CORESTA Joint Study Group Meetings

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Challenges of Crop Diversification and Replacement
The International Tobacco Growers’ Association

The International Tobacco Growers’ Association is a non-profit and non-governmental organisation founded in 1984 by tobacco growers’ organisations from Argentina, Brazil, Canada, Malawi, the U.S.A. and Zimbabwe. The ITGA was created with the objective of providing a collective voice for growers from all over the world. Its membership base spans 22 countries from all over the world, jointly responsible for about 90% of all internationally traded leaf.

Membership: Argentina, Brazil, Bulgaria, China, Croatia, the Dominican Republic, India, Italy, Kenya, Malawi, Malaysia, Mexico, Pakistan, Portugal, South Africa, Tanzania, Uganda, U.S.A., Zambia and Zimbabwe.
Challenges of Crop Diversification

In recent times, the legitimacy of tobacco as a crop is being questioned.

Health advocates increasingly venture into hereto unchartered field of agriculture.

As they do, the hype around the anti-dote against tobacco - crop substitution and diversification – increases.

But how easy and viable is it for tobacco growers to switch to other crops?

Farmers have to put up with ever-increasing demands (quality issues, NTRM, GAP, chemical residue levels, etc.).

For tobacco growers scientific improvement through companies' ongoing investment in R&D translates into more headache.

Growing tobacco is hard work and everyone thinks about alternatives.
Switch to other crops?

1) Agronomic Viability
2) Economic Viability

Why grow tobacco?

Tobacco...

... yields high returns per hectare;

... despite low profit margins and small areas cultivated, tobacco production is able to generate wealth and improve quality of life, fixing educational, health and social facilities in otherwise relatively impoverished, rural or mountainous areas.

... can grow on soils with low fertility, subject to leaching of nutrients and erosion;

... is climate-resistant (e.g. drought) and in most areas does not require irrigation;
Why grow tobacco?

Tobacco...

... when tobacco is part of a rotation scheme, the other crops benefit from the residual fertilisers in the soil;

... is the most labour-intensive crop, usually re-distributing close to half of the revenue it generates in salaries paid directly to those working in tobacco-farming related fields;

... is a school of agronomics: tobacco-growing involves specific farming techniques and new production technology that can also be applied to other crops;

... is less perishable than other crops (transport and storage);

... is less harsh on the environment than many other crops;

... is the best cash crop in most areas where it is grown;
Why grow tobacco?

Tobacco...

... enjoys relatively high price stability when compared to other crops (farmers can plan ahead and predict how much they will earn by the end of the season);

... contract farming, now broadly generalised, gives farmers the guarantee of being able to sell the totality of their crop, notwithstanding the quality. Farmers frequently receive advancements of input (seeds, fertilisers, etc.) and technical assistance;

Collateral Benefits

... successful production of other crops and animal rearing is often more feasible when a high value crop, such as tobacco, is part of the farming system;

... the highly demanding nature of the crop and its strong emphasis on technology and commercial relations, inevitably leads to the creation of a dense network of businesses and related industries with a high multiplying effect in the local economies of the tobacco producing regions;
Collateral Benefits

... where tobacco is grown, a catalogue of new businesses tends to emerge, densifying the local industrial and business fabric, generating employment, creating wealth and thus avoiding rural exodus and the consequent increase of poverty belts around cities;

... tobacco-growing attracts sound infrastructure, providing financial aid, technical assistance, transport and storage

... as tobacco products are highly regulated, the increasingly small number of raw tobacco buyers imposes strict guidelines, forcing tobacco growers to acquire knowledge on the demands of world markets;

Q: Are there Alternative Crops?

A: Yes!
Alternative Crops:
Issues to Be Addressed

The Main Argument:
Profitability of tobacco

versus

Profitability of alternatives
Land and Profitability Issues

... land holdings are generally small or even rented, requiring high value cash crops to ensure family income;

... typically, areas are <1 ha, or even <0.5 ha, as in India, China and Malawi;

... even in Brazil, 39,000 families, or 20.4% of all tobacco-growing families, grow tobacco on plots smaller than 1 ha. 36.3% occupy areas of 1-10 ha. And over 30,000 families own no land at all, working on rented areas;

Land and Profitability Issues

... the replacement crop either has to be highly specialised (e.g. flowers) to have a similar income per hectare, or the cultivated area has to be expanded;

... this requires investment, for specialised equipment or additional land, and thus a lot of capital. Thus, they are not viable for peasant or small-scale farmers with limited/non-existent capital;

... land not always readily available and farmers may not own the land they cultivate (land tenure), hence they cannot take out loans as they have no collateral.
Land and Profitability

Issues

... areas that are distant from air and shipping ports are unsuitable for crops grown in bulk, unless the crop yields high returns to cover travel costs;

... used to a crop that offers relative price stability, growers shifting to alternative crops will need to be capable of adapting to the price fluctuations that characterise so many other crops.

