



OXFORD
ECONOMICS
AFRICA

THE SOCIO-ECONOMIC IMPACT OF BAT SA'S HEIDELBERG FACTORY

A report for British American Tobacco South Africa

November 2023



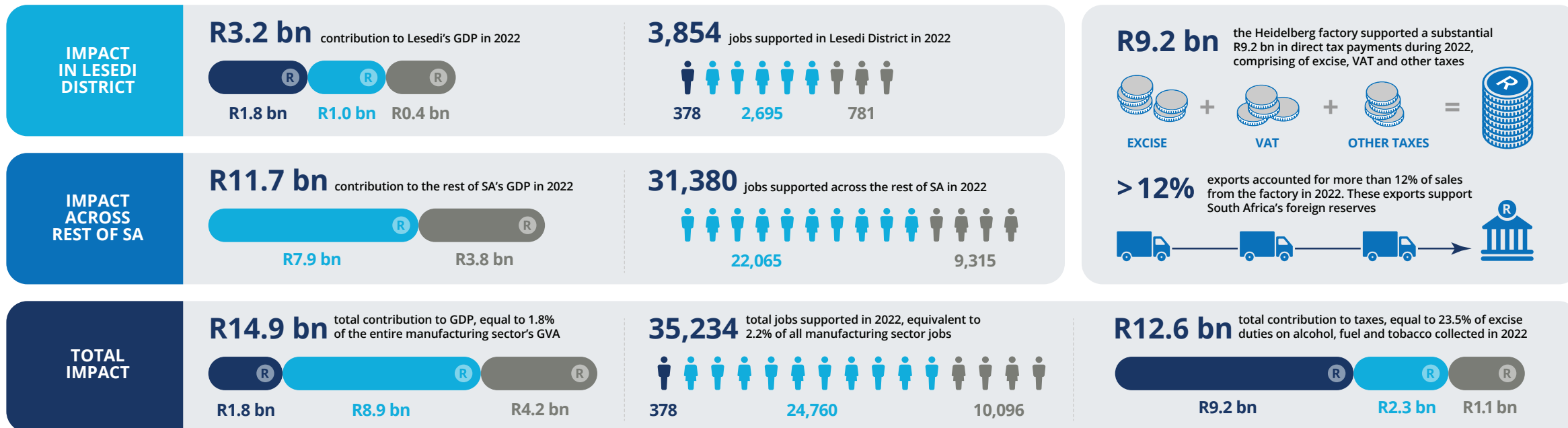
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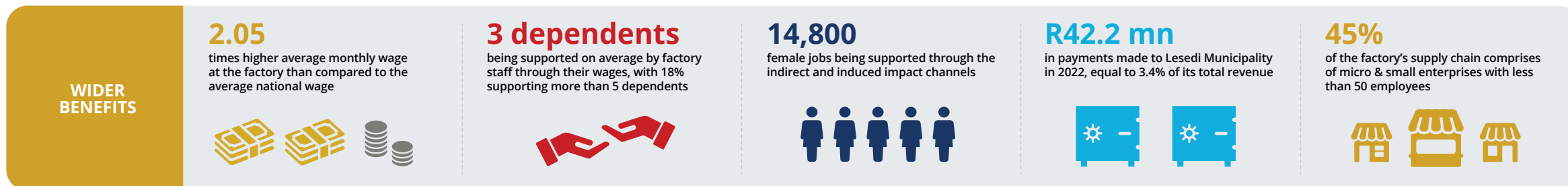
HEIDELBERG FACTORY'S SOCIO-ECONOMIC IMPACT

SUBSTANTIAL CONTRIBUTION TO GDP, JOBS, TAXES & EXPORTS

● Direct ● Indirect ● Induced



AND WIDER BENEFITS AT RISK FROM WIDESPREAD ILLICIT TRADE, CHALLENGING OPERATIONAL & REGULATORY ENVIROMENT



EXECUTIVE SUMMARY



EXECUTIVE SUMMARY

BACKGROUND

British American Tobacco South Africa's (BAT SA) factory in Heidelberg represents the main source of cigarette production for the local market, with a significant share of the produce also being exported to other Southern African countries.

The Heidelberg factory makes a substantial contribution to both the Lesedi Municipal District (hereafter also referred to as Lesedi) and the broader South African economy. The role of the factory is especially important in Lesedi given the challenges the district is facing. Unemployment is especially elevated at 43% and the local economy is highly reliant on manufacturing. Meanwhile, **the tobacco industry has been facing an ever more challenging operational environment over the past three years**, largely stemming from the unlawful 5-month ban on tobacco product sales during the COVID-19 pandemic which had the consequence of entrenching illicit tobacco trade. This has subsequently contributed to widespread illegal trade in cigarettes, substantial losses in much-needed fiscal revenue, in addition to losses in terms of economic value-added, jobs and taxes. Furthermore, with duty-paid volumes declining and operating costs rising, domestic manufacturing of legitimate tobacco products is increasingly at risk.

Against this background, **this study is aimed at examining the Heidelberg factory's socio-economic impact** in terms of its gross value added (GVA) contribution to GDP as well as the jobs and tax revenues it supports in both the Lesedi Municipal District and across South Africa as a whole.

HEIDELBERG FACTORY'S ECONOMIC IMPACT

Impact in Lesedi Municipal District

Through sourcing and processing tobacco leaves along with procuring other inputs needed in the manufacturing process, BAT SA's Heidelberg factory makes a significant contribution to the Lesedi Municipal District through the production of tobacco products.

Once the cigarettes are manufactured, they are then packaged and grouped into cartons and master cases ready for distribution.

R3.2 billion

Estimated GVA contribution to Lesedi's GDP in 2022

It is estimated that the factory contributed roughly **R3.2 billion in GVA to Lesedi's GDP in 2022**. Furthermore, through the direct, indirect and induced channels of economic impact, **the factory supported 3,854 jobs within the Lesedi district** that year.

3,854

Estimated number of jobs supported within the Lesedi district in 2022

Impact Across the rest of South Africa

A large share of the Heidelberg factory's inputs originate from its supply chain across the rest of South Africa outside of the Lesedi Municipal District. For example, during 2022 roughly 95% of the factory's agricultural procurement spend was directed towards the purchases of tobacco leaves from farmers in the Limpopo province.

R11.7 billion

Estimated GVA contribution to the rest of South Africa's GDP in 2022

Furthermore, while some of its employee wage spending would have occurred within Lesedi, the rest would have stimulated consumer spending on goods and services within the rest of the South African economy. The wages paid to employees in its supply chain across the rest of South Africa would have stimulated yet more economic activity.

31,380

Estimated number of jobs supported across the rest of South Africa in 2022

In total, it is estimated that the Heidelberg factory stimulated around **R11.7 billion in GVA contribution to the rest of South Africa's economy**, while it also supported an **additional 31,380 jobs outside of Lesedi in 2022**.

EXECUTIVE SUMMARY

Total Economic Impact

BAT SA's Heidelberg factory made a considerable contribution to the South African economy in 2022. Across all three impact channels, the factory supported an estimated **R14.9 billion GVA contribution to the South African economy**, equivalent to 1.8% of the entire manufacturing sector's GVA that year.

Overall, for every R1 billion of direct GVA contribution to GDP supported by the factory, about R7.3 billion is supported elsewhere in the economy.

