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(831)

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RURAL DEVELOP-

MENT RESEARCH

TOBACCO MARKETING IN TANZANIA.¹

by

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R.D.R. No.63

1. INTRODUCTION

This paper is an attempt to describe briefly the marketing aspects of the flue-cured tobacco industry of Tanzania. It concentrates on the structure of the industry, the pricing policy of the Tanganyika Tobacco Board and the difficulties faced by tobacco growers.

Tobacco is a comparatively new enterprise for African Small-scale farmers in Tanzania. As it is a relatively difficult crop requiring some capital investment the colonial government did not actively encourage widespread African participation in the growing of this crop. The main growers then were large scale Greek and Asian farmers in the Iringa and Tabora-Urambo Areas.

In 1950 the Overseas Food Corporation (O.F.C.) in an attempt to find alternative crops to groundnuts laid down a trial of Flue-Cured Virginia Tobacco on the Urambo section of the 'Groundnuts Scheme'. From this small beginning of approximately 100 acres the present flue-cured tobacco industry in Tabora Region has developed. In the season 1952/53 the O.F.C. started a system of African Tenant Farms. The tenants were supplied with seed, fertilizer, and insecticide. Land preparation was carried out by machinery at contract rates. The tobacco was bought as 'green leaf' by the Corporation and cured by them separately from that produced by large farms on the same scheme.

Since independence the national government, with a view to diversifying the economy, has aimed at increasing tobacco production in order to be able to export part of the production after meeting the local demand of the single cigarette manufacturing firm. Table 1 below illustrates the rapid growth of output during the last few years. This growth has been largely contributed by small scale African growers.

1. The paper is based on field research currently being undertaken in Tanzania leading to a thesis in partial fulfillment of the requirements for the degree of M.A. (African Studies) at Makerere University College.

I am grateful to Mr. D.G.R. Belshaw and Mr. Malcolm Hall for commenting on this paper.

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TABLE I.

PRODUCTION OF FLUE-CURED TOBACCO IN TANZANIA (IN LBS)

<u>Year</u>	<u>Production for Internal Market</u>	<u>Export</u>	<u>Total</u>
1961	2,565,751	1,075,238	3,640,989
1962	1,589,278	905,481	2,494,759
1963	2,413,452	877,421	3,290,873
1964	3,505,292	385,005	3,890,297
1965	5,152,468	3,673,998	8,826,466
1966	2,646,038	5,231,807	7,877,845
1967	1,167,891	9,032,109	10,200,000

SOURCE: Annual Trade Reports.

The public sector assisted the African grower in producing this crop initially through extension advice and the provision of capital for barns, fertilisers and insecticides. It was soon discovered, however, that marketing presented a major problem in the development of the tobacco industry.

2. ORGANISATION OF THE TANGANYIKA TOBACCO BOARD

In order to be able to export the surplus tobacco and maintain minimum standards of quality, the Tanganyika Tobacco Board was set up in 1963 by an Act of Parliament. This board comes under the Ministry of Agriculture and is controlled by this Ministry. In fact the Junior Minister of Agriculture is at present the Chairman of the Board. The Board is responsible for the betterment of the tobacco industry in Tanzania and is in a monopsony position for buying tobacco. Because of lack of personnel and experience it works through agents who buy tobacco on her behalf in various parts of the country e.g. the British-American Tobacco Company (B.A.T.) in Tabora and the Southern Highlands Tobacco Union in Iringa Region. Appendix A shows the organisation of the Tobacco Board.

At present, as the industry is young and Tanzanian tobacco little known in the world market, the Board has employed a large firm of world repute, the Trans-Continental Leaf Tobacco Corporation, to sell her tobacco in the world market. It is, however, the intention of the Board to open an auction floor in Morogoro when production doubles to 20 million pounds of cured leaf. In this situation whether the abolition of the commission paid to the international firm would result in the ability to pay higher prices to producers (or the introduction of export duty for government revenue) would depend on the relative efficiency of a competitive versus a monopolistic system in this particular context; the answer would probably vary depending on whether the world tobacco market was in a state of over- or under-supply.

