



**POSSIBILITIES OF ESTABLISHING EXPORT INDUSTRIES IN THE
ASSOCIATED AFRICAN AND MALAGASY STATES**

CIGAR AND CIGARILLO MANUFACTURE

SUMMARY REPORT

FOREWORD

Considering the priority given by the Second Convention of Association (Yaoundé II) to the objective of industrialising the Association of African States and Malagasy, and the prospects which certain manufactured products intended for export could offer to some of these States, the Commission of the European Communities, with the agreement of the Associated States, has had a programme of studies carried out on the possibilities for setting up certain export industries in these countries.

This programme of sectorial studies covers the following products or homogeneous groups of products :

- livestock products
 - . meat
 - . hides and skins
 - . footwear
 - . leather goods
- electrical and electronic products
 - . electro-mechanical products
 - . electronic products
- timber processing and manufacture of wooden articles
 - . initial processing (sawing, planing, planking)
 - . secondary processing (profiling, moulding, plywood, panels)
 - . finished products (for building and furnishings)
- ferrous metal products
 - . iron mineral excavation and electro-metallurgy
 - . ferrous alloys (ferro-silicon, -manganese and -nickel)
- canned and other tropical fruit products

(dates, bananas, citrus fruit and essential oils, pineapples and canned pineapples in syrup, cashew-nuts, edible groundnuts, other tropical fruit)
- manufacture of cigars and cigarillos.

All these studies have been conducted according to a common methodology. Each one contains on the one hand an analysis of the outlets which would be open on the markets of industrialised countries (those of the Community in particular) to products manufactured in the AASM, and on the other hand an analysis of the specific production conditions of the product or products in those of the AASM in the best position to produce and export them.

Each study has been entrusted to independent experts. The competent departments of the Commission have determined the object of their research and have followed their work throughout. The experts, moreover, have acted quite independently insofar as the selections of criteria considered were concerned, and their report thus expresses only the findings of their research and the conclusions they draw from it.

The study on the manufacture of cigars and cigarillos was carried out by Madame THEVENET, Ingenieur-Economiste, responsible for studies and Monsieur FASSINOTTI, Director of the Department of Industrial Economics with the Société d'Etudes Economiques et Financières (SETEF) in Paris.

The authors of the study thank the tobacco manufacturers who kindly cooperated with them, particularly the companies located in Africa. They also thank the company Arenco-FMC N.V., of the Netherlands, for the technical information supplied, and also the Federation Belgo-Luxembourgeoise des Industries du Tabac (FEDETAB), Brussels, for its help on European statistics.

This synthesis report exists in French, German, English, Italian and Dutch. The experts' sectorial study reports (in French only) may be obtained from the following address :

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VIII/B/1
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CIGAR AND CIGARILLO MANUFACTURE

Examination of the possibilities for the production of cigars and cigarillos in the AASM led initially to a study of cigar and cigarillo demand in Europe, so as to determine the types of products which are consumed the most and accordingly likely to be developed in coming years ; these are the products for which there will be the best justification for transferring production to the AASM. It was also necessary to know the countries where demand for these products is greatest and how this demand was met by analysing cigar and cigarillo consumption, trade and production, as well as the development of the structure of the cigar industry in Community countries, Switzerland - which is a big market for cigars - and countries where a manufacturer has already effected a transfer of production. Analysis of demand has enabled the types of products which lend themselves to manufacture in the AASM to be selected on the one hand, and on the other, the Community countries, where the manufacturers could favourably envisage a decentralisation of their production.

Secondly, it was necessary to consider the settlement possibilities in the AASM as far as the cigar industry was specifically concerned. This led to taking stock of the possibilities of obtaining supplies locally of raw materials, namely filling tobacco, outer leaf and/or binder tobacco. However, in the course of a survey carried out both in Europe, among cigar manufacturers, and in the AASM, among local cigarette manufacturers it appeared that an important condition in favour of a transfer of production was the presence of a cigarette manufacturing company, to provide administrative and, above all, logistic back-up.

Finally the possibilities and conditions for industrialisation in the AASM were examined in the light of information taken from the earlier studies, so as to select the Associated States offering the most favourable conditions and determine the type of manufacture on the basis of the costs of factors of production peculiar to the AASM.

I. DEMAND FOR CIGARS AND CIGARILLOS IN EUROPE

1. Production

As Table 1 hereafter shows, West Germany is the biggest producer of cigars in Europe, followed by the Netherlands and, at a significantly lower level, Belgium and Denmark.

