the strict SA public smoking laws.

TISA examines illicit trade in tobacco products

Illicit trade in tobacco products is a growing and significant problem in a number of countries around the world. In South Africa, the tobacco manufacturing industry is estimated to account for a large percentage of excise collected in the 2005/2006 financial year. However, the consequences of illicit trade in cigarettes and other tobacco products are being felt.

Defining illicit trade

Illegal or illicit trade is the supply, distribution and sale of smuggled or counterfeit tobacco products, or tobacco products on which the necessary duties and taxes have not been paid.

The extent of illicit trade

Illicit trade undermines the legal tobacco industry and reduces government tax revenues, which affects economic development and consumers. Tax revenues from the sale of legitimate tobacco products are essential to government services, particularly in developing countries.

In South Africa, illegal trade in tobacco products has been estimated at 20 million cartons of 20s per year, translating into a revenue loss of R1,4b per year for the legitimate tobacco category. Of this, R1b of government taxes is lost.

Why does it occur?

The predominant reason for illicit trade is because the economic benefit outweighs the risks involved. Cigarettes are especially attractive for illicit traders because they have a high value to volume ratio and are relatively easy to transport. In addition, they offer a higher profit opportunity than most other fast moving consumer goods, due to the significant tax portion of the retail price. Other reasons could be weak border controls, inadequate sanctions delivered to perpetrators, and corruption.

Types of illicit trade

- The first type is the importation, for commercial use, of tobacco products on which payment of applicable taxes, such as duties, excise and value-added tax, is evaded in the country of consumption, or no tax is paid at all.
- The second is 'undeclared' local production, where products are produced and consumed in the same country, but with payment of local taxes. These products may be manufactured in approved factories, but not declared to the authorities, or they may be manufactured in illegal covert operations.
- The third type is counterfeit product, which is intended to be an identical or near identical copy of a genuine branded product and its packaging, to give it the appearance of being genuine.



What is not illicit trade?

- Sales by legal traders of legal products on which all necessary taxes have been paid.
- Sales of duty free products for the consumer's own use in permitted quantities under customs regulations, in, for example, duty free shops at airports, planes or ships.
- Legitimate cross-border shopping is also permitted, such as if a consumer purchases duty-paid tobacco or tobacco products while in another country.

WHAT TO LOOK FOR:

Price

The excise duty including VAT on the excise duty portion of a packet of 20 cigarettes, according to the budget of February 2006, is R6,35. At this price, no profit is realised by any entity.

Appearance

Misplaced or missing excise diamond stamps or health warnings are also a clue to identifying counterfeit products. As from 1 June 2006, the tar and nicotine readings on tobacco products must be no greater than 12mg tar and 1,2mg nicotine respectively.

Rumour

Word gets around and if you hear or suspect a company or individual of illicit trading, you can report them to the South African Revenue Services (SARS).

The view of the Tobacco Institute of South Africa

- Illicit trade damages the businesses of the legal tobacco industry and we would like our market to be entirely free of it. It deprives the government of revenues, promotes criminal activity, misleads consumers into buying products of dubious quality and hampers efforts to block underage sales.
- Illicit trade harms brands and prevents the legal trade from competing fairly and openly and undermines the regulations governing the legitimate industry.
- Counterfeit products deceive consumers and seldom comply with regulatory requirements and standards.
- Only governments can tackle illegal trade effectively through policy and enforcement. Illicit trade should be treated as a serious offence and adequate resources should be dedicated to ensuring effective enforcement.
- We are committed to working with the government to develop and implement strategies to combat the problem. Also see page 8.

DEVELOPMENTS IN THE PRIMARY INDUSTRY

Globalisation of most industries, including tobacco, resulted in businesses being looked at and managed differently than before. As a result of this, the Tobacco Farming Industry in South Africa needed drastic transformation to make it globally competitive and thereby ensuring its own long-term sustainability.

The entire industry in South Africa worked together and developed a model which could ensure the future for tobacco farmers. This model was based on drastic rationalization of excess infrastructure (especially GLT plants) to eliminate costs in the system. Duplication of services had to be identified and removed, all functions had to be re-evaluated and streamlined.



AFGRI, a listed agricultural company, was approached to become involved in the tobacco industry. They would bring to the industry professional and depoliticised management, shared services for better cost effectiveness, security to farmers in terms of all their services, financing, and very importantly, a more professional approach and service to buyers of tobacco.