The cost of the auction floor would not be very great as it would be situated in the same buildings as the new redrying plant recently opened at Morogoro.

3. PROBLEMS FACING THE BOARD

In line with the intention to increase exports of both the flue-cured and aromatic or turkish types of tobacco, a large redrying plant was opened at Morogoro with at least half the capacity of the plant devoted to processing aromatic type of tobacco. International buyers normally require tobacco to be redried before they import it into their countries because of the high import tax based on the weight of tobacco. Soon after the investment it was discovered that Tanzania would have to abandon the production of aromatic type of tobacco as the traditional buyer, the U.S.A., was committed to buying this type from Greece and Turkey who were over-producing it. This is, perhaps, an example of lack of forward planning and especially of market research.

A serious problem facing the Tobacco Board is the Nyamirembe tobacco area in Western Tanzania. This is a vast area geographically involving long distances but the quantity of tobacco marketed is very small with the result that the cost of buying tobacco exceeds the total payments made to farmers. This is partly because only a small proportion of total production is sold as leaf; most of it is sold over the Burundi and Rwanda border in the form of coil tobacco which often fetches better prices than if sold as leaf to the Board. Moreover avoiding sale to the board means freedom from paying levies to the Board and cooperative societies and Local District Council tax. As the Nyamirembe tobacco area adjoins the other two countries for about 150 miles it would be extremely difficult to stop the trade.

The coil trade has serious implications for the Board as:

- (i) It reduces the amount of tobacco handled by the Board without reducing the area over which the Board must buy;
- (ii) The Board provides free seed to maintain high quality and to reduce disease infection;
- (iii) It is very difficult for the Board to maintain the quality of leaf, because if the prices paid by the Board for lower grades are not acceptable to the grower he can turn the leaf into coil and sell it over the border.¹

4. PRICING POLICY OF THE BOARD.

The pricing system for growers' tobacco is determined as follows. The Tobacco Board asks its selling agents to estimate the prices the Tanzanian tobacco grades will fetch in the world market. From this the Board deducts her running expenses and a small surplus for future investment and as a safeguard against miscalculations. The price is then announced which is the same for all the tobacco growing areas of Tanzania irrespective of whether the tobacco is for the internal market or for export. The price

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1. Nevertheless, from the national point of view the coil trade both raises rural incomes and represents an export activity. Data on the trade would be required to ascertain whether the Board's subsidy of tobacco production in this area is warranted by the increment to national income.

differential between tobacco sold in the export market and the local market is about one shilling per pound. This is because apart from the additional costs of transport for exporting tobacco, the crop in the local market is highly protected. Local manufacturers would pay an import duty of 24/= per pound on imported leaf tobacco.

5. MARKETING COSTS AND MARGINS.

An independent investigator¹ has commented that the industry suffers from a very high cost marketing structure.

Table 2 shows what the farmer actually received in 1965/66 from the sale of one pound of tobacco; and the Board's forecasted figures for 1969/70. Appendix 'B' contains the details from which this table was taken.

TABLE 2.

	1965/66		1969/70	
	Pence/lb	%	Pence/lb	%
Selling Price	40.0	100	44.0	100
Farmer receives	22.0	55	27.0	61
The Board receives	10.0	25	2.0	5
Govt. and Administrative costs	8.0	20	15.0	34

Source: Ledson, G.A. Associated Industrial Consultants.

A notable feature is the share of the funds withheld from the producer. On the one hand, it can be argued that the Board needs to have a sizeable surplus for future investments to provide growers with extension services, credit, etc. which are currently a bottleneck to increased production. As a protected industry, the funds can be drawn from the artificially high margins earned by growers. On the other hand, other crops receive inputs financed by the general taxation system; some of these also have market prices which differ from the appropriate real value or shadow price. Clearly, the risk is present that inter-enterprise price and income differentials will be distorted away from a pattern conducive to the optimal allocation of resources, from the point of view of economic growth, as long as arbitrary price and financing decisions are made on an ad hoc crop-by-crop basis. Research specifically focussing upon this aspect is required to provide a more rational basis for future pricing policy.