It may be seen that production is decreasing in West Germany ; in the Netherlands, there is a decline in cigar production, although this is compensated, in part, by a sharp growth rate in cigarillo production (see Table 2). In Belgium the situation is similar as far as product types are concerned, although since 1971 production has again been exceeding the peaks of 1964-65. This is explained by the fact that a certain number of foreign producers, including the Dutch, have moved into this country in order to meet the growth in their market.

In France, a country in which the people are not traditional cigar smokers, there has been an increase in both cigar and cigarillo production, as a result of around fifteen new brands (manufactured by SETTA) being introduced onto the market.

In Italy, cigar and cigarillo production (which covers only several product types) developed with two record years in 1958-59 and 1966 (1,300-1,400 tons). On each occasion these results were followed by a slow decline in production figures ; this decline has continued since 1966 and the share of this sector in total production is only about 2 %.

In Denmark and Switzerland, production has been steady for ten years or so. The transfer in 1971 of the production of Rinsoz et Ormond to the Ivory Coast may possibly accentuate the phenomenon.

Table 1 - Development of overall production of cigars and cigarillos in the countries under review over the last three years (million units)

	1970	1971	1972
West Germany	3 123	3 070	2 893
Belgium/Luxembourg	1 556	1 754	1 773
France	804	906	n.a.
Italy	234	200	n.a.
Netherlands (2)	2 205	2 411	2 306
Denmark	1 075	1 028	n.a.
United Kingdom	773	1 174 (1)	n.a.
Switzerland	757	757 (1)	n.a.

(1) Estimates

(2) Includes production by subsidiary companies abroad

n.a. = not available

Table 2 -- Development of production of cigars and cigarillos in the countries under review by type of product over the last three years (million units)

	1970		1971		1972	
	cigars	cigarillos	cigars	cigarillos	cigars	cigarillos
West Germany	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Belgium/Luxembourg	632	924	632	604	604	1 169
France	411	393	477	n.a.	n.a.	n.a.
Italy	188	46	n.a.	n.a.	n.a.	n.a.
Netherlands	1 262	943	1 186	1 087	1 087	1 219
Denmark	n.a.	n.a.	746	n.a.	n.a.	n.a.
United Kingdom } Switzerland }	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a. = not available

2. Foreign trade

2.1. West Germany

2.1.1. Exports

Production intended for export is small compared with the enormous volume intended for the domestic market. In 1970 exports only represented just over 1 % of production, after practically tripling from 1965-66 to 1970, while production decreased continuously from 1964 on. Exports are basically intended for EEC countries, predominantly the Netherlands and, to a lesser degree, Belgium.

2.1.2. Imports

Imports have more than doubled since 1965 and although representing over three times the volume of exports in 1970 they only amounted in that year to little more than 4 % of domestic consumption, despite the decrease in consumption ; in 1965 this percentage did not reach 2 %.

The autarky of the German market may be partly explained by the high rate of tariff protection. As a result the principal beneficiary of the increase in imports is the Netherlands (which accounts for nearly 95 % of imports) and Belgium. Success has thus been enjoyed by exporting manufacturers, who supplied cigars cheaply and on very favourable terms.

2.2. Belgium/Luxembourg

2.2.1. Exports

The share of exports in relation to production has always been considerable. In 1966, 60 % of Belgian cigar production and 32 % of cigarillo production was exported. In 1970 these percentages had become roughly 75 % and 34.5 % respectively, and in 1971, 74 % and 43 %. In 1971, as in 1970 and 1969, 96 % of cigar exports (90 % in 1966) went to the Netherlands. In the case of cigarillos these percentages were 85 % in 1969, 81.5 % in 1970 and 90.5 % in 1971. The other principal countries of destination are the EEC countries, especially France, for cigarillos. For these products one may also add, apart from the EEC countries, Portugal, Norway and the United Kingdom.

However, the figures relating to exports to the Netherlands can only be accepted with reservation; some Belgian and Dutch tobacco concerns work closely together, and what appears to be a commercial transaction is often nothing more than a simple transfer of stocks.

2.2.2. Imports

Although for several years imports have been considerably less than exports, they represent nonetheless a significant share of domestic consumption. This share has had all the more tendency to grow as imports have increased and consumption fallen.

In 1970 cigar imports represented 47 % of consumption, whereas those of cigarillos account for less than 23 %. The Netherlands is the biggest supplier of cigars (90.5 % in 1971) and virtually the only supplier of cigarillos (98.4 % in 1971). The other supplier countries are basically West Germany and Switzerland, followed by the Canary Islands, Cuba and Brazil.