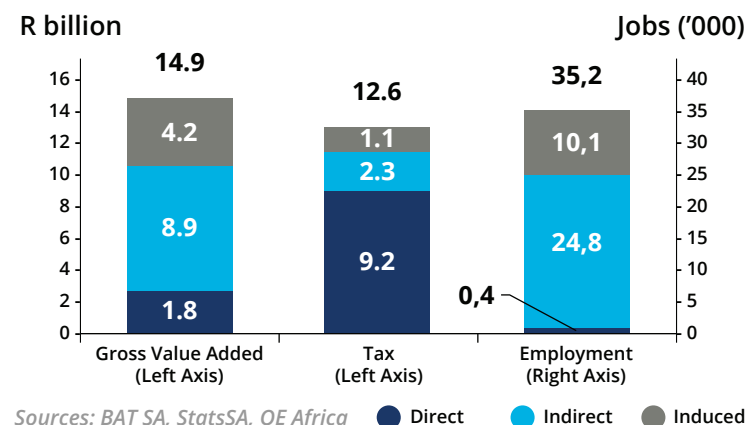
R14.9 billion

Total GVA contribution in 2022, equal to 1.8% of the entire manufacturing sector's GVA that year

The factory also supported a total of **35,234 jobs during 2022**, equivalent to 2.2% of all manufacturing sector jobs that year. Overall, for every direct job at the Heidelberg factory, another 92 jobs are supported somewhere else in the South African economy.

35,234

Total jobs supported in 2022, equivalent to 2.2% of all manufacturing sector jobs that year



The factory also makes a significant contribution to tax revenues. During 2022, the factory facilitated roughly **R12.6 billion in tax payments** to the government, equivalent to 23.5% of excise duties on alcohol, fuel and tobacco collected.

R12.6 billion

Total tax revenue supported in 2022, equal to 23.5% of excise duties on alcohol, fuel and tobacco that year

Furthermore, a significant share of the tobacco products produced at the factory is exported to other markets across Southern Africa. **Specifically, exports accounted for more than 12% of total sales from the factory in 2022.** These exports also serve as a source of foreign currency earnings, thereby supporting South Africa's foreign reserves.

WIDER BENEFITS FROM OPERATIONS

Significantly Higher Wages

During 2022, the average monthly wage at the Heidelberg factory was around **2.58 times higher** than the average monthly wage for employees in the food products, beverages & tobacco sector.

The average monthly wage at the factory was also **2.05 times higher** than the average national monthly earnings.

2.05x

Higher average monthly wage at the factory than compared to the average national wage

The higher wages being paid by BAT SA to its employees at the Heidelberg factory help reduce income inequality and contribute to improving the long-term standards of living of employees and their dependents.

Wages Support a Large Number of Dependents

The findings from a survey conducted by OE Africa indicated that, on average, employees at the Heidelberg factory have **3 dependents that they support with the salaries earned** from being employed at the factory.

EXECUTIVE SUMMARY

Around 80% of employees that participated in the survey reported that they have more than 2 dependents that they care for, with around **18% of employees reporting that their salaries supported more than 5 people.**

3 dependents

Employees at the factory, on average, have 3 dependents that they support with their wages

18%

Of employees reported that their salaries supported more than five people

Many of these dependents are children with **70% of respondents reporting that they support at least one child under the age of 15.**

Jobs for Females and Young Adults

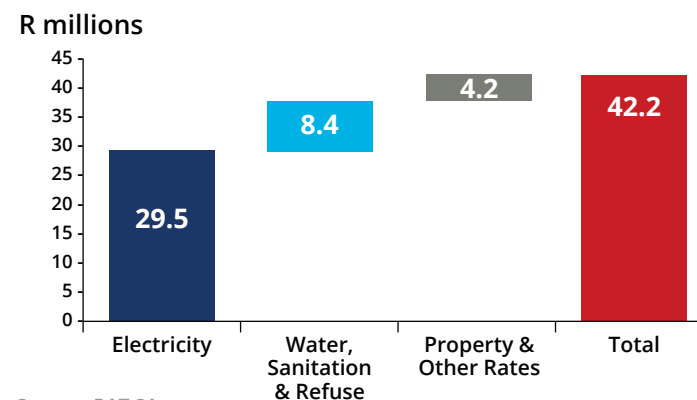
Female and young adult employment is key to achieving sustainable development and improved standards of living.

The Heidelberg factory supported around 34,900 jobs in 2022 through the indirect and induced impact channels.

Of these, around **14,800 jobs were occupied by females.** Furthermore, approximately **2,410 jobs** supported by the Heidelberg factory were held by **young adults below the age of 24 years.**

Supporting Municipal Revenue

The Heidelberg factory also contributes to the Lesedi municipality's revenue through the payments for basic goods and services such as utilities and property taxes.



In 2022, the factory contributed just over **R42.2 million to the Lesedi municipality** for the payment of goods and services. This amount comprised of R29.5 million for electricity purchases, R8.4 million for water, sanitation & refuse and a further R4.2 million in property rates & taxes.

R42.2 million

Payments made equivalent to 3.4% of Lesedi Municipality's total revenue during 2021/22 FY

Boosting SMEs

While most of the factory's supplies are sourced from large enterprises, **a substantial 45% of the factory's supply chain comprises of micro & small enterprises** (firms with less than 50 employees).

45%

Of the factory's supply chain comprises of micro & small enterprises with less than 50 employees

In addition to supporting small firms, the factory also contributes to businesses owned by black entrepreneurs with over 80% of its procurement profile comprising of businesses that have a Broad-Based Black Economic Empowerment (BBBEE) level of 4 or better.

CONCLUSION

These benefits to the district as well as to the broader South African economy are increasingly at risk should illicit trade continue to flourish at the expense of demand for legal products and result in production at the Heidelberg factory being scaled down further.

Legislation such as the potential passing of the TPENDS Control Bill could result in smokers of legal products increasingly switching to purchasing illicit cigarettes – again, this would add further pressure on operations at the factory.

BACKGROUND



BACKGROUND

British American Tobacco South Africa's (BAT SA) factory in Heidelberg fulfills a critical role in the company's regional operations and it is also one of the largest factories within the global BAT network.

The Heidelberg factory represents the main source of cigarette production for the local market, with a significant share of the produce also being exported to other Southern African countries. However, due to the high level of illicit trade in South Africa (discussed below), the Heidelberg factory is not running at its full capacity and multiple production lines are having to be closed on a yearly basis.

Despite this, **the factory still makes a substantial contribution to both the Lesedi Municipal District (hereafter also referred to as Lesedi) and the broader South African economy** through its contribution to GDP as well as the jobs and tax revenues it supports.

The factory also drives a range of wider benefits in support of the Lesedi economy and its residents.

These wider benefits include supporting local initiatives as well as much-needed municipal revenue through payments for basic services and utilities.

The important role the factory fulfills, especially within the Lesedi context, is even more apparent when considering the various challenges the district economy is faced with.

'Important role being fulfilled by Heidelberg factory, especially given the challenges Lesedi is faced with.'

The latest available Lesedi Local Municipality Annual Report highlights that the local economy is faced with especially elevated unemployment levels.

Specifically, **unemployment within the Lesedi district is estimated at around 43%**, significantly higher than the national average of around 32.8% by the end of 2022.

The Lesedi economy is also highly reliant on a few sectors. Manufacturing represents the dominant industry, accounting for around 28.2% of local economic activity. The community services and financial services sectors contribute a further 26.1% and 22.8% to local economic output, respectively.

'The legitimate tobacco industry is faced with increasing challenges, including widespread illicit trade.'

As noted, **the tobacco industry has been facing an ever more challenging operational environment over the past three years**, largely stemming from the unlawful 5-month ban on tobacco product sales during the COVID-19 pandemic which had the consequence of entrenching illicit tobacco trade.

Thriving illicit sales have resulted in a sharp decline in the market share for legitimate cigarettes, thereby adding more pressure on the legal tobacco industry with various adverse consequences.

These include widespread illegal trade in cigarettes, substantial losses in much-needed fiscal revenue, in addition to losses in terms of economic value-added, jobs and taxes. Furthermore, with duty-paid volumes declining and operating costs rising, domestic manufacturing of legitimate tobacco products is increasingly at risk.

Against this background, **this study is aimed at examining the Heidelberg factory's socio-economic impact** in terms of its gross value added (GVA) contribution to GDP as well as the jobs and tax revenues it supports in both the Lesedi Municipal District and across South Africa as a whole.

