

A REMARKABLE JOURNEY

Tanzania's transformation into a prominent leaf tobacco supplier has been a process rather than an event—and it continues today.

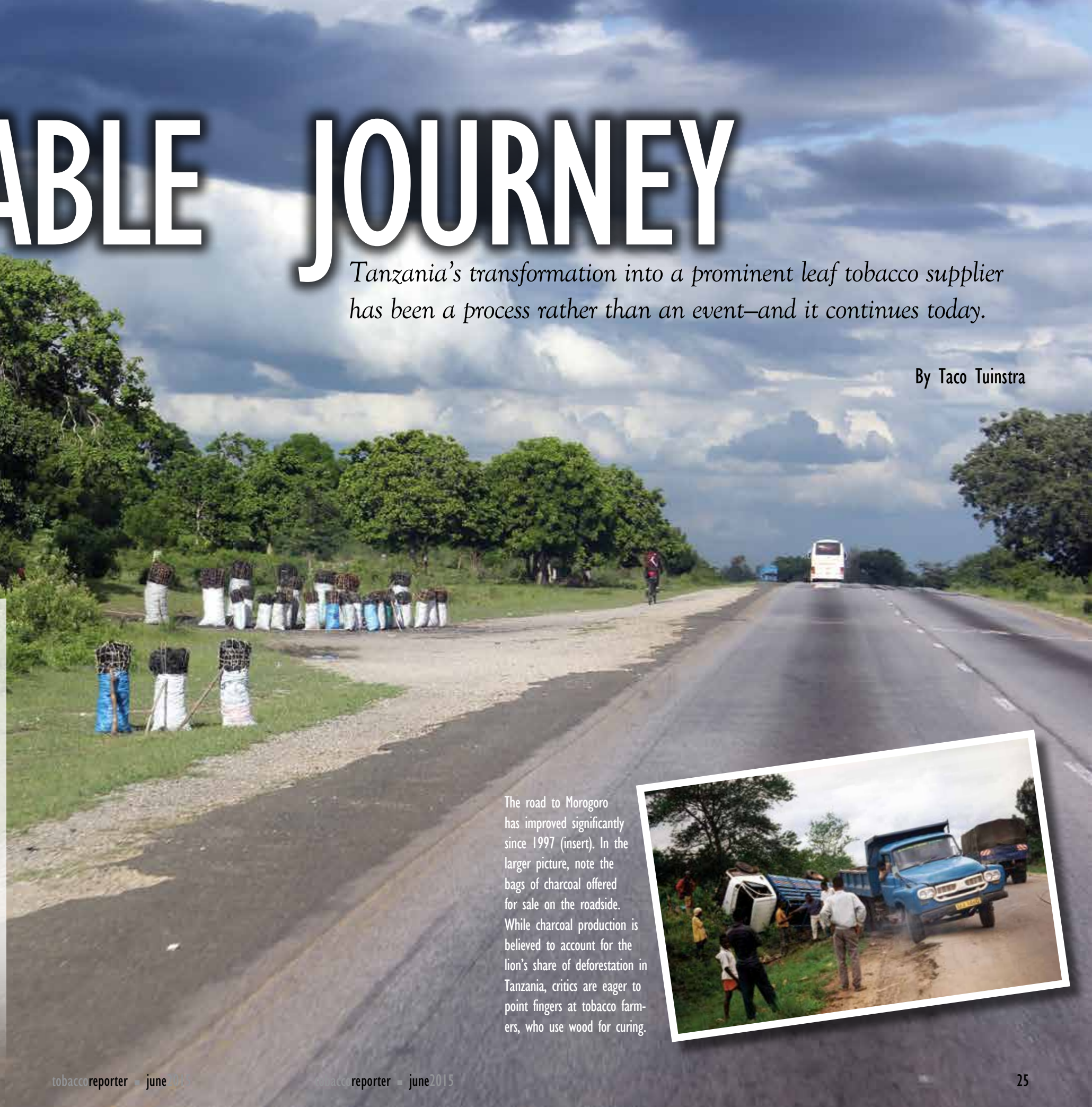
By Taco Tuinstra

When *Tobacco Reporter* first traveled to Tanzania in 1997, the road from Dar es Salaam, the country's administrative capital, to Morogoro, its tobacco capital, was in poor shape, with potholes deep enough to wreck even the toughest suspension.