2.3. France

Imports of cigars and cigarillos represented 7.4 % of consumption of these products in 1963, 16.8 % in 1969 and 22 % in 1971.

In terms of volume, sales of imported cigars, which had risen by 4.8 % in 1970, increased by 31.8 % in 1971. This very sharp increase is the result of the introduction of over one hundred new Common Market brands on January 1, 1971.

Cigars imports, obtained to a greater extent from third countries (Switzerland and Cuba), than from the Common Market (Benelux), satisfy the very varied tastes of buyers and have captured a significant share of the market. It should be noted that the bulk of trade with Switzerland is apparent, since there is a special contract between SEITA and a Swiss manufacturer for the supply of cigars.

Exports are small and represent only 1-2 % of production.

2.4. Italy

Transactions are negligible.

2.5. Netherlands

2.5.1. Exports

Cigar production have grown slowly but regularly, while those of cigarillos have increased to a very significant extent, particularly over the last few years.

2.5.2. Imports

The growth in imports of cigars has been quite marked while that of cigarillos, although constant, has been relatively slow. Imports come from Belgium in particular. However, the greater part of this trade may be regarded as mere transfers of stocks, as the goods largely come from companies which have been constituted in Belgium since 1958 with Dutch capital.

On account of this peculiar situation the balance of trade, which was positive in the case of cigars and cigarillos until 1963, became negative in respect of cigars from that date and there has been a steady growth in the difference between imports and exports. By contrast, it remained positive in the case of cigarillos and has continued to grow steadily and even to a very great extent over recent years, this manufacture being essentially orientated towards foreign markets.

2.6. Denmark

Exports and imports may be regarded as negligible in the case of this country since they cover only a small percentage of both production and domestic consumption.

2.7. United Kingdom

Imports more than tripled in 1971 compared with 1965. The main countries to benefit from this trend have been the Netherlands and Switzerland. Exports are very small, and are principally intended for Ireland (57 % in 1972), which does not produce cigars.

2.8. Switzerland

In terms of volume, exports are ten times greater than imports ; however in value terms, the difference drops to a ratio of 2 to 2.5, depending on the year. This situation may be explained by the fact that Switzerland is one of the leading markets in Europe for quality tobacco, particularly luxury cigars. This is attributable to two closely-linked factors : the high standard of living and the cosmopolitan character of certain sections of the population.

3. Domestic consumption

As is shown in Table 3, consumption continues to decline in countries where consumption is high. In countries where consumption is low (France, Italy, the United Kingdom) on the other hand, consumption is rising yet remains at a level which is five to ten times lower than that of major consumer countries.

It will moreover be noticed that in the countries where consumption is greatest, the share of cigarillos as a percentage of overall consumption represents the greater part of cigar and cigarillo consumption, whether that share is stable (as in Denmark) or increasing (as in Belgium, West Germany and the Netherlands).

Strictly, with the exception of countries where consumption is low and where cigars are being "discovered" (France, the United Kingdom), in other countries it may be seen that smokers are consuming growing quantities of cigarettes and are becoming less and less interested in cigars, to the increasing advantage of cigarillos.

Moreover, the cigar market in particular can hardly count on the increase in the number of smokers to slow down its decline, as young people are not so keen on cigars as previous generations.

4. Structure of the cigar industry

The West German cigar industry ranks second in the world, being surpassed only by that of the United States. In 1971 this industry had 172 manufacturers (354 in 1966) and the fifteen major concerns accounted for 76.4 % of total production.

Belgium possesses a solid tobacco industry which has moreover close links with its equivalent in the Netherlands. Although this industry occupies second place among member countries of the EEC as regards the number of manufacturers, it is the one which employs the smallest labour-force. Nine firms among them account for 70-80 % of total cigarette and cigar production.

In Italy, as in France, the industry of tobacco-based products is entirely subject to State monopoly.

In the Netherlands tobacco manufacture firms are in the midst of change, particularly in sectors other than the cigarette sector. In fact, many small undertakings are obliged to close down or merge with larger firms. Foreign participation and investment are very considerable. In 1970, 16 concerns produced 2 000 million units and three-quarters of this was accounted for by 4 undertakings.

In Denmark 15 firms are engaged in cigars and cigarette production (approximately 1 100 millions). As in other countries the number of manufacturers is decreasing and activities are being regrouped.