The study further highlights the **wider benefits** of the factory's operations within Lesedi, specifically in relation to the jobs supported by the factory's operations.

'Aside from its core economic impact, the Heidelberg factory drives various other wider benefits.'

The study also estimates the number of dependents which are supported by salaried staff employed by the factory.

Other contributions are also examined, including the payments which support municipal revenue, the impact of investments on economic development and the contribution of the export receipts to the country's foreign exchange reserves.

HEIDELBERG FACTORY'S ECONOMIC IMPACT



MEASURING ECONOMIC IMPACT

To quantify the Heidelberg factory's economic impact, this study estimates the **GVA contribution to GDP**, **employment** and **taxes** that the factory supported in 2022 across the following channels of impact:

- **direct**
- **indirect** (supply chain)
- **induced** (wage expenditure)

These channels of economic impact are depicted in the figure below (see Appendix for full methodology).

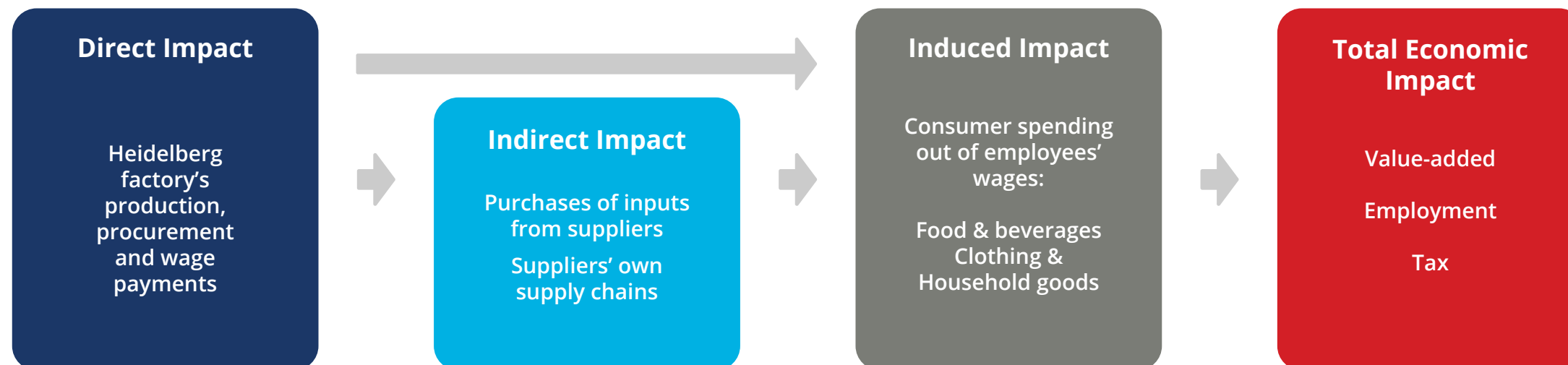
The next section focuses on capturing the economic impact of the Heidelberg factory specifically within the Lesedi Municipal District.

The Heidelberg factory's GVA contribution to GDP and employment is specifically isolated to **clearly showcase the importance of the factory to the local Lesedi economy**.

The factory's economic impact, however, extends beyond just the local Lesedi economy.

Hence, the attention then shifts to estimate the impact of the factory across the rest of South Africa.

The total economic impact of the Heidelberg factory, adding its local impact within Lesedi to its impact across the rest of South Africa, is then estimated in terms of its GVA contribution to GDP, employment and taxes during 2022.



ECONOMIC IMPACT IN LESEDI DISTRICT

Through sourcing and processing tobacco leaves along with procuring other inputs needed in the manufacturing process, BAT SA's Heidelberg factory makes a significant contribution to the Lesedi Municipal District through the production of tobacco products.

Once the cigarettes are manufactured, they are then packaged and grouped into cartons and master cases ready for distribution.

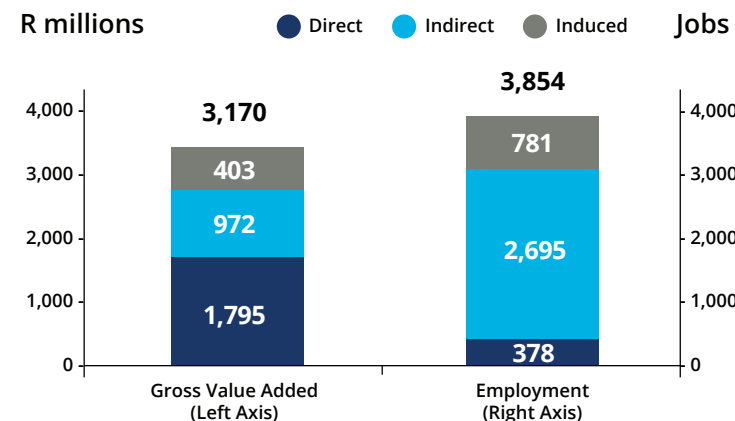
In 2022, the factory's operations directly contributed R1.8 billion to Lesedi's nominal GDP through profits and employee compensation.

Adding the supply chain (R1.0 billion) and employee wage-spend (R0.4 billion) economic impact channels, the **factory contributed just under R3.2 billion to Lesedi's GDP.**

In terms of employment, 378 jobs were directly supported by the factory, while its local procurement supported an additional 2,695 jobs through purchases of goods and services from firms within Lesedi.

During 2022, the Heidelberg factory spent around R387 million to procure inputs from suppliers within the Lesedi region, the majority of which was directed towards transportation & storage (66.8%) as the finished goods produced at the factory are stored and shipped to the domestic retail market as well as exported to countries outside of South Africa.

Economic Impact in Lesedi, 2022



Sources: BAT SA, StatsSA, OE Africa

Furthermore, through the payment of wages to its employees, and by stimulating wage payments in its local supply chain, the Heidelberg factory also supports economic activity in the consumer market.

Through being employed at the factory, staff earn a wage or a salary. Some of this earnings would have been spent on housing, education, healthcare, and other providers of consumer goods and services within Lesedi.

The wage payments, and the wages paid by its local supply chain providers, supported an additional 781 jobs within Lesedi.

In total, the Heidelberg factory, through the direct, indirect and induced channels of economic impact, **supported 3,854 jobs within the Lesedi district in 2022.**

R3.2 billion

Estimated GVA contribution to Lesedi's GDP in 2022

3,854

Estimated number of jobs supported within the Lesedi district in 2022

ECONOMIC IMPACT IN THE REST OF SOUTH AFRICA

A large share of the Heidelberg factory's inputs originate from its supply chain across the rest of South Africa outside of the Lesedi Municipal District.

By buying inputs of goods and services from suppliers across the rest of South Africa, the Heidelberg factory supported an estimated **R7.9 billion GVA contribution to GDP in 2022**, making a significant contribution to the wider South African economy.

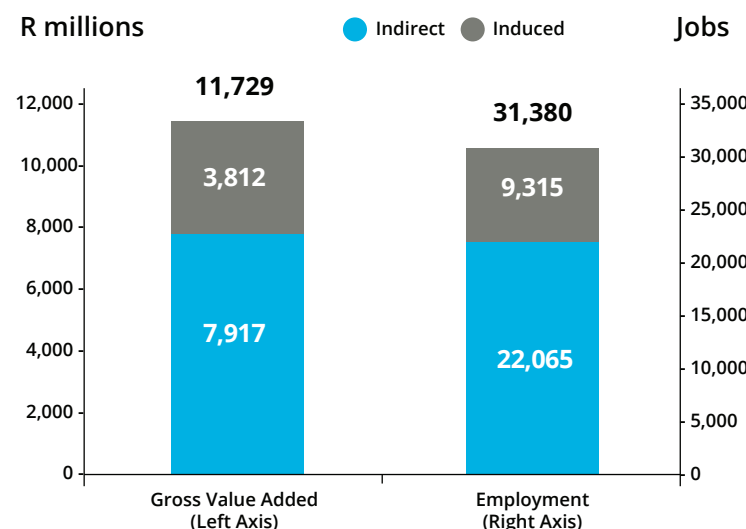
'A large share of the Heidelberg factory's inputs originate from its supply chain across the rest of South Africa.'

