Current Trends in the World’s Tobacco Leaf Production

by

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(ITGA)

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ITGA Members: Argentina, Bulgaria, Brazil, China, Colombia, Croatia, Dominican Republic, India, Italy, Kenya, Malawi, Malaysia, Mexico, Pakistan, Portugal, S. Africa, Tanzania, Uganda, U.S.A., Zambia, Zimbabwe.
Production Trends
Global Leaf Supply (Burley) in %

1960:
- USA: 82%
- Mexico: 10%
- Other: 5%

2000:
- USA: 18%
- Mexico: 5%
- Malawi: 18%
- Italy: 6%
- Brazil: 12%
- Other: 41%

2008:
- USA: 17.55%
- Brazil: 16.3%
- Malawi: 13.51%
- Italy: 4.81%
- PRC: 3.88%
- Argentina: 5.75%
- Mozambique: 4.35%
- Thailand: 6.68%
- Other: 27.17%
Factors Conditioning Production

Restructuring of Industry:
- Past 15 years: End of national monopolies (Spain, Portugal, France, Italy, Russia, Bulgaria*, Turkey, Morocco);
- Consolidation of industry: Purchase of Monopolies and smaller companies by multinationals (Reemtsma, Rothmans, RJ Reynolds, Sampoerna, Gallaher, Commonwealth Brands, Altadis, Tabaqueira, Skandinavian Tobacco, Swedish Match, Regis des Tabacs, Tekel, East Europe/Balkans);
- 4 Manufacturers responsible for over one half of all tobacco sold globally outside China;
- Strengthening of global brands and conquest of larger market share.
Factors Conditioning Production

- Delocalization (to lower production cost locations >> quality, social/environmental issues);

- Drop in production of former major producers (e.g. Canada, Zimbabwe, U.E.);

- Increase in production of newly competitive producers (e.g. India, USA, Mozambique).
Factors Conditioning Production

Change in Tobacco Trade:

Move from Auction to Contract:

-20 yrs ago, out of the main exporters U.S., Canada, Brazil, Malawi, and Zimbabwe, only Brazil & Argentina did **NOT** have auctions.

Today only Malawi and Zimbabwe still have auctions.
FCV Production Trends (million kgs)
FCV Production Trends: China (million kgs)
FCV Production Trends (million kgs)

- Brazil
- India
- USA
- Zimbabwe
Burley Production Trends (million kgs)
Burley Production Trends (million kgs)

- USA
- Malawi
- Brazil
- Mozambique
FCV Grower Prices: Selected Countries (US$/kg)

- **Italy**
- **USA**
- **India**
- **Brazil**
- **Argentina**
FCV Grower Prices: Selected African Countries (US$/kg)

Tanzania
Zimbabwe
Uganda

Year | Tanzania | Zimbabwe | Uganda
--- | --- | --- | ---
2003 | 2.25 | 2.02 | 0.7
2004 | 1.39 | 0.87 | 0.87
2005 | 1.61 | 0.87 | 0.78
2006 | 2.02 | 0.89 | 0.91
2007 | 2.32 | 1.00 | 1.00
2008 | 2.55 | 1.00 | 1.00
2009 | 2.60 | 1.00 | 1.00
# Real vs. US$: Trends

<table>
<thead>
<tr>
<th>Year</th>
<th>Exchange Rate Real/ US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>3.12</td>
</tr>
<tr>
<td>2004</td>
<td>2.93</td>
</tr>
<tr>
<td>2005</td>
<td>2.44</td>
</tr>
<tr>
<td>2006</td>
<td>2.18</td>
</tr>
<tr>
<td>2007</td>
<td>1.95</td>
</tr>
<tr>
<td>2008</td>
<td>1.84</td>
</tr>
<tr>
<td>2009</td>
<td>2.01</td>
</tr>
</tbody>
</table>
Consumption Trends
Key Trends in 2009

- High prices = lower volumes = price wars
- Era of product innovation to keep pricing strong
- Companies buy into cigarette alternatives
- Smoking prevalence down, smokers up
- Point-of-sale & shelf-space at a premium
- Tobacco control legislation de-normalising consumption
- The ‘safer cigarette’ becomes the reduced-risk tobacco product
- Big brands compete for developing markets
- Litigation threats fade
- Global industry consolidation and concentration
- Era of product innovation to keep pricing strong
## World Cigarette Production: Selected Countries ’06 vs. ’07