As far as the United Kingdom is concerned numerous firms are engaged in the manufacture of tobacco-based products, but these are for the most part subsidiaries of large groups or undertakings controlled by more powerful manufacturers.

Table 3 - Development of cigar and cigarillo consumption in the countries under study per inhabitant over 15 (units)

			Share of cigarillos in overall consumption (%)
West Germany	1965	86	30
	1971	65	45
Belgium/Luxembourg	1965	160	72
	1971	155	75
France	1965	22	49
	1971	25	44
Italy	1965	7	24
	1971	6	20
Netherlands	1965	172	27
	1971	136	28
Denmark	1965	329	74
	1971	270	74
United Kingdom	1965	17	n.a.
	1971	37	13
Switzerland	1965	138	n.a.
	1971	136	n.a.

In actual fact there is only a fairly small number of independent undertakings in the United Kingdom, and those which are independent are usually very small. Out of 30 tobacco concerns, 4 firms (Wills, Gallaher, Players and Carreras) account for more than 80 % of domestic consumption in Britain.

In Switzerland there were in 1970 74 tobacco concerns employing 7 042 persons. These are mostly small cigar manufacture firms, whose production is minimal and with a very local market.

In fact three companies, Burger Söhne, Villiger Söhne (established in West Germany) and Rinsoz et Ormond dominate the cigar and cigarillo market in Switzerland.

To sum up, the European cigar industry, although less concentrated than the cigarette industry, has nevertheless changed profoundly over the last fifteen years.

Because of the shortage and increasing costliness of labour, this period was characterised by the disappearance of a large number of small artisan firms, where manual manufacture methods predominated, and by the appearance of industrial concerns utilising automated manufacturing processes and new products (e.g. reconstituted binder) suited to mechanised handling.

By way of corollary, this mechanisation brought with it the need for capital and relatively extensive outlets (the technical thresholds of production being higher than in the case of manual production), requirements which all the small artisan type undertakings could not meet.

From the point of view of labour, the result has been a widening division of the work mainly carried out by specialist artisans and even by specialist labour (packing). Now in certain European countries, particularly the Netherlands, West Germany and Switzerland, this category of labour is available less and less.

5. Dues and taxes

5.1. Customs duties

The development of customs duties has been as follows for the EEC countries :

- cigars and cigarillos from third countries

The Common External Tariff (CET) on cigars and cigarillos from third countries has been 52 % ad valorem since 1.1.1972 in France, West Germany and Italy. The Benelux countries were authorised to postpone the application of the CET until 30.6.1972. Previously the Benelux countries applied duty at the rate of 30 % (unchanged since 1.4.1948).

- cigars and cigarillos from EEC countries and associated countries

Exemption from customs duty is granted in respect of cigars and cigarillos from the other EEC member states, Turkey, Greece, Morocco, Tunisia, the Associated African States and Malagasy (AASM), the overseas territories (PTOM) and Tanzania, Uganda and Kenya (TUK), provided it can be shown that these products originate from the countries in question. Thus, in the case of the AASM, duty-free entry onto the EEC market, is in fact restricted to cigars and cigarillos with 70 % of the tobacco weight of AASM or EEC origin.

Reduced duties are applied to tobaccos from Algeria, Malta, Spain and Israel, as a result of the association agreements concluded with these countries.

5.2. Other dues and taxes

Other dues and taxes vary according to the country and concern excise duties and VAT.

Conclusion

It would seem that the European cigar industry is therefore in such a position that the transfer of production to one of the AASM can be envisaged favourable. In fact, the shortage of labour considerably hinders the possibilities for increasing production (in the number of units ; for it is the small cigars and cigarillos which are smoked the most); this should make the countries where such a labour-force is available, and moreover, considerably cheaper, an attractive proposition, in particular, the AASM.

The transfer can be financially feasible, in view of the fact that cigar manufacturers have become significant industrial companies, or even multinational companies, which can put up the capital needed for a transfer of production.

II. SUPPLY IN THE AASM

1. Tobacco resources

Analysis of the tobacco resources of the AASM shows that, with the exception of Cameroon and the Central African Republic, the other countries do not offer varieties of tobacco - except in very small proportions as filing tobacco - which can be used for cigar production (1).

It is evident that if the AASM had available a whole variety of tobaccos, the establishment of industry would be facilitated, in particular, vis-à-vis Community regulations.