While some of its employee wage spending would have occurred within Lesedi, the rest would have stimulated consumer spending on goods and services within the rest of the South African economy.

Additionally, the wages paid to employees in its supply chain outside of Lesedi stimulated an estimated **R3.8 billion in GVA contribution to the South African economy**.

Thus, through its secondary impact channels (indirect, induced), the Heidelberg factory stimulated around **R11.7 billion in GVA contribution to the rest of South Africa's economy**.

Impact in the Rest of South Africa, 2022



Sources: BAT SA, StatsSA, OE Africa

R11.7 billion

Estimated GVA contribution to the rest of South Africa's GDP in 2022

Furthermore, almost all the Heidelberg factory's agricultural inputs are sourced from within South Africa, with a substantial 95% thereof comprising of tobacco leaf purchases from farmers in the Limpopo province.

These purchases help stimulate the local agricultural sector and support farmers at the lower levels of the agricultural value chain.

A substantial 95% of agricultural procurement relates to tobacco leaf purchases from Limpopo, supporting farmers at the lower levels of the agricultural value chain.'

It is estimated that the factory's procurement across the rest of South Africa supported an additional 22,065 jobs, while the wages paid to employees in its supply chain across the rest of South Africa supported a further 9,315 jobs.

In total, the Heidelberg factory supported an **additional 31,380 jobs across the rest of South Africa in 2022**.

31,380

Estimated number of jobs supported across the rest of South Africa in 2022

TOTAL ECONOMIC IMPACT

BAT SA's Heidelberg factory made a considerable contribution to the South African economy in 2022.

Across all three impact channels, **the factory supported an estimated R14.9 billion GVA contribution** to the South African economy, equivalent to 1.8% of the entire manufacturing sector's GVA that year.

Just under R1.8 billion stemmed directly from the factory's operations. Meanwhile, supply chain-driven GVA totaled R8.9 billion while the GVA stimulated through employee wage-spend is estimated at R4.2 billion.

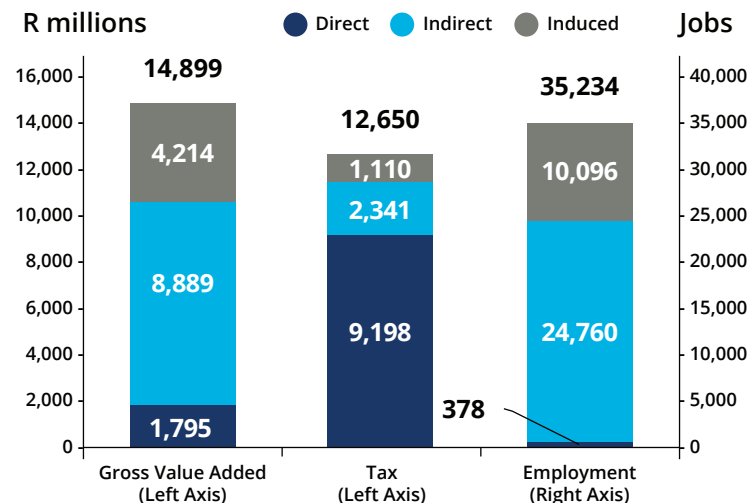
Overall, for every R1 billion of direct GVA contribution to GDP supported by the factory, about R7.3 billion is supported elsewhere in the economy.

'For every R1 billion of direct GVA contribution to GDP supported by the Heidelberg factory, about R7.3 billion is supported elsewhere in the South African economy.'

R14.9 billion

Total GVA contribution to GDP in 2022, equivalent to 1.8% of the entire manufacturing sector's GVA that year

Total Impact in South Africa, 2022



Sources: BAT SA, StatsSA, OE Africa

The factory also supported a total of 35,234 jobs during 2022, equivalent to 2.2% of all manufacturing sector jobs that year. Overall, for every direct job at the Heidelberg factory, another 92 jobs are supported somewhere else in the South African economy.

35,234

Total number of jobs supported in 2022, equivalent to 2.2% of all manufacturing sector jobs that year

'For every direct job at the Heidelberg factory, another 92 jobs are supported somewhere else in the South African economy.'

The Heidelberg factory also makes a significant contribution to tax revenues. During 2022, **the factory facilitated an estimated R12.6 billion in total tax payments to the government**, equivalent to 23.5% of excise duties on alcohol, fuel and tobacco collected that year. Of this amount, just under R9.2 billion stemmed directly from the factory's operations.

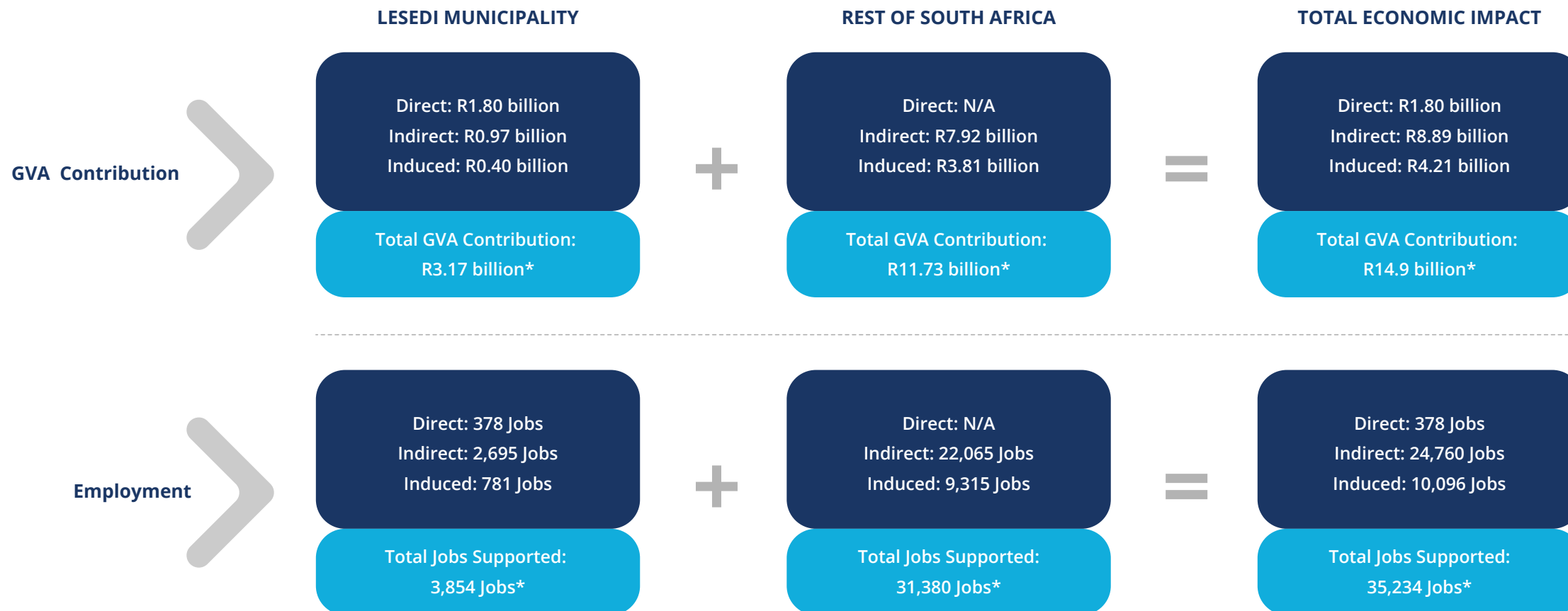
The Heidelberg factory also supported an additional R3.5 billion in tax payments to the government in 2022 through the indirect (R2.3 billion) and induced (R1.1 billion) impact channels.