Few drivers adjusted their speeds to road conditions, however. We witnessed multiple fresh accidents during the 200 km (124 mile) journey, not the occasional fender-bender like you might expect in Europe or the United States, but major incidents, with full-sized freight trucks lying upside down, their cargoes scattered over the road. And that was before it started raining.

As thunder clouds gathered, entrepreneurial villagers gathered alongside the road, ready to offer their services to stranded motorists. For a small stipend, they would help push stalled cars or, if that failed, carry the hapless passengers to higher, drier ground. Fortunately, our rugged Toyota Land Cruiser—the tobacco industry's vehicle of choice in many remote sourcing areas—never required such assistance, but it still took the better part of the day to reach our destination.

By comparison, today's travelers have it easy. The road has been paved and, presumably, equipped with better drainage, although you must still be alert for unexpected moves by fellow motorists—the drivers of Tanzania's long-haul buses have a reputation for particularly reckless behavior. If you can get up early enough to avoid Dar es Salaam's notorious rush hour, however, you should be able to make it to Morogoro in less than three hours. ▶



The road to Morogoro has improved significantly since 1997 (insert). In the larger picture, note the bags of charcoal offered for sale on the roadside. While charcoal production is believed to account for the lion's share of deforestation in Tanzania, critics are eager to point fingers at tobacco farmers, who use wood for curing.



Transformation

For a tobacco man, it's a journey well worth making because Tanzania's industry has changed beyond recognition. At the turn of the century, the country produced less than 20 million kg of flue-cured Virginia (FCV) tobacco. In 2010–2011, Tanzanian farmers harvested a record 122.9 million kg. The 2010–2011 season was exceptional for several reasons, but the trend has been irrefutably upward, with this year's crop expected to be 90 million to 100 million kg.

Quality has improved, too. "I remember Tanzania tobacco being mostly filler leaf," says Alex Tait, leaf and sales director at Alliance One Tobacco Tanzania (AOI), who previously worked in Zimbabwe. "Now Tanzania produces the full range, from filler to semi-flavor/flavor styles," he marvels.

"In the 1990s, 'Tanzania' was a two-color crop," echoes Rob Glenn, general manager of JTI Leaf Service (JTILS), which started operations in Tanzania only recently. "Today, the country produces a good quality, with the ripe, semi-flavor styles that are liked by blue-chip customers."

Importantly, Tanzanian tobacco today is striving hard to meet requirements in terms of regulatory compliance.

Needless to say, the changes did not happen overnight. As stakeholders repeatedly pointed out during *Tobacco Reporter's* visit, the transformation of Tanzania's tobacco industry has been a process rather than an event. It has been the result of a concerted effort by all stakeholders to improve the reputation of Tanzanian leaf, which plays a key role in the country's economy.

Tobacco is the No. 1 foreign exchange earner among all

of Tanzania's traditional cash crops, raking in more than \$100 million per year. In addition, it is a leading source of employment. There are nearly 100,000 tobacco farmers in Tanzania, according to the Tanzania Tobacco Board (TTB). Add to that farm laborers, factory workers and people working in support industries—plus all of their dependents—and you get an idea of the industry's significance.

The golden leaf arrived in Tanzania from Malawi in the 1930s. Cultivation started in the south of the country but gradually spread to other regions. Over time, the Tabora region evolved into the biggest production center; today, it accounts for 60 percent of Tanzania's production. Some 95 percent of Tanzanian leaf is FCV. The country still grows dark fired varieties in Songea, but volumes have dwindled rapidly as the global market for that style continues to decline.

But while tobacco production spread to multiple regions, leaf processing concentrated in Morogoro, an area oddly ill-suited for tobacco cultivation due to its climate (too hot) and elevation (too low). Part of that was due to logistics: The vast majority of Tanzanian leaf is exported, and all roads from the growing areas to the port pass through Morogoro. The other reason was Morogoro's relatively high level of development. "You need ample supplies of water and electricity to run a tobacco processing plant," says David Crowhurst, factory director at Tanzania Tobacco Processors Limited (TTPL), the Tanzanian processing subsidiary company of Universal Leaf Tobacco Co. (ULT). Both are more readily and reliably available in Morogoro than they are in Tabora and other growing areas. ▶



Photos: Taco Timstra

Tobacco research centers such as Torita and Urambo have played a significant role in the development of Tanzanian leaf.