The present situation involves a choice of the characteristics of the unit of production so that the scanty or non-existent resources of tobacco for cigars does not constitute an impediment to the installation of such a unit. It is, however, recognised.

On the basis of the following synoptic table on the supply of tobacco in the AASM, the following list of countries offering this favourable factor has been drawn up.

First of all come the producers of outer leaf tobacco : Cameroon and the Central African Republic.

(1) It should be stressed that tobacco cultivation is either a traditional crop of involving local varieties or a crop grown in a village environment involving selected varieties under the supervision of specialists. The latter case is referred to as "industrial" cultivation. In fact it is not industrial cultivation as such, but cultivation for the purpose of supplying industry.

Then come the following countries which produce tobacco already utilised by local cigarette manufacturers, or exported either to other African countries or to industrialised countries :

Congo	Malagasy
Ivory Coast	Chad
Dahomey	Zaire.

Synoptic table of tobacco supply in the AASM

AASM	Crops		Production 1972 (tonnes)(1)	Destination of tobacco
	Type	Remarks		
Burundi	Traditional	Trials of new varieties	800	Local market and own consumption
Cameroon	Outer leaf tobacco		2 000	Exports to industrialised countries
Congo	Industrial	Binder tobacco abandoned	900	Exports Africa and Europe, C.M.
Ivory Coast	Industrial	Being extended	560	Exports Africa and C.M.
Dahomey	Industrial	Being improved	950	Exports Africa
Malagasy	Semi-industrial		4 000	Exports Europe and C.M.
Mali	Industrial	Extension planned	600	C.M.
R.C.A.	Outer leaf tobacco		600	Exports to industrialised countries
Rwanda	Traditional	Trials of new varieties	800 - 1 000	Local market
Chad	Industrial	Being developed	150	C.M. and exports Africa
Togo	Traditional	Management and development trials	1 800	Local market and own consumption
Zaire	Industrial	Outer leaf tobacco abandoned	1 000	C.M.
Gabon	-	-	-	-
Upper Volta	Industrial		10	C.M.
Mauritania	Traditional		1	Own consumption
Niger	Traditional		300	Local market
Senegal	Traditional	Attempts at industrial cultivation		Local market
Somaliland	Traditional	-	100	Own consumption

(1) where there is both traditional and industrial production, the figure shown only relates to the latter

C.M. - Cigarette manufacture.

2. Tobacco manufacturing facilities in Africa

Among the Associated States only Burundi, Dahomey, Mauritania, Niger, Somaliland and Togo do not have tobacco manufacturing facilities. In some of these countries projects have been studied although came to nothing for various reasons, one of which is the narrowness of the national market in question.

It should be stressed that in Associated States other than Malagasy and Zaire, tobacco processing is carried out by one manufacturing plant which generally supplies only the national market.

Two countries manufacture cigars : the Ivory Coast at a modern plant and Rwanda using artisan methods. The cigars manufactured in the latter country are intended solely for the local market, while those manufactured in the Ivory Coast are primarily intended for export. In Burundi some cigars intended for the local market, have been manufactured using artisan methods at a mission in the Rutana region.

III. THE POSSIBILITIES OF SETTING UP A CIGAR AND CIGARILLO PRODUCTION UNIT IN THE ASSM

1. The reasons justifying such establishment

The European cigar industry has to face a serious shortage of unqualified labour. Over the last few years this industry has been able to solve the problem, therefore retaining its profitability, through restructuring (hence a large number of artisan works have disappeared or been absorbed), and through mechanising certain stages of production, or even the whole manufacturing process. This latter case applies to SEITA in France.

This mechanisation has, moreover, often involved a modification of the product : manufacturers have gradually introduced reconstituted binder, which lends itself better to mechanisation and the matting stage, which enables outer leaves of inferior quality (basically as regards appearance), but which are more resistant to be used. These modifications have, moreover, brought a reduction in the final cost price of cigars and cigarillos.

However, in certain EEC countries mechanisation is not so complete as at SEITA, and it is often the operations least requiring a qualified operative which have not been mechanised. It emerges that cigar manufacture no longer requires high technical skill from labour (cigar rolling, machine control and/or supervision). This unskilled labour-force, made up mainly of women, however prefers to turn to industries where the level of salaries and or social advantages are greater.

At the present time some companies in Europe are experiencing serious difficulties in maintaining and, a fortiori, in developing their level of production. Also management is doubtless favourably disposed towards finding new industrial locations in countries with low wage costs yet nevertheless relatively near to consumer markets. Thanks to the customs tariff preferences enjoyed by the AASM, and their relative proximity to Europe (above all by comparison with South-East Asia) these countries should offer a selection of favourable settings.