Furthermore, a significant share of the tobacco products produced at the Heidelberg factory is exported to other markets across Southern Africa. **Specifically, exports accounted for more than 12% of total sales from the factory in 2022.** These exports also serve as a source of foreign currency earnings, thereby supporting South Africa's foreign reserves.

R12.6 billion

Total amount of tax revenue supported in 2022, equal to 23.5% of excise duties on alcohol, fuel and tobacco that year

IMPACT ACROSS REGIONS



* Figures may not always add up due to rounding for reporting purposes.

An aerial photograph of a large container port. A massive container ship is docked at a pier, with its deck covered in stacks of colorful shipping containers. Several large gantry cranes are positioned along the pier, actively loading and unloading the ship. The foreground and middle ground are filled with numerous stacks of containers in various colors (red, blue, green, yellow) arranged in neat rows. In the background, more port infrastructure, including cranes and additional container stacks, are visible. The water is a deep blue-green, and a small tugboat is seen near the ship. The overall scene depicts a highly organized and active logistics hub.

WIDER BENEFITS FROM OPERATIONS

SIGNIFICANTLY HIGHER WAGES

In 2019, prior to the unlawful 5-month ban on tobacco product sales during the COVID-19 pandemic, **the Heidelberg factory was the 8th largest out of 45 factories across the BAT group globally.**

'In 2019, the Heidelberg factory was the 8th largest out of 45 factories across the BAT group globally.'

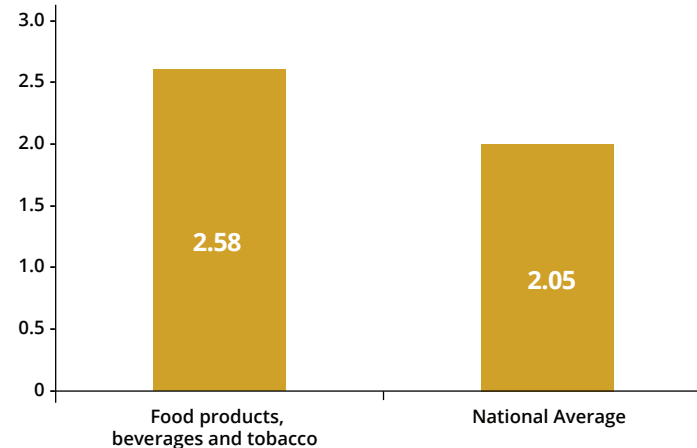
However, due to the 5-month ban on tobacco product sales and the resulting high level of illicit trade in South Africa, the Heidelberg factory is not running at its full capacity and multiple production lines are having to be closed on a yearly basis. Despite this, the Heidelberg factory still contributes significantly to the lives of its employees.

BAT SA also continues to invest in both its workforce and workplace with the company being recognised as a 'top employer' by the Top Employers Institute in 2023*. **This underscores the world-class standard of the company's workplace and employment conditions.** In addition to its workplace practices, employees at the Heidelberg factory are paid significantly above their sectoral and national averages.

'BAT SA recognised as a top employer with word-class standards in terms of its workplace practices and employment conditions.'

Higher Average Monthly Wages

Multiple



Sources: BAT SA, StatsSA, OE Africa

2.58x

Higher average monthly wage at the Heidelberg factory compared to the food products, beverages & tobacco sector

During 2022, the average monthly wage at the Heidelberg factory was around 2.58 times higher than the average monthly wage for employees in the food products, beverages & tobacco sector.

The average monthly wage at the factory was also 2.05 times higher than the average national monthly earnings.

The higher wages being paid by BAT SA to its employees at the Heidelberg factory help reduce income inequality and contribute to improving the long-term standards of living of employees and their dependents.

'Higher wages help reduce income inequality and contribute to improving the long-term standards of living of employees and their dependents.'

2.05x

Higher average monthly wage at the Heidelberg factory than the average national wage

* Top Employers Institute certification is based on an extensive review of employer practices across six human resource domains and 20 topics, including People Strategy, Work Environment, Talent Acquisition, Learning, Well-being, Diversity & Inclusion.

WAGES SUPPORT A LARGE NUMBER OF DEPENDENTS

The workforce at the Heidelberg factory is diverse in terms of educational attainment and skill levels. The roles at the factory range from technical operational roles to senior managerial staff with specialised qualifications.

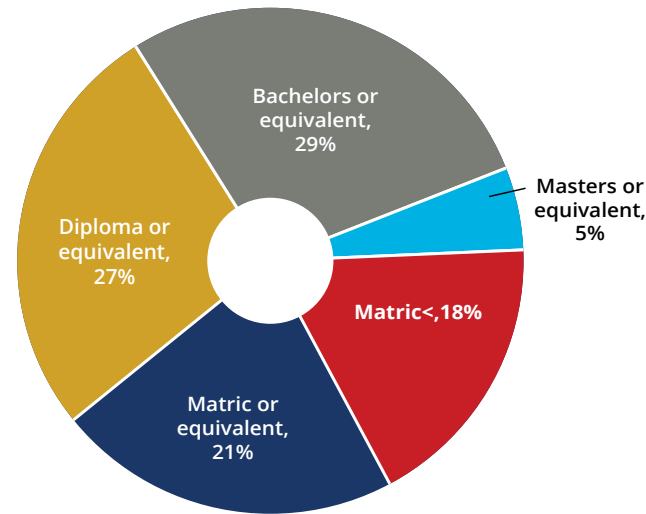
'Around 61% of the workforce holds a post matric qualification with around 5% of the workforce holding at least a masters degree.'

A representative survey of employees at the Heidelberg factory conducted by OE Africa indicates that around 61% of the workforce holds a post matric qualification with around 5% of the workforce holding at least a masters degree.

The skilled and qualified personnel employed by the factory, along with the higher comparative wages being earned by these employees, allow them to support a large number of dependents.

'On average, employees at the Heidelberg factory have 3 dependents that they support with the salaries earned from being employed at the factory.'

Workforce Qualification Profile



Sources: BAT SA, OE Africa

The findings from survey indicated that, on average, **employees at the Heidelberg factory have 3 dependents that they support with the salaries earned from being employed at the factory.**

Around 80% of employees that participated in the survey reported that they have more than 2 dependents that they care for, with around 18% of employees reporting that their salaries supported more than 5 people.

'Around 18% of employees reported that their salaries supported more than 5 people.'

Many of these dependents are children with 70% of respondents reporting that they support at least one child under the age of 15, while around 7% of employees reported that their salary supported more than 4 children.

Just under 40% of all respondents also noted that their salaries helped support dependents over the age of 65.

WORKING AT THE FACTORY



How has working at the Heidelberg factory had a positive impact on your wellbeing and social welfare?*

It has given me an opportunity to provide for my family, to grow within the industry and to develop skills that positively impact me to function well within my community. I am the main provider of my family unit. BAT sustains the lives of me and my immediate family. From where we live, what we eat, education etc.

BAT Heidelberg Employee

It secures my financial needs and ensure that I can pay my bills and support any dependent needs.

BAT Heidelberg Employee

They focus on developing the employees. Currently my school is being paid for by BAT and I can take care of myself and my family.

BAT Heidelberg Employee

Working at BAT has allowed me access to credit facilities (home and vehicle loans) to be able to provide for my family and to put a roof on their heads. It further allowed cross functional interactions and expanding my education via the SETA bursary scheme. Also, I have been able to positively contribute to my community by assisting neighbors with student projects etc.

BAT Heidelberg Employee

Through my employment at BAT, I am able to send both my children to university. I look after my mum who is 75 years and provide for her. This job enables me to make a decent honest living.

BAT Heidelberg Employee

It has given me the financial capacity to provide my dependents with quality education, healthcare and nutrition. My neighbors also benefits from having the plant here in Lesedi, as they are renting out their flat to BAT employees.

BAT Heidelberg Employee

BAT is providing me with a great working environment with a decent salary so that I can provide a comfortable life for me and my dependents.