The tobacco produced today more closely matches what merchants want to buy.

The separation of growing and processing is also an attribute of the current legal framework; it's against the law to export green tobacco. Unlike other cash crops in Tanzania, tobacco promotes local agro-processing, creating additional employment.

This situation has helped spread the wealth generated by tobacco, but it also left the tobacco industry with a massive area of operations. Whereas the vast majority of Zimbabwean tobacco is grown in a comparatively small area around Harare, Tanzanian tobacco is scattered far and wide. The leaf-growing area in Tanzania is the size of Germany, according to Glenn—but without a German-style Autobahn network. Tabora and Morogoro are almost 700 km apart, and though this road, too, has improved, some stretches apparently still resemble the Dar es Salaam-Morogoro “highway” of the 1990s.

Along the more desolate parts of this route, security is an issue. Rather than driving directly from Morogoro to Tabora, *Tobacco Reporter* was advised to fly from Dar es Salaam to Mwanza, on the southern shores of Lake Victoria, and continue to Tabora by road from there. This would significantly lessen the risk of highway banditry. Tobacco truckers don't have the luxury of taking such a detour, of course, but apparently the danger to them is lower because the robbers are more interested in cash and electronic gadgets than they are in unprocessed tobacco leaf—even if the leaf passing through their territories is of a higher quality than ever.

Reform

Asked about the Tanzanian tobacco industry's remarkable growth, stakeholders cite three factors: economic liberalization, effective Extension services and the eagerness of Tanzania's farmers

to learn. The decline of Zimbabwean tobacco production after 2000, as a result of political instability in that country, provided an opportunity for Tanzania as well.

After independence in the early 1960s, Tanzania initially pursued a form of socialism, collectivizing farms and nationalizing industries. The TTB's predecessor, the Tanzania Tobacco Processing and Marketing Board (TTPMB), supplied tobacco farmers with inputs such as seeds, fertilizers and crop-protection agents. After the crop had been grown, the TTPMB would deduct the cost of its inputs from the tobacco price. What remained was income for the farmer. As its name implied, the TTPMB was also responsible for processing and marketing the crop. The board operated a tobacco processing factory in Morogoro.

The system did not work well, however. Because of extensive bureaucracy and a lack of funds at the TTPMB, farmers often received their inputs too late or not at all. There were also difficulties with payments.

Things changed in the 1990s, after the Soviet bloc collapsed and many former command economies started embracing free-market policies. “Government has no business doing business,” President Benjamin William Mkapa famously declared after his election in 1995. The state got out of the tobacco trade, reforming its tobacco board and selling its processing factory (ULT won the bid; AOI later built its own factory). The newly created TTB would focus on regulation, administering one of the world's most intricate tobacco-marketing systems.

The Tanzanian leaf tobacco industry is dominated by small-scale farmers, with an average plot size of 0.7 hectares. To increase their leverage at the negotiating table, growers organize

themselves in “primary societies,” which in turn belong to corporate unions. There are 148 primary societies and seven corporate unions in Tanzania. The buyers include ULT's local trading subsidiary—Tanzania Leaf Tobacco Co. (TLTC)—AOI, Premium Active Tanzania and JTILS. China's state tobacco monopoly, too, has recently shown an interest in Tanzanian leaf, but experts caution against inflated expectations, as Chinese buyers tend to be selective.

Growers and buyers come together in the Tanzania Tobacco Council (TTC), pursuant to Tanzania's tobacco laws and regulations, to confirm minimum prices per grade and debate industry issues. Agreements are reached by consensus and the TTB serves as an umpire. Prior to the season, the TTB and other stakeholders jointly analyze and determine the cost of production, recommend an appropriate margin and then confirm a minimum price per grade for TTB publication. This way, the farmer will know the minimum he or she will receive for a given quality of tobacco before the season has even started. Because classification is all-important, the system includes elaborate checks and balances, as well as arbitration procedures in case of disagreement.