Funds retained by the Board for price stabilisation purposes may be justified, however, by the more efficient allocation of resources which a reduction in price uncertainty would permit. However, a considerable variation

1. G. Ledson, Associated Industrial Consultants Ltd.

in the size of the stabilisation fund could be tolerated to achieve various levels of stabilisation. Producer response data would be required to evaluate the broad benefits of successive reductions in the level of risk facing the Board which increases in the stabilisation fund would permit.

6. DIFFICULTIES FACED BY GROWERS.

At times the prices to be paid to growers are announced very late by the Board. For example whereas the prices for the 1967/68 crop should have been announced by July 1967 they were actually not announced till late December 1967. This makes planning by growers very difficult.

In 1966 the Board switched over from about 10 local grades to 77 International grades as the crop for export needed international classification. This meant a difficult task for the inexperienced African grower in grading his tobacco and led sometimes to disagreement with the classifier of the Board regarding the grade of his tobacco.

In 1967 the Board adjusted the prices to be paid for the 1968 crop with a view to maintaining the same average price of 2/30 per pound but a higher price for the better grades and lower price for the lower grades in order to provide incentive for production of high quality tobacco. But one would doubt whether the African grower has fully grasped the difference between grades and also whether he has the required capital for better barns and storage facilities necessary for production of high quality tobacco. This has the effect of reducing his income.

Another difficulty that the growers suffered last year was the lack of storage facilities. As the country has plans to treble the present production of 10 million pounds by 1972 it certainly needs more stores. This problem of lack of storage facilities is aggravated by excessive rains from time to time which flood roads and have washed away railway lines.

Many tobacco settlement schemes have been started in new and uninhabited areas without the existence of roads but the District Council whose duty it is to build roads is usually not able to provide this facility because of lack of finance.

Perhaps one of the severest problems the Tanzanian African growers of tobacco are facing is the one of delayed payments which is mainly due to the inefficient running of the Co-operative Societies. The writer heard recently several growers at Urambo complaining about the late payments they normally received from their society. At that time (May 1968) they were receiving the second payment for the crop sold during 1967. In Tabora, on the other hand, a growers' Co-operative Society, helped and supervised by B.A.T., was making payments for the 1968 crop. Whilst the government settlement scheme at Urambo is much better equipped than the one at Tabora started by B.A.T., the farmers at Urambo bitterly complained about late payments and envied the growers in Tabora who received their money in time.

One of the implications of delayed payments is that recruiting labourers for the next production season becomes very difficult as the workers have not been paid for the previous season.

It has been alleged in the Iringa area that after the small growers received credit in the form of fertilisers and insecticides etc. from their Co-operative Society that they then sold their tobacco through the backdoor to nearby large farmers at lower prices in order to get ready cash and avoid the payment of the Board and co-operative levies and local Council tax. This situation appears to be hindering the progress of the Karume Tobacco Growers' Co-operative Society in Iringa, for example.

7. CONCLUSION AND RECOMMENDATIONS.

It may help the Co-operative Societies to recruit qualified people with clean past records even if that means opening their doors to non-citizens to top managerial positions as that may benefit the Co-operative's members and the tobacco industry in general. It may also be advisable for government to supervise more closely the running of the Co-operatives as that may check malpractices by the top staff.

Regarding the illegal exports to Rwanda and Burundi. As the border is too long and therefore uneconomic to patrol, it would be wise to legalise the trade. There is a great need for research on Markets and on Pricing policy of the Board.

These then are some of the problems that the tobacco industry in Tanzania faces regarding marketing. With better education of the growers which will enable them to exercise more control over the running of their co-operatives, and with more experience to be gained by the Tobacco Board the industry could be set for rapid advance as a large foreign exchange earner and as one of the top export industries of Tanzania.

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APPENDIX B SHEET I

MARKETING COSTS AND MARGINS 1965/66 (ACTUAL)

ALL COSTS IN PENCE PER LB.