BAT Heidelberg Employee

Working in BAT has enabled me to be self-reliant and have a livelihood independent of family. It has enabled me to afford over-the-counter medical bills for myself and to also support family from time to time through sending money.

BAT Heidelberg Employee

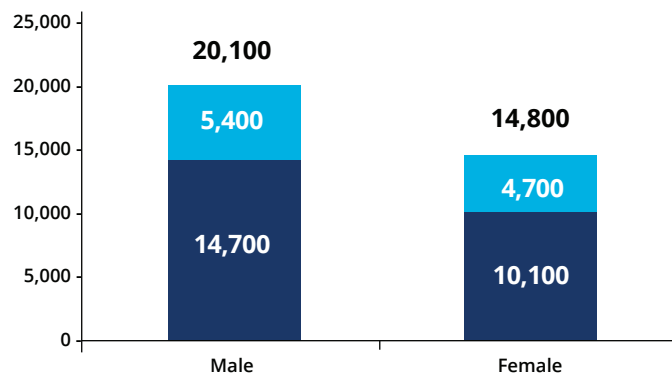
* As part of the on-site survey conducted by OE Africa, participants were asked how working at the Heidelberg factory has had a positive impact on their wellbeing and social welfare. Some of the responses to this question are shown here. The responses, with all feedback and information captured being kept anonymous, are from BAT SA employees at the Heidelberg factory.

SUPPORTING JOBS FOR FEMALES AND YOUNG ADULTS

Further employment benefits are stimulated by the Heidelberg factory's operations through its secondary impact channels (indirect, induced), supporting sustainable job opportunities for females and young adults.

Generally, formal female employment not only increases household incomes as it creates more multiple-income stream households, especially in communities where traditional gender roles persist, but it also increases economic diversification and boosts productivity by bringing in diverse skills.

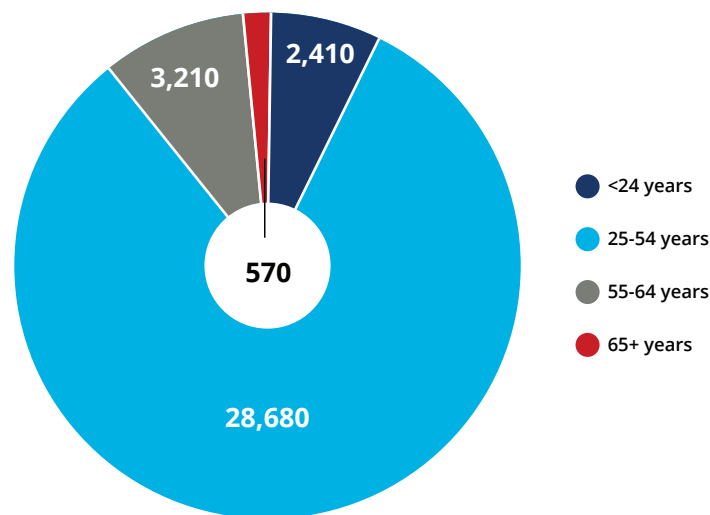
Jobs Supported by Gender



Sources: BAT SA, StatsSA, OE Africa

Meanwhile, the employment of young adults develops future fiscal revenue streams for development purposes and lays the foundation for improved standards of living in the country.

Employment Impact by Age Group



Sources: ILO, StatsSA, BAT SA, OE Africa

Hence, the **employment of females and young adults is key to achieving sustainable development and improved standards of living**. Around 34,900 jobs were supported in 2022 through the indirect and induced impact channels.

Of these, around 14,800 jobs were occupied by females.

Furthermore, **about 2,410 of the 34,900 jobs supported by the Heidelberg factory were held by young adults below the age of 24 years**, while a further 28,680 jobs (82.2% of the total) were held by people between the ages of 25 and 54 years, with the rest of the jobs held by people 55 years and older.

SUPPORTING MUNICIPAL REVENUE

The factory in Heidelberg also contributes significantly to the Lesedi municipality's revenue through the payments for basic goods and services such as utilities and property rates & taxes.

In 2022, the factory contributed just over R42.2 million to the Lesedi municipality for the payment of goods and services, equivalent to around 3.4% of total municipal revenue during the 2021/22 fiscal year.

This amount comprised of the following:

- R29.5 million for electricity purchases,
- R8.4 million for water, sanitation & refuse, and
- R4.2 million in property rates & taxes.

It must be highlighted that payments by the Heidelberg factory to the municipality have declined since 2019, mainly as a result of lower production volumes.

The latter, in turn, stemmed from the tobacco sales ban and the industry struggling to regain market share thereafter due to illicit trade becoming increasingly entrenched.

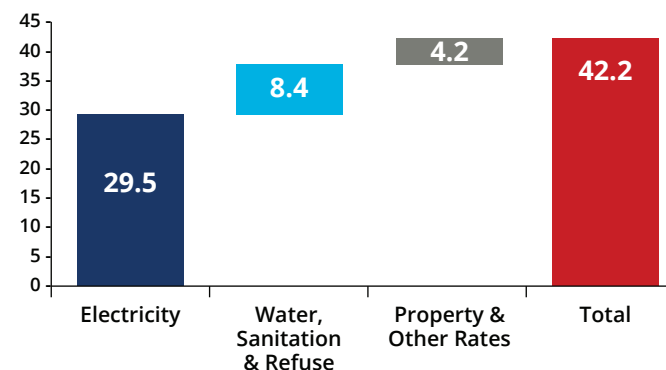
3.4%

The payments made by the factory was equal to 3.4% of Lesedi Municipality's total revenue during 2021/22 FY

'Production levels at the Heidelberg factory have declined as the legitimate industry struggles to regain market share due to illicit trade becoming increasingly entrenched.'

Payment for Municipal Services, 2022

R millions



Source: BAT SA

Furthermore, the factory also installed its own electricity generating capacity to curb operational disruptions due to frequent power outages. This contributed to a decline in payments to the municipality for electricity.

BOOSTING SMEs

While some inputs are imported, most of the Heidelberg factory's procurement is from domestic producers.

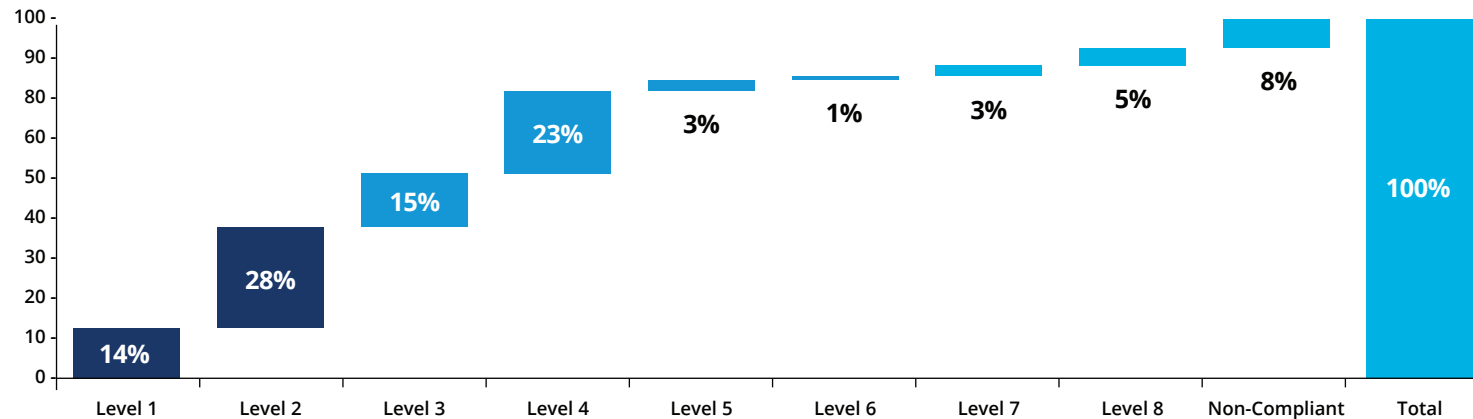
The factory supports many businesses within the Lesedi district as well as across the rest of South Africa.