Stakeholders say they spend lots of time in meetings, talking “endlessly” to reach consensus, but overall, they appear happy with the setup, which provides a government-mandated, transparent and effective framework. “The key is acceptance,” says Glenn. “Here is a process that everybody understands. It is time-consuming but it works.”

Extension

Taking advantage of economic liberalization, the tobacco industry set out to improve agronomic practices. Initially, the tobacco buyers provided their respective contracted growers with finance, inputs and agronomic advice, but like the TTPMB before them, they found it tough going. There were problems with side-marketing (when a farmer contracts with one company but sells to another) and loan recovery. The quality left much to be desired, too. “There was a disconnect between what we wanted to buy and what was produced,” says Richard Sinamtwa, group corporate affairs director at TLTC.

In 1999, TLTC and AOI's predecessor companies, with the blessing of the government, created a structure to help address some of these issues—the Association of Tanzania Tobacco Traders (ATTT). The ATTT provides Extension services and logistical support to some 53,000 farmers, allowing the tobacco merchants to focus on their core business of buying, processing and exporting tobaccos.

While TLTC and AOI are currently its only shareholders, others are welcome to join, and the association's services are available to all players. (Farmers, through their unions, have also been invited to apply for membership.) “We are a neutral middleman; competitive issues stay off our radar,” stresses Alex Gagiano, general manager of the ATTT, which takes great care to protect each client's confidential and proprietary information. “We are here purely to help train farmers.” JTILS is a client while Premium, which sources most of its tobaccos in Mbeya in the south of the country, has opted to stick with its own crop-development program.

Virtually everybody interviewed agreed that the ATTT



Urambo Seed Farm manager Michael Mshaga inspects a batch of tobacco. Whereas Tanzania was once primarily a filler market, today the country produces the full range of styles, from filler to semi-flavor and flavor.

has been a major driver behind tobacco's transformation in Tanzania. “ATTT should get lots of credit,” says Bruce Coleman, agronomy projects, STP, SRTP and GAP manager at TLTC. With a staff of 1,000, including 600 field technicians, the organization covers an area of 300,000 square kilometers.

Traditionally, the ATTT's training sessions have focused on good agricultural practices, advising farmers on the correct dosages of fertilizer and proper topping heights, for example. In recent years, however, the emphasis has shifted toward sustainability and compliance. “Today, I spend 75 percent of my time on sustainability issues,” says Gagiano. “Only 25 percent is dedicated to traditional crop and administrative duties.”

The sustainability file includes forestry, agricultural labor practices and water and soil management, with forestry and agricultural labor practices demanding the greatest amount of attention. “Trees are now as important a crop as tobacco,” says Gagiano. Tanzania's tobacco farmers use wood for curing, and the tobacco industry has been blamed for deforestation. Even though studies suggest the lion's share of forest loss in Tanzania is due to charcoal production for domestic applications, industry representatives agree that the industry must do its bit to address the problem. ►



AOI's Alex Tait and Hamis Liana, and a map of Tanzania. The country's tobacco-growing area is said to be the size of Germany.

The tobacco industry provides farmers with tree seedlings and encourages the regeneration of natural forests, but changing habits can be a challenge. Many farmers don't see the problem; they think there are plenty of trees. But others are starting to appreciate the issue. "Growers realize they now have to walk further to get their fire wood," says Gagiano. Under the motto "No trees, no tobacco," buyers have made tree planting, as well as the adherence to good agricultural practices, a condition of every tobacco contract. "The goal is for farmers to be self-sufficient in curing wood by 2020," says Gagiano. The focus is also on curing methods, promoting the most efficient barn technology to limit wood use.

The tobacco processing factories, too, are doing their share to decrease their environmental footprint. TTPL, for example, is in the process of installing a biomass boiler, which is expected to reduce carbon emissions by 90 percent. The boiler will run on waste generated by a nearby teak timber plantation.

The other big compliance issue is combatting child labor. The industry in Tanzania goes to great lengths to ensure that farmers adopt good agricultural labor practices and send their children to school. If a farmer is caught with underage workers in his field, he can lose his growing contract.