In fact, if the number of decentralised establishments in Africa for the production of cigars is reduced to a single unit, that will be partly due to difficulties which arise for industrialists in confronting to the dispositions of the definition of the notion of "original products", in the area of commercial exchange of processed tobacco, in the commercial relation of EEC-AASM (1).

2. Conditions for setting up a production unit

Firstly it would appear that production in Africa should be orientated towards the production of cigarillos, or small cigars, as analysis of demand moreover indicates. This is in fact the product category for which demand is growing steadily at the expense of the larger sized cigars.

The production unit should be envisaged as a transfer from Europe (or the United States) to Africa. This notion of transfer results from several explanatory factors. The setting up of a cigarillo factory can hardly be carried out by any of the tobacco processing companies already based in the AASM. These companies are manufacturers of cigarettes (and/or tobacco for smoking, chewing, snuff) and not cigars (with the exception of the BAT group in Zaire). Now there is, generally speaking, a marked difference in

(1) It is in fact stipulated that the processing of cigars in the AASM confers upon them the character of "products of (EEC) origin" if the following conditions apply :
"manufacture in which 70 % at least in quantity of the matter of N° 24.01 (raw tobacco) utilised are products of (EEC) origin". In other words it is possible to import the cigars manufactured in the AASM duty-free into member states on condition that at least 70 % of the weight of tobacco contained in these cigars originates in the member states of the EEC and countries associated with the EEC. Now in the case of most firms this condition is not fulfilled.

specialisation between these two manufactures : a cigar manufacturer does not produce cigarettes and vice versa. This is not strictly so in the case of certain very large groups (such as BAT) or certain companies which have merged, but the production and marketing of the products are separate.

The belief that the factory should be set up by a cigar manufacturer and not a cigarette manufacturer, or even less by an investor not originally belonging to the profession, is strengthened by the fact that in each country the clientele remains profoundly attached to a particular cigar taste : the aroma and the burning qualities of a product are of prime importance. Each country is characterised by products having a certain common similarity from this point of view.

A brand may, if necessary, alter the form, dimensions, and packaging of a type of cigar but these alterations must be the object of major advertising announcements. This may be reflected in the gain of new clientele, but always in the loss of clientele if the original product is no longer available. The swing away from a product by the old clientele may even result from a change in packing. The launching of a new brand of cigars or cigarillos cannot, a fortiori, be carried out without heavy expenditure on advertising and promotion, occasionally for results which, although benefiting the name of the producer company, are of dubious merit, as witness recently in France the case of two new types of cigarillos.

3. The principal conditions for the functioning of a cigarillo production works

The unit envisaged has a production capacity of 50-100 million cigarillos per year.

3.1. Tobacco supplies

The on-the-spot purchase of tobacco utilised for filling, if the tobacco produced is suitable, does not pose any problem and the operation can be effected at the same time as the purchases for cigar manufacture, thus reducing the cost of obtaining supplies.

As far as the outer leaf tobacco of Cameroon and the Central African Republic is concerned, this cannot be purchased on-the-spot but must be bought on the Bourse des Tabacs in Paris. In fact, a few years ago, rumour had it that Cameroon wished to sell the outer leaf tobacco it produced on a direct basis by agreement. This brought about an immediate reaction from brokers, and sales by agreement could not be made for this would have brought the boycotting of Cameroon tobacco and a rapid fall in production.

Thus with the transfer of a cigarillo production unit, not all tobacco supply requirements can be met on the spot, but supplies of local filling tobacco will represent up to 70 % of the total of cigarillo filling tobacco, the balance being made up by other tobaccos (Brazil, Indonesia) which will constitute the basis of the blend and give its taste, aroma, etc.

In fact, bearing in mind the relatively small quantities of tobacco necessary to keep the production unit supplied, the blend for the filling will not be produced on the spot but imported.

Accordingly, this initial production stage will be maintained within the parent company itself, with part of supplies being merely facilitated by the presence of a production subsidiary in Africa.

Continuing the preparation of the blend in Europe, moreover, will ensure the continuity of the quality of the cigarillos. In fact, to guarantee maintained quality in a cigar blends are prepared from tobaccos coming from harvests in different years. Besides this, production of the blend in Africa would pose problems relating to the keeping of the tobacco (mouldiness, insects, hygrometry), whereas the quantities consumed do not justify these problems being tackled.

