

KEY AREA: SECURITY AND ECONOMY OF LEAF SUPPLIES

1. DOMESTIC TOBACCO PRODUCTION

- 1.1 Tobacco production is a strategically important part of any domestic agricultural economy, because it is a cash crop requiring supply inputs and generating employment. It is thus linked to the development and expansion of food and other crops, and cannot be viewed in isolation.
- 1.2 Domestic tobacco crops, caused by operating companies to be grown, must reflect forecasted requirements (quantity; quality) - in particular, the development of a domestic burley crop will be of importance if there is an expected move to blended cigarettes.
- 1.3 A minimum yield of 1200 kilos per hectare must be sought; yield increase must not be to the detriment of quality which is key to achieving competitiveness.

input costs  
net returns  
supply in  
conflicting

s but  
e  
r farmers

dup  
15/04/91

in the use and storage of such  
stringently followed.

2. IMPORTED TOBACCOS

- 2.1 Where imported tobaccos are smoking quality of domestic competitive advantage, Government eliminate imports (eg through availability) must be resisted.
- 2.2 Production, in those countries tobaccos are purchased, is below anticipated demand

304548159?

ZNA5AR160

KEY AREA: SECURITY AND ECONOMY OF LEAF SUPPLIES

1. DOMESTIC TOBACCO PRODUCTION

- 1.1 Tobacco production is a strategically important part of any domestic agricultural economy, because it is a cash crop requiring supply inputs and generating employment. It is thus linked to the development and expansion of food and other crops, and cannot be viewed in isolation.
- 1.2 Domestic tobacco crops, caused by operating companies to be grown, must reflect forecasted requirements (quantity; quality) - in particular, the development of a domestic burley crop will be of importance if there is an expected move to blended cigarettes.
- 1.3 A minimum yield of 1200 kilos per hectare must be sought; yield increase must not be to the detriment of quality which is key to achieving competitive superiority.
- 1.4 Prices paid to farmers must reflect realistic input costs (measured by cost of production surveys), so that returns to farmers will stimulate the required level of supply in competition with other cash crops, but without conflicting with essential food crops.
- 1.5 Continuous improvements should be sought in the productivity of crop and processing expenditure, particularly through reduction in manning levels but without prejudicing raw material quality. Where practicable, external finance should be used for farmers advances.
- 1.6 Where required, adequate supplies of wood (fuel; building) must be ensured through farmer planting or afforestation schemes. The economic utilisation of whatever fuel is used in flue curing must also be closely studied and improved.
- 1.7 The selection of and need for crop chemicals must be critically evaluated and updated. BATCo policy on safety in the use and storage of such crop chemicals must be stringently followed.

2. IMPORTED TOBACCOS

- 2.1 Where imported tobaccos are essential to enhance the smoking quality of domestic tobaccos and thus provide a competitive advantage, Government pressure to reduce/eliminate imports (eg through foreign exchange availability) must be resisted.
- 2.2 Production, in those countries from which imported tobaccos are purchased, is envisaged at least in 1992 to be below anticipated demand.

304548160

Assuming that target production is not reduced by weather or by pests and diseases, there does not appear to be a serious risk of BATCo operating companies requirements not being met. Purchases, in some countries, are from BAT tobacco companies; in the remainder, from tobacco dealers with whom firm links have been developed.

However, orders must be placed, through Leaf Department BATCo, by specific dates for each and every country of origin. Orders placed after these specific dates cannot be guaranteed.

- 2.3 In all major exporting countries there will be a continuing reduction of uncommitted stocks held either by dealers or Government organisations from whom, in previous years, out-of-season requirements could be purchased.
- 2.4 Prices will increase driven by the supply situation as well as by farmers seeking price increases, by increased processing and freight costs and, in some cases, by Government intervention. Exchange fluctuations will continue to influence end user prices. BATCo operating companies must make full use of holding stocks "off-shore" if this offers savings in interest and storage charges.
- 2.5 Leaf Department BATCo will co-ordinate all visits from BATCo operating companies to major producing areas and will provide, quarterly, a review of the major producing areas and forecasted price movements.

### 3. EXPORT OF DOMESTIC TOBACCOS

- 3.1 Having satisfied the requirements of domestic manufacture, those BATCo operating companies involved in the production of domestic tobaccos must continue to seek export outlets. Such exports will only be possible if tobacco quality is acceptable, if continuity of supply can be assured, if acceptable processing facilities exist, if crop chemical residues on the tobaccos are acceptable and, most importantly, if exports are competitively priced.
- 3.2 Exports must not lead to increased costs for the total crop; exports must be profitable.
- 3.3 Leaf Department BATCo will assist in developing export outlets; first refusal of any export tobaccos must be given to BAT tobacco companies.

304548161

3.4 Failing this, exports from BATCo operating companies must be channelled through acceptable dealers (Leaf Department BATCo will advise); ideally on a run-of-crop basis and covered by at least a three-year roll over contract. A financial involvement from the co-operating dealer should be sought.

4. STOCK DURATION POLICY; PROCESSING; PACKED QUALITY.

4.1 BATCo operating companies must establish stock duration levels within the policy guidelines\* given by the BATCo Board, recognising the intrinsic differences between "filler" and "flavour" tobaccos, the ageing period required and the use of two crop blending for flavour grades - essential contributors to smoking quality and hence consumer acceptance.

However, given the current world tobacco supply situation and the volatile nature of sales in certain markets, BATCo operating companies should work within the flexibility given in the guidelines, to maintain higher than normal stock durations of those imported tobaccos considered to be at risk.

4.2 BATCo operating companies must maintain the highest standards of leaf processing and resulting packed quality, with particular emphasis on moisture content/control, stem in lamina, particle size and elimination of foreign matter and mould in the final product.

5. FUNCTIONAL EXPERTISE

5.1 BATCo operating companies must develop recruitment and training programmes for local national leaf staff, particularly in leaf blending/product development.

5.2 Leaf Department BATCo will continue to assist BATCo operating companies by arranging training in all facets of 'Leaf' - growing, buying, blending and product development through visits, attachments, and workshops. A register of consultants will be maintained to provide, if required, further assistance to BATCo operating companies.

\* Policy document attached for reference

15 April 1991

304548162