Much revolves around education, according to Coleman. One aspect of compliance, for example, is ensuring farm laborers receive at least the minimum wage. But if farmers don't know there is such a law, they can hardly be expected to adhere to it.

Despite the challenges, Gagiano says considerable progress has been made, and many growers are already in full compliance, which is a remarkable achievement considering the ATTT's vast territory and large number of clients. "When talking about sustainability, you will not find a single NGO with such extensive coverage in Tanzania," he says.

The Tanzanian tobacco industry's efforts to produce a high-quality, sustainable crop have also benefited from the work of two tobacco research institutions—the Tobacco Research Institute of Tanzania (Torita) in Tabora and TLTC's Urambo Research and Seed Farm. Torita was established in 2000 to partner with stakeholders and promote good agricultural practices in tobacco production, curing, primary processing and environmental conservation.

Among other contributions, the institute, in collaboration with the Tanzania Official Seed Certification Institute, has released and registered new, higher-yielding tobacco seed varieties and facilitated the evaluation of suckercide. Torita is also exploring ways to make curing barns more efficient because, as Torita director Jacob Lisuma points out, "A good crop is worthless without proper curing facilities." Torita research has also shown that, contrary to what critics suggest, tobacco remains the most profitable cash crop for Tanzanian farmers. In 2012, the institute helped disprove suggestions that tobacco growing was negatively affecting honey production in Tabora. As it turned out, the rumor had been started by Kenyan honey traders looking for a deal. ►

The Urambo Research and Seed Farm performs similar work as well as other research and development activities, focusing on labor cost, sustainability and fuel efficiency, among other issues. According to Urambo manager Michael Mshaga, inefficient, wooden curing barns dominated the landscape in the 1990s. Today, 98 percent of them are made of brick. “Now we are taking efficiency to the next level by improving the heat channels,” he says. In developing technologies, Urambo strives for solutions appropriate for local conditions. “We can’t simply take a hyper-efficient U.S. barn and install it in Tanzania,” he says.

Moving forward

Despite the considerable progress made in the Tanzanian leaf tobacco industry, many challenges remain. While the rampant side-selling and problems with debt recovery of the 1990s have been tamed, these issues have not disappeared. Corruption remains a problem at certain levels of government, and there are concerns about corruption and a lack of proper governance in some of the unions and primary societies.

Cheddy Mhiwa, agronomist at the Western Tobacco Growers Cooperative Union, says his organization is working with all stakeholders to combat the problem, training leaders and developing strategies. In this context, many players have been encouraged by the recent passage of a law banning politicians from assuming management positions in unions and primary societies.

Overall, however, Tanzania seems to be on the right track. According to Coleman, yields have almost doubled since the

1990s. “Last year, we saw yields of just under 1,500 kg per hectare—of course, that is still only half of what the Brazilians are getting, but in this climate and environment, it’s quite good. It shows that the Extension is working,” he says.

Tobacco buyers who haven’t been to Tanzania in a while may want to consider adding the country back into their travel schedule, and not just because of its vastly improved leaf.

Tanzania is home to more than 120 tribes and divided almost equally between Christians and Muslims, yet they all manage to rub along peacefully. Nowhere does the country’s diversity become more apparent than on its cheerfully chaotic roads. Tanzanian drivers like to decorate their vehicles with images of their heroes. Returning from Morogoro to Dar es Salaam, we encountered not only the country’s independence leader, Julius Nyerere, but also U.S. President Barack Obama, rap artist Jay Z, Colonel Moammar Gadhafi and Jesus Christ. Muslim drivers, banned by their faith from depicting their prophet, had embellished their vehicles with brightly colored Quranic verses.

Yet despite the variety in worldviews on display, there were no signs of antagonism, reflecting Tanzania’s cohesion as a nation-state. Rather than quarreling over ideologies, drivers focused on protecting their precious share of asphalt, so as to hasten their journey home. The preoccupation with such everyday concerns bodes well for the tobacco industry because it suggests that Tanzania offers not only a good crop but also a stable business environment—something that is not necessarily a given in other African sourcing areas.

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Alex Gagiano, general manager of the ATTT.