The blend prepared in Europe will then be exported for the manufacture of cigars. Transport will preferably be by container and by sea, then by road or rail to the production unit.

The trade will involve from 2-3 to 4-5 containers per month, depending on the production envisaged and account should be taken of a delay of 4-5 months between the date of ordering and the arrival of the container at the factory.

3.2. The transferred stages of manufacture

The prior humidification of the filler tobacco blend, leaf stripping and drying will be carried out in Europe ; manufacture in Africa will therefore begin at the bunch-making stage, but will cover all other stages up to and including packing.

- bunch-making consists of manufacturing bunches (usually double) on a special machine from filler tobacco and, where applicable, a binder of reconstituted tobacco.

- the manufacture of heads corresponds to the formation of the two ends of the bunches on a special machine.

- wrapping is placing the final outer covering onto the bunches through the rolling of either a stretched strip of outer leaves or with an outer leaf. In the case of the African production unit cigarillo manufacture using outer leaves may be better envisaged since this operation, which is largely mechanised in Europe, can advantageously be carried out by hand in Africa.

- matting where necessary, and cutting are the final operations in cigarillo manufacture.

- drying is intended to bring the cigarillos to a humidity level suitable for consumption.

- the final operations are represented by boxing, and where necessary, cellophane-covering the boxes on a machine ; packing into cartridges or cartons is manual. Because of the costs of dispatching the products it is advisable to select cardboard rather than wooden packaging.

Apart from the outer wrapping stage, which employs specialised labour, all the above operations require 13 machines operators who are skilled workers : one regulator, a professional worker, one monitor, a quality controller who is a skilled "5th category" worker.

The presence of one expatriated European to act as overseer is in principle sufficient for the entire cigarillo manufacturing works.

Administrative duties will be taken over by the staff of the tobacco manufacturer which sets up the cigarillo production unit. Payment for the duties carried out by the staff will be a matter for discussion among the partners, and may be based on turnover or - without doubt more fairly - on the size of the staff employed.

3.3. Techniques to be utilised

Of all the stages of manufacture described above only the wrapping operation will call for a different technique from that currently being used in Europe.

It is in fact largely in this operation that the advantage of removal to Africa lies. It is also this stage which finally limits the choice to top range products using a natural cigar outer leaf.

For a monthly production of 4.4 m. cigars the machinery and labour requirements are as shown hereunder, on the basis of a mechanisation solution.

It is assumed that cigarillos are being manufactured using strips of binder and natural outer leaf ; the requirements is 18 M I D - 11 DL/HL cigar wrapping machines, handling 15 units per minute. So as to achieve a higher throughput these machines must be fitted out with a compressed air device which eliminates outer leaf losses, and this requires a compressor. The working of these machines requires 21 workers for 165 hours' work per month.

The price in CFA francs (in september 1973) of the equipment, ex-works Best, Netherlands, excluding packing and assembly is 5 642 000 CFA francs for the cigar-wrapping machine and 87 600 CFA francs for the compressor, or 101 637 100 CFA francs in all.

The same operation can be done by hand. In Europe a cigar roller rolls 4 000 units per day ; at Bouake, in the Ivory Coast, the rollers of "Mecarillos" roll on average 2 200 - 2 500 units per day, with only 2 rollers out of the total reaching a throughput of 4 000. Despite production premiums, output has not increased and it would appear that rolling is a job which the African worker finds extremely dull.

In order to roll 4.4 million cigars per month, or effectively 2.2 million units, with a throughput of 2 500 units per day, it would be necessary to have available approximately 41 rollers. In fact, because of a high turnover and the marked degree of absenteeism in this type of work, one has to bank on 60 % extra staff, or a total of 65-66 persons. The training period is, moreover, longer - 4 months, as against 1 month in Europe.

It should, however, be considered that these conditions are liable to vary between one country and another. It appears that in Bouake the labour throughput constitutes a basic floor level ; in other countries, notably Senegal, throughput could well be higher.

The cost for the undertaking would be 16 000 CFA francs per month and per roller, in other words nearly 12.5 million CFA francs per 65 rollers and per year.

Taking into account the annual cost of the 21 specialised workmen operating the 18 cigar-wrapping machines, i.e. 21 000 CFA francs/month x 12 months x 21, or pretty well 5.3 million CFA francs, the extra cost for the undertaking in terms of labour charges, in the case of cigar wrapping by hand, will be 7.2 million CFA francs. Now, the writing off alone of the purchase price in Europe of the machines (not including packing, transport assembly and maintenance) represents an expenditure of over 20.3 million CFA francs. It therefore clearly appears that the wrapping of outer cigarillo leaves by hand constitutes the essential stage of production from the point of view of the advantage of transferring cigarillo production facilities.