“In terms of protection from shrinking tobacco markets, the data suggest that average farmgate prices for upland tobacco could fall by some 46-76% from the assumed levels on average before the crop would return a financial loss. [...] tobacco is likely to remain an attractive crop option under progressively difficult market conditions for some time to come.”

*World Bank Study: John C. Keyser, Smallholder Tobacco Growing in Indonesia: Costs and Profitability Compared with Other Agricultural Enterprises, 2005, p.8
Market Outlet Issues

A 2003 study estimated that if only 25% of all E.U. tobacco growers converted to asparagus, an additional 25,000 ha would enter that market and E.U. asparagus production would increase by 34%.

In the case of 25% of tobacco farmers converting to tomato production, E.U. tomato production would increase by a huge 64% and the area with tomato would increase by 16,000 ha. The outcome would be devastating with prices for these crops plummeting.

Employment Issues

Being a very labour-intensive activity, any sudden shift to other crops could result in unemployment for millions of workers, both seasonal and permanent. According to the ILO, the tobacco sector employs ca. 100 million people worldwide.
“[…] tobacco generates more employment opportunities per hectare than nearly every other enterprise analysed.”


Marketing Issues

A challenge for converting farmers is the marketing of the new crop. Whereas tobacco is often grown under contract, switching to another crop may mean that the farmer has to contact buyers out of his own initiative and that he may no longer benefit from advanced inputs and guaranteed sales at the end of the season.
... to replace tobacco viably, one would need alternative crops with high profitability on a small area, that offer a stable market perspective (many productions show surpluses), a high level of employment for farmers and seasonal workers and that are able to adapt to the poorest regions and to the most underprivileged people, as ageing rural population with low levels of education.

Tobacco as the capital base for diversification

“[...]tobacco generates more employment [...] than nearly every other enterprise analysed. [...] To the extent that a share of this income is sent as remittance payments to family members in communal areas, tobacco can play a major role in helping to finance the inputs needed for improved management of major smallholder crops including maize and cotton.”

*World Bank Study: John C. Keyser, The Cost and Profitability of Tobacco Compared to other Crops in Zimbabwe, 2002, p.4*
In Misiones, Argentina, tobacco provided the initial starting capital to set up the infrastructure to diversify into citrus fruits.

The Cooperativa Tabacalera de Misiones started its Citrus Diversification Plan in 1992, aiming to complete a planted area of 5.400ha, directly involving about 1.000 farmers.

It currently has a nursery at the R&D Unit with 5.000m$^2$ of greenhouses, equipped with the latest technology, while the packaging plant has capacity to classify and to pack up to 100.000 tons of fruit per annum.

“Many commercial farmers have diversified sources of income, and most smallholder tobacco farmers grow only small amounts of tobacco, and grow other food and cash crops (maize, soybeans, cotton, groundnuts and wheat) as part of a crop rotation system, to help provide a steady cash flow and/or as an essential part of their household food security strategy.”

World Bank Study: John C. Keyser, The Cost and Profitability of Tobacco Compared to other Crops in Zimbabwe, 2002, p.iii
In Conclusion ...

... Monoculture is never advisable;

... Diversification should be alongside of tobacco, not away from tobacco:

“In most countries, there is no crop which can substitute for tobacco with the same level of profitability. Thus, other crops can only be supplementary for tobacco.”*

* FAO Commodity Studies: Issues in the global tobacco economy - Selected Case Studies, 2003

In Conclusion ...

... There is no 'one-fits-all' formula for diversification;

... Climate, geological, socio-political, agronomical, cultural and environmental factors vary from one country to another;

... It is essential to consider each country’s/region’s specificities before diversification policies can be imposed.
In Conclusion...

“Tobacco is likely to remain a very attractive crop for all categories of farmer even under progressively difficult market conditions.”*

*World Bank Study: John C. Keyser, The Cost and Profitability of Tobacco Compared to other Crops in Zimbabwe, p.ix

Thank You.