In June 2005, under the auspices of Tobacco RSA (now TISA), the entire industry agreed on the model briefly explained above. Unfortunately, SA Golden Leaf Ltd (SAGL) in October 2005 decided to walk away from the agreed model and continue on their own which left the industry divided and ineffective.

AfgriTobacco nevertheless continued along the principles of the agreed model and succeeded in acquiring around 70% of the flue-cured crop in 2006.

As expected, the scenario of a divided crop was not sustainable. In August 2006, SAGL decided to terminate its tobacco activities and recommended to their farmers to approach AfgriTobacco for their future tobacco requirements.



Although a number of major problems arose as a result of SAGL operating on its own in 2006, the opportunity now exists to finally restructure the farming industry. The principles of the 2005 model will be used, adjusted where necessary, and a new model developed around AfgriTobacco.

Research and Extension Services have been identified as crucial to continue. However, the functions will also be restructured based on priorities for research and the outsourcing of the function by TISA and Afgri. Extension will continue in a completely different way where the principle of partly-subsidised services to farmers will be considered.



With a restructured farming industry where “above farm gate costs” have been optimised, the tobacco farmers in SA can look forward to a sustainable future in tobacco growing. Farmers can now focus on what they are good at, the production of quality tobacco while they can rest assured the management of their product beyond the farm gate is in professional hands.

TISA would like to thank all farmers who supported the restructuring process, as well as all the manufacturers, leaf dealers and AFGRI for their patience, perseverance and continued support for a viable and sustainable tobacco growing sector in South Africa.

**SARS / TOBACCO INDUSTRY
STAKEHOLDER FORUM
LAUNCH : 3 AUGUST 2006**

On 3 August 2006, SARS Customs Unit and various stakeholders in the tobacco industry including TISA members launched a joint forum to address the growing problem of illicit trade in tobacco and tobacco products.

The Stakeholder Forum will consider and deliberate issues of concern and on a consensus basis find the best way forward to deal with these issues.

TISA and its members have given their full support and commitment to this Forum.

STOPPING ILLEGAL TRADE

Be on the lookout. Notice what people are selling, what their cigarettes look like and for how much they are being sold.

**Report any suspicious activities or products to the SARS Fraud and Anti-Corruption Hotline on
0800 00 28 70.**

**TOBACCO EXCISE DUTIES
2006/2007 TAX YEAR**

Tobacco Product	2005/ 2006 Excise Duty	2006/ 2007 Excise Duty (19 Feb 06)	Percentage increase from 2005/ 2006 to 2006/ 2007 tax year
Cigarettes	R 5.05/ 20 cigarettes	R 5.56/20 cigarettes	10.2%
Cigarette tobacco	R 7.47/ 50g	R 7.82/50g	4.7%
Cigars	R 32.59/ 23g	R 34.16/23g	4.8%
Pipe tobacco	R 1.91/ 25g	R 2.07/25 g	8.3%

**PRIMARY INDUSTRY IN
SOUTH AFRICA
CROP REPORT**

FLUE-CURED TOBACCO

Total Crop 2005/2006

12 500 000 kg

Crop Estimate 2006/2007

11 500 000 kg

DARK AIR-CURED TOBACCO

Total Crop 2005/2006

2 350 000 kg

Crop Estimate 2006/2007

2 450 000 kg

**UNIVERSAL LEAF SA
DARK AIR-CURED GROWING PROJECT**

The ULSA DAC growing project is improving every year and produces tobacco for the local as well as export market. Locally the tobacco is mainly used for pipe and snuff products, while the export tobacco is used in snus.

Although the second part of the 2005/06 season was not quite suitable for the production of good quality DAC tobacco, the overall quality received still satisfied customer demand and in total 2,100MT is expected. Receivings close at the end of October. The first plantings of the 2006/07 crop are already in the soil and based on seedling growth, the season got away on a very positive note. Although we have lost two very capable growers, Universal has contracted an additional six producers who are well known in the industry and will only be beneficial to our future goals. In total 30 growers are contracted to produce an estimated 2,200,000kg of DAC tobacco.



Universal Leaf SA believes that the future of this project is positive if the necessary pro-active adjustments are made according to changes in customer quality demand. This project is well balanced in the market and currently produces good quality with low TSNAs (Tobacco specific Nitrosamines). Our short term goal is to achieve food standard production and we have already achieved some of these key goals with regards to chemical residue limitations and the low TSNAs. Further steps will be implemented during this season with regards to a farmer rating system and the overall production and handling of the tobacco. We strive towards producing a "clean" product within food standards that can be used by customers worldwide.

Contribution by Jaco Malan ULSA