4. Conclusion

To sum up, the transfer of cigarillo production facilities to an AASM country appears to be a viable operation, since the characteristics of this production are very well adapted to the conditions of supply of the AASM; especially the presence of cigarette manufactures, and an availability of cheap unskilled labour.

The AASM offering the most favourable conditions for setting up facilities are those which in the first place have cigarette manufacturers, certain of whose tobaccos may be used for filling. In the latter case, being on the spot enables the best tobacco available to be acquired more easily and on better terms, so that it can be treated in Europe before the blends are returned to Africa for cigarillo manufacture.

On the whole, the AASM which offer these two most favourable conditions are the following : Cameroon, Congo, Ivory Coast, Malagasy, Central African Republic, Chad and Zaire.

It is perhaps not surprising that there are possibilities as yet unexploited for transfer of industries. That arises, as has already been emphasized, partly from the fact that the definition of the notion of "originating products" for processed tobaccos, and especially for cigars, imposes still a high percentage on the finished product of tobaccos, originating from AASM countries or from the Community. It is however worth pointing out that on the case of an Associated State putting forward a demand for a new industry with the necessary justifications, it would appear that the Council of Association would find it hard to refuse to examine the possibility of according a temporary derogation in respect of the actual definition within the limits of quantities to be determined.

OTHER DOCUMENTS ON THE INDUSTRIALIZATION OF THE AASM PUBLISHED
BY THE COMMISSION OF THE EUROPEAN COMMUNITIES

● « **Les conditions d'installation d'entreprises industrielles** »

(Conditions for setting up industrial concerns)

Series of 19 booklets, second edition, Brussels, July 1974, in French.

The basic facts on the conditions for setting up and running industrial concerns in each of the Associated States are set out in standardized form. They include customs and fiscal rules and labour regulations, etc., information on the availability and cost of the factors of production and installation and some general remarks on the economy and industrial policy of each country.

● « **Codes des investissements des Etats Africains et Malgache Associés** »

(Investment laws in the Associated African States and Madagascar)

One volume, third edition, Brussels, March 1974, in French.

This compendium reproduces in detail the basic legislation governing the setting up of industrial concerns in the 19 Associated States. It gives the situation as at 1 March 1974 and is a useful addition to the series of monographs below.

● « **Inventaire des études industrielles concernant les pays africains en voie de développement** »

(Inventory of industrial studies concerned with the developing countries in Africa)

4 volumes, Brussels, December 1972, in French.

This document contains in four volumes some 900 record cards on studies dealing with industrial projects – whether they were carried out or not – in the African countries. It is the outcome of a Commission survey conducted in 1971/72 and intended for the Governments, development bodies and other specialized institutions of the AASM and the Member States of the Community, and for certain international aid and financing organizations. It was published in 1972 and, although by no means exhaustive, it is the most systematic inventory on this subject yet to appear in published form.

● « **Pré-sélection des industries d'exportation susceptibles d'être implantées dans les Etats Africains et Malgache Associés** » *(Pre-selection of export industries suitable for setting up in the AASM)*

1 report + 3 volumes of annexes, July 1971, in French.

This study aims to define the export industries most suitable for setting up in the AASM and lists them in approximate order of suitability. Pre-selection there is based on factors of supply (general conditions of production in the AASM) and demand (the industrialized countries' imports of manufactured goods from the developing countries).

● « **L'industrialisation textile d'exportation des Etats Africains et Malgache Associés** »

(Industrialization of textile production for export in the AASM)

4 volumes, Brussels, October 1972 and March 1973, in French; summary report in English, German, Italian and Dutch.

This study examines possible outlets in Europe and picks out the types of products likely to sell there which could be produced in the AASM, and considers the general conditions for producing textiles for export in Africa. The second part of the study is devoted to feasibility studies analysing the specific conditions for manufacturing certain textile products in the AASM.

● « **Possibilités de création d'industries exportatrices dans les Etats Africains et Malgache Associés** »

(Export industries which might be set up in the Associated States and Madagascar)

1 volume in French; summary report in English, German, Italian and Dutch.

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*All these documents may be obtained free of charge from the
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200 rue de la Loi, 1040 Brussels*