		MARKETS		
		EXPORT		HOME
		f.o.b. MOMBASA	f.o.b. DAR-ES-SALAAM	
Price to Board	A	43.50	41.00	38.40
.. .. . less				
4% agents commission		1.74	1.63	
Port charges		1.02	1.02	
Rail charges		2.60	0.96	
Process and pack		4.00	2.28	
Tobacco 'lost'		2.40	2.40	
Warehousing		-	0.12	
TOTAL EXPORT COSTS	B	11.76	8.41	NIL
'Gross' proceeds to Board	C=A-B	31.74	32.59	38.40
... .. . less				
Development levy		1.20	1.20	1.20
District Council Tax		0.12	0.12	0.12
Insurance, Interest etc.		0.36	0.36	0.36
Board's overheads		0.60	0.60	0.60
Classification fee		0.60	0.60	0.60
TOTAL OTHER COSTS	D	2.88	2.88	2.88
'Net' proceeds to Board	E=C-D	28.86	29.71	35.52
		AVERAGES		
'Net' proceeds to Board	F		34.00	
Price paid to farmers or Co-operatives	G		24.36	
Board's NET MARGIN	H=F-G		9.64	
Price paid to Co-op	G		24.36	
.... .. . less				
Co-op. levy			2.40	
Sales Floor charges			0.37	
TOTAL CO-OP. COSTS	J		2.77	
PRICE PAID TO SMALL FARMER	K=G-J		21.59	

APPENDIX A

ORGANISATION OF THE TOBACCO BOARD

THE EXECUTIVE COMMITTEE:

Chairman (Appointed by the Minister)
Senior Executive Officer (Appointed for his knowledge of Tobacco)
Principal Secretary from each of the following Ministries:
Ministry of Agriculture and Co-operatives.
Ministry of Finance.
Ministry of Land Settlement and Water Development
Ministry of Development Planning.

The Executive Committee formulates policy and authorises government expenditure.

THE BOARD

The Board consists of the Executive Committee representing the Government and 8 farmers representing the people.

The farmers' representatives are as follows:

- i) Flue-cured tobacco
 - 1 representative for the large growers.
 - 5 representatives for the small growers.
- ii) Fire-cured tobacco.
 - 2 representatives for the small growers.

Therefore the Board consists of:-

Government representatives 6
Small grower representatives 7
Large grower representative 1

TOTAL 14

If the Board does not agree with the decisions of the Executive Committee the matter is referred to the Government's Economic Committee. In this way the Government effectively controls the industry.

APPENDIX B SHEET 2

MARKETING COSTS AND MARGINS 1969/70 (FORECASTED)

ALL COSTS IN PENCE PER POUND.

		MARKETS	
		EXPORT	HOME
		F.O.B. DAR-ES-SALAAM	
Price to Board	A	44.00	44.80
.... less			
4% agents commission		1.76	
Port charges		1.02	
Transport		1.06	
Process and pack (at Morogoro)		6.00	
Tobacco 'lost'		2.40	
Warehousing		<u>0.03</u>	
Total Export Costs	B	12.27	NIL
'Gross' proceeds to Board	C=A-B	31.73	44.80
.... less			
Development levy		0.60	0.60
District Council Tax		0.15	0.15
Insurance, Interest etc.		1.75	1.75
Board's overheads		0.36	0.36
Classification fee		0.60	0.60
Maintenance		0.01	0.01
Fumigation		0.01	0.01
Contingencies		<u>0.06</u>	<u>0.06</u>
TOTAL OTHER COSTS	D	2.54	2.54
'Net' proceeds to Board	E=C-D	29.19	42.26
		AVERAGE	
'Net' proceed to Board	F	32.46	
Price paid to farmer or Co-op.	G	30.00	
BOARD'S NET MARGIN	H=F-G	2.46	
price paid to Co-operative	G	30.00	
.... less			
Co-operative levy		2.40	
Sales Floor charges		0.37	
TOTAL CO-OPERATIVE COSTS	J	2.77	
PRICE PAID TO SMALL FARMER	K=G-J	27.23	

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