'A substantial 45% of the factory's supply chain comprises of micro & small enterprises (firms with less than 50 employees).'

While most of the factory's supplies are sourced from large enterprises, **a substantial 45% of the factory's supply chain comprises of micro & small enterprises (firms with less than 50 employees).**

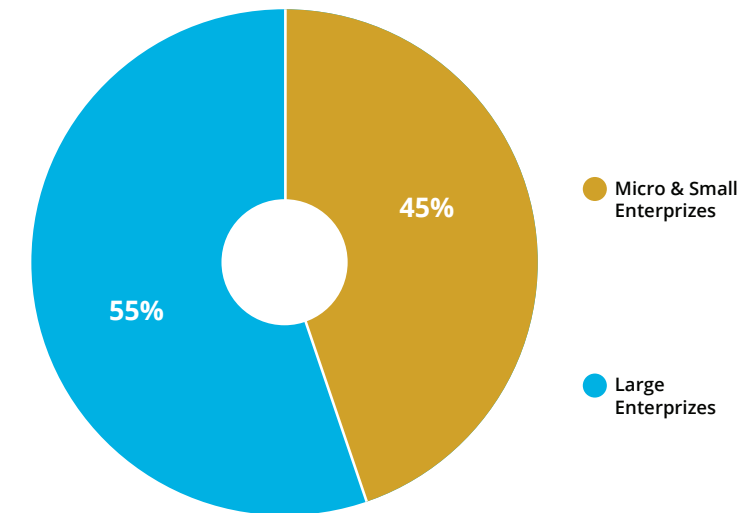
In addition to supporting small firms, the factory also contributes to businesses owned by black entrepreneurs with over 80% of its procurement profile comprising of businesses that have a Broad-Based Black Economic Empowerment (BBBEE) level of 4 or better.

BBBEE Status of Procurement Profile



Source: BAT SA

Share of Total Procurement, 2022



Source: BAT SA

'The Heidelberg factory contributes to businesses owned by black entrepreneurs with over 80% of its procurement profile comprising of businesses that have a BBBEE level of 4 or better.'

CONCLUSION



CONCLUSION

Through its operations, BAT SA's Heidelberg factory makes a significant contribution to both the local Lesedi Municipal District in which it operates as well as the broader South African economy.

The tobacco industry has been facing an ever more challenging operational environment over the past three years, largely stemming from the unlawful 5-month ban on tobacco product sales during the COVID-19 pandemic which had the consequence of entrenching illicit tobacco trade. Illicit trade channels have become more entrenched with the illicit segment gaining a dominant market share. Furthermore, with duty-paid volumes declining and operating costs rising, domestic manufacturing of legitimate tobacco products is increasingly at risk.

Against this increasingly challenging operational backdrop, this study estimated the socio-economic contribution that BAT SA's Heidelberg factory made to both its local municipal district in which it operates as well as to the broader economy of South Africa. **This highlights what is at risk should illicit trade continue to flourish** and result in a decline in sales of legitimate tobacco products. The latter would most likely be accompanied by operations being scaled down. **A loss in domestic production would put at risk the jobs, taxes and GVA contribution that the Heidelberg factory currently supports.**

This study found that the Heidelberg factory made a substantial contribution to both the Lesedi Municipal District as well as the rest of the South African economy.

In 2022, the factory supported roughly R3.2 billion in GVA contribution to GDP within Lesedi. This resulted in around 3,854 jobs being supported within the district due to the factory's operations.

Additionally, an estimated R11.7 billion in GVA contribution to GDP was supported in the rest of the South African economy through the factory's supply chain outside of Lesedi as well as the consumer spending stimulated by the wages paid to employees.

In total, BAT SA's Heidelberg factory made a considerable contribution to the South African economy in 2022. **Across all three impact channels, the factory supported an estimated R14.9 billion GVA contribution to the South African economy.**

Due to its operations **the factory supported 35,234 jobs** across all three economic impact channels during 2022.

Furthermore, the factory's operations, the supply chain it supported as well as the consumer spending supported by the wages of both its direct employees and those within its supply chain **stimulated roughly R12.6 billion in tax payments to the government** during 2022 – equivalent to 23.5% of excise duties on alcohol, fuel and tobacco collected that year.

Of this amount, just under R9.2 billion stemmed directly from the factory's operations. The Heidelberg factory also supported an additional R3.5 billion in tax payments to the government in 2022 through the indirect (R2.3 billion) and induced (R1.1 billion) impact channels.

In 2022, the factory contributed just over R42.2 million to the Lesedi municipality for the payment of goods and services. The average monthly wage paid to workers at the Heidelberg factory was also around 2.58 times higher than the average monthly wage for employees in the food products, beverages & tobacco sector. Workers at the factory supported themselves and their families with these wages. A survey conducted by OE Africa indicated that, on average, employees at the Heidelberg factory have **3 dependents that they support with these earnings**. Furthermore, through its supply chain and wage induced consumer spending, the factory **supported around 14,800 female employees** within South Africa in 2022, while also supporting around 2,410 jobs held by young adults below the age of 24 years.

Meanwhile, roughly 45% of the factory's supply chain comprises of micro & small enterprises. In addition to supporting small firms, the factory also contributes to businesses owned by black entrepreneurs with over 80% of its procurement profile comprising of businesses that have a BBBEE level of 4 or better.

These benefits to the district as well as to the broader South African economy are increasingly at risk should illicit trade continue to flourish at the expense of demand for legal products and result in production at the Heidelberg factory being scaled down further. Legislation such as the potential passing of the TPENDS Control Bill could result in smokers of legal products increasingly switching to purchasing illicit cigarettes – again, this would add further pressure on operations at the factory.

