

MALAWI

Tobacco and the forex puzzle

Better prices alone for the tobacco crop will not address the worsening economic crisis

To judge by his speech, delivered in stentorian tones to the United Nations General Assembly on 23 September, President **Bingu wa Mutharika** is presiding over a new economic miracle. Moreover, according to his supporters, as Chairman of the African Union, he plays a leading diplomatic role in upholding the continent's sovereignty by protecting **Sudan's** President **Omer Hassan Ahmed el Beshir** from arrest by the International Criminal Court and **Zimbabwe's** President **Robert Mugabe** from colonial interference (AC Vol 51 No 16). Even civic activists outside Malawi celebrate Mutharika's defiance of the World Bank policy against subsidising fertiliser as a blow for an independent economic policy.

Inside Malawi, the picture looks different. The country is in the middle of a serious foreign exchange crisis, with worsening shortages of fuel and worries about export earnings. The last bales from the 2010 tobacco-marketing season are reaching the auction floors of Lilongwe.

These have stayed open longer than expected, even though the volume of tobacco leaves is smaller than last season.

The shortage of foreign exchange means less fuel can be imported. While trucks, buses and cars queued for days at petrol stations during September, projections for the value of this year's tobacco earnings have been mixed. In late August, local analysts estimated that this year's earnings would be higher than the 2009 season, which showed the greatest volume on record, earning US\$433 million. According to Auction Holdings Limited (AHL), earnings up until 9 September stood at \$360.8 mn. The Chief Executive Officer of the Tobacco Control Commission (TCC), **Bruce Munthali**, insists the real level of earnings is higher. At the beginning of the season, he predicted the price would exceed the \$2 per kilogramme minimum set by the government. However, in the weeks to follow, the rate has fluctuated between \$1.30 and \$1.98 per kilo. Buyers rejected

an average of 4,000 bales, almost half of what is offered every day at the Lilongwe auction floors, every day in September. The marketing season was extended to allow those bales to be sold.

A fall in tobacco earnings would worsen the forex crisis. Although petrol and diesel are scarce, Mutharika has spent most of the month travelling. He attended the Common Market for Eastern and Southern Africa (Comesa) summit in **Swaziland** on 31 August (see Box), then continued to Germany on an official visit. After a brief return home, he set off to **Rwanda**, then travelling to **Iran**, to New York for the UN General Assembly, and finally to **Cuba**, responding to an invitation from President **Raúl Castro**.

The Council for Non-Governmental Organisations in Malawi pleaded with Mutharika to travel less to save foreign currency. He responded that the trips were for Malawi's benefit. Meanwhile, the Reserve Bank of Malawi announced more rationing of hard currency.

Problems in the tobacco sector affect both the economy and politics. About 12% of Malawians work in the industry and around 80% are dependent on the earnings from it. Malawi is the world's largest exporter of burley tobacco, which earns it most of its foreign exchange. Overall, the average price has been higher this season but the lower quantity of tobacco will push down earnings. The National Bank of Malawi has projected a fall in earnings of 5.3% on last year. A senior buyer for Alliance One Tobacco, a partner of major cigarette manufacturers such as Philip Morris International and **British American Tobacco**, said they were buying only by order and demand was currently for raw material at low cost.

Bales are brought to the warehouse and lined up in rows of 200. On one side stand the sellers, employees of AHL, and on the other stand the buyers, representatives of the tobacco merchants. Each bale is auctioned with the successful bid written on the bale. Unsold bales are put aside for the next day's auction. Early in the season, the rejection rate at the Lilongwe auctions was close to 20%. Some bales are rejected as many as four times before a price is agreed that is satisfactory to both the buyer and the TCC.

Malawian tobacco farms have seen an increase in productivity over the past few seasons, with improving prices compared to the beginning of the decade. Anti-smoking campaigns in North America and Europe dampen demand, though. At the end of May, the European Commission launched a \$20.8 million anti-smoking campaign. 'We are told that cigarette consumption in the EU has gone down by 9%', says Munthali, but he adds that consumption is growing in Eastern Europe. ●

TOBACCO LOBBY MEETS IN SWAZILAND

The Common Market for East and Southern Africa (Comesa) summit in **Swaziland** at the end of August, which President **Bingu wa Mutharika** attended, pledged to support tobacco growers around the world in opposing changes to the United Nations World Health Organisation's Framework Convention on Tobacco Control. The FCTC is the global treaty governing how tobacco products are designed and sold. The International Tobacco Growers' Association (ITGA), with Comesa and other organisations supporting tobacco farming, want to prevent changes to the treaty.

The proposed changes, which are to be presented to the FCTC Conference of the Parties meeting in **Uruguay** in November, would ban additives to tobacco in tobacco products. The intention, according to FCTC sources, is to recommend to signatories to the treaty that they restrict flavourings that are intended to attract young people to smoking. Comesa and ITGA argue that burley tobacco, which is the type most grown in Southern and East Africa, and which, with oriental tobacco, accounts for about half of the world's cigarettes smoked outside **China**, requires flavouring to reduce its bitterness. Glucose, menthol and ginger are among the substances added to the tobacco to make it more palatable.

ITGA and Comesa are hopeful that larger members of Comesa, such as **Egypt**, **Kenya** and **Libya**, even though they are not substantial tobacco growers themselves, will use their heft to help the poorer countries to resist the changes. They claim that the proposed restrictions on flavourings will affect the African growers disproportionately and hinder their ability to meet Millennium Development Goals in agriculture.

Some Comesa members have tried to argue that the proposed restriction is an attempt to discriminate against African tobacco in favour of tobacco types that do not require flavouring. They cite this as another move to 'keep Africa in poverty' using health-promotion arguments as an excuse. FCTC advocates say these are conspiracy theories promoted by big tobacco. The treaty proposes that African tobacco growers should try cultivating other crops. ITGA and Comesa say that the WHO is insufficiently aware of the poverty of many tobacco-growing regions and of how seriously further shrinkage in the global tobacco market will affect African farmers. ●