APPENDIX



APPENDIX

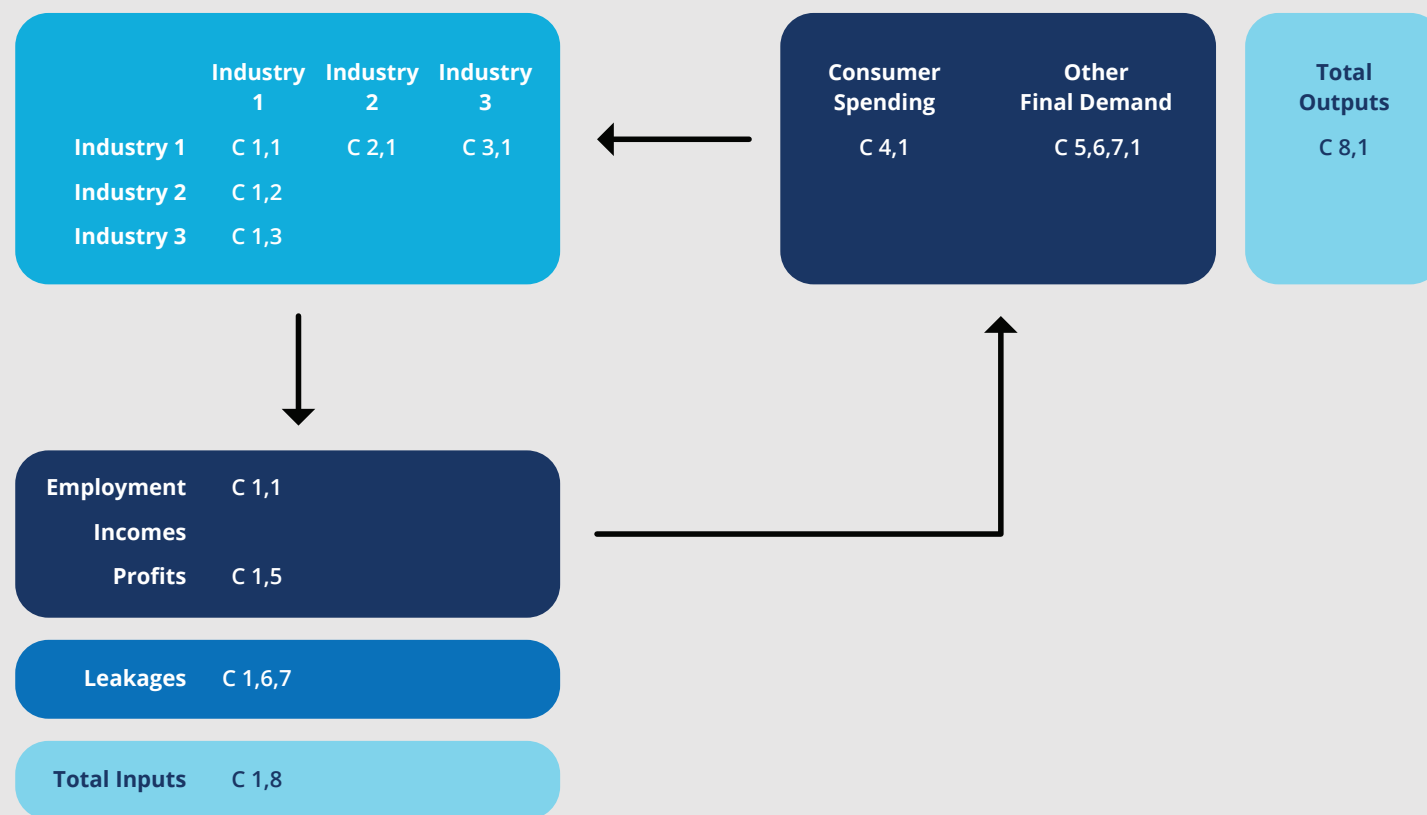
METHODOLOGY: INPUT-OUTPUT (I-O) TABLE

The core database for our bespoke economic impact model is an input-output (I-O) table. I-O tables are designed to give a snapshot of an economy at a particular time, showing the major spending flows. These include "final demand" (consumer spending, government spending and exports to the rest of the world); intermediate spending (what each sector buys from every other sector – the supply chain); how much of that spending stays within the economy; and the distribution of income between employment income and other income (mainly profits).

I-O tables are, therefore, particularly useful when estimating indirect and induced economic impacts. The idea behind the I-O table is that the economy can be divided into a number of producing industries and that the output of each industry is either used as an input into another industry or in final consumption. In essence, the I-O table **shows who buys what from whom in the economy**, e.g., in the illustration on the right, *Industry 2* purchases an amount, *C2,1* from *Industry 1* as an input to its production process.

For this study, we developed I-O tables that are consistent with the latest macroeconomic data, using official data from Statistics South Africa (StatsSA), the South African Reserve Bank, and National Treasury, as well as supplementary data from the International Labour Organisation, the Organisation for Economic Co-operation and Development, and the United Nations Conference on Trade and Development.

STYLISTIC REPRESENTATION OF AN INPUT-OUTPUT TABLE



APPENDIX

METHODOLOGY: ECONOMIC IMPACT MODEL

To quantify the tobacco industry's economic footprint in South Africa, we estimated the GVA contribution to GDP, employment, and tax revenue supported by the industry in 2019-2022 across the direct, indirect (supply chain), and induced (wage spend) impact channels.*

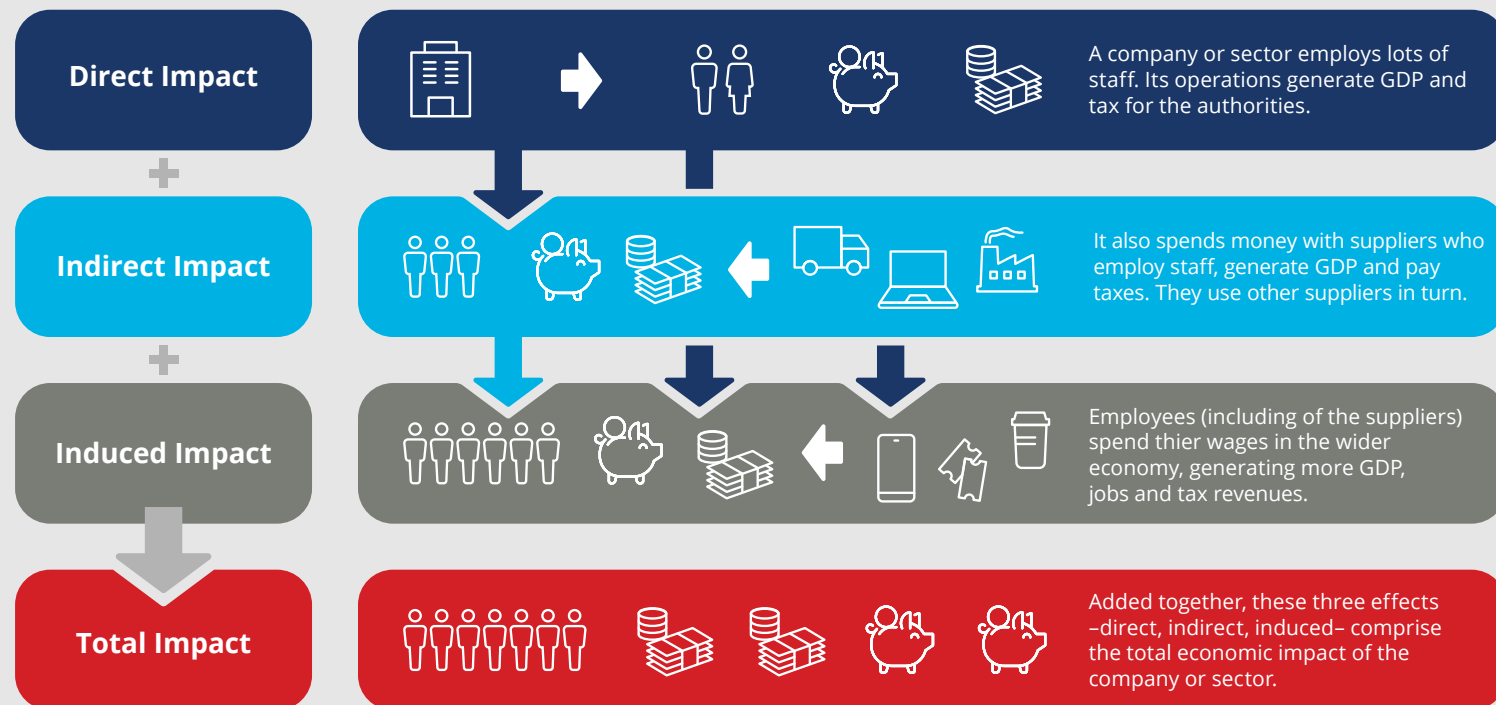
Direct impact was calculated using, financial, sales, procurement, tax and employment data from BAT SA.

The economic impact model, based on the I-O tables we developed, was then used to trace the indirect and induced economic footprint. Drawing on patterns of spending observed in the model and sectoral GVA to gross output and productivity ratios from StatsSA, we calculated the indirect GVA, employment, and tax revenue footprint.

Augmentation of the model (to include household spend) enabled the calculation of induced GVA, employment, and tax revenue footprint.

The industry multipliers used in the model were developed using the Leontief system. Under the Leontief system industry multipliers are calculated through a series of manipulations of the I-O matrix.

OVERVIEW OF ECONOMIC IMPACT METHODOLOGY CHANNELS



* The results of this analysis are in gross terms and necessarily ignore the alternative potential use of the resources the tobacco industry employs. A net study defines the impact created by the tobacco industry in excess of what would have been created if the resources were used in their second most effective use. Calculating net figures rely on many bold assumptions about the counterfactual scenario and are thus open to criticism, which can detract from the overall message of the research.

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