<table>
<thead>
<tr>
<th>Country</th>
<th>Bn sticks</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>+120</td>
</tr>
<tr>
<td>Vietnam</td>
<td>+15</td>
</tr>
<tr>
<td>Poland</td>
<td>+13</td>
</tr>
<tr>
<td>Indonesia</td>
<td>+9</td>
</tr>
<tr>
<td>Ukraine</td>
<td>+8</td>
</tr>
<tr>
<td>S. Korea</td>
<td>+8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Country</th>
<th>Bn sticks</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>-34</td>
</tr>
<tr>
<td>Brazil</td>
<td>-16</td>
</tr>
<tr>
<td>UK</td>
<td>-15</td>
</tr>
<tr>
<td>Japan</td>
<td>-8</td>
</tr>
<tr>
<td>Canada</td>
<td>-7</td>
</tr>
<tr>
<td>Netherlands</td>
<td>-7</td>
</tr>
</tbody>
</table>
Consumption Trends:

- Increase in developing countries, esp. Asia: +30 million smokers in China in the last 15 years (e.g. cigarette production in China);

- Decrease in developed countries (Canada, Japan, Korea, US, EU, Australia, New Zealand);
Consumption Trends: Shift in Consumer Preferences

Forecast smokeless tobacco versus other tobacco categories

Forecast Growth of World Tobacco Products Market by Sector 2008-2013

Source: Euromonitor International
Sales of cigarettes and snus in Sweden 1997-2007

Source: Euromonitor International ('97-'06 snus data from Swedish Match, converted from can units based on 36gr = 1 can).
Note: '07 decline in snus sales is due to stockpiling by consumers in '06 in advance of a tax hike and is not indicative of market trends.
Implications of Consumers' Shift to Smokeless Tobacco

About **15g of tobacco** (0.53oz) is contained in a 20-stick pack of cigarettes - this is down from 20g (0.71lb) a pack in the 1950ies. A 50g tin of snus contains an estimated 20.5g (0.72oz) of tobacco.

An average snus user consumes approximately one third of a 50g tin. Consequently, the daily consumption of a **snus** user requires about **6.8g** (0.24oz) of tobacco.
Appearance of new products to counteract the prohibition of public consumption.

Alternative to consumption approved by anti-tobacco groups.
Future Trends?

- Outside of China, world cigarette consumption has only grown at a compound annual rate of **+0.3%**;

Cigarette sales in China rose by an astonishing **30 billion sticks** in the four months January-April 2008, almost the equivalent of a full year's consumption in Canada or Greece;

- Female consumption (Japan 14% - China currently 6.62%).
China Cigarette Production  
(billion sticks)

2001: 1.700  
2002: 1.723  
2003: 1.789  
2004: 1.874  
2005: 1.942  
2006: 2.023  

Compounded annual growth 4.5%
Global Cigarette Consumption

Total & American Blend consumption

- Total (incl. PRC)
- Total (excl. PRC)
- Am. Blend (incl. PRC)
- Am. Blend (excl. PRC)
Volume vs. Value

Index global cigarette volume, value and average 20 stick pack price 2003-7

- Index 2002 = 100

- Value (US$ million)
- Volume (million sticks)
- Price per (20 stick)
Female smoking populations by region...

Figures are a proportion of total female population – red denotes regions where female smoking prevalence is growing.
## China: Smoking Prevalence in %.

### Adult Female & Male Populations

<table>
<thead>
<tr>
<th>Year</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>63.55%</td>
<td>33.41%</td>
<td>33.63%</td>
</tr>
<tr>
<td>1999</td>
<td>63.37%</td>
<td>33.56%</td>
<td>33.59%</td>
</tr>
<tr>
<td>2001</td>
<td>63.12%</td>
<td>33.70%</td>
<td>33.61%</td>
</tr>
<tr>
<td>2003</td>
<td>63.02%</td>
<td>33.63%</td>
<td>33.61%</td>
</tr>
<tr>
<td>2005</td>
<td>62.67%</td>
<td>33.61%</td>
<td>33.61%</td>
</tr>
<tr>
<td>2007</td>
<td>62.03%</td>
<td>33.61%</td>
<td>33.61%</td>
</tr>
<tr>
<td>2009</td>
<td>61.14%</td>
<td>33.59%</td>
<td>33.59%</td>
</tr>
<tr>
<td>2011</td>
<td>60.19%</td>
<td>33.60%</td>
<td>33.60%</td>
</tr>
<tr>
<td>2012</td>
<td>59.77%</td>
<td>33.59%</td>
<td>33.59%</td>
</tr>
</tbody>
</table>

**Source:** Euromonitor International
Legislation
Tobacco Control Campaigns:

- The emergence of a number of regulatory and institutional measures with international impact that seek to throttle consumption and supply.
Impacts of Anti-Tobacco Legislation

Impact of Smoking Ban – UK and Ireland Examples

Ireland and UK Cigarette Volumes and Public Smoking Bans Impact 2003-2007

- A Cigarette volumes fell in Ireland following the public smoking ban in 2004 but then recovered as smokers became accustomed to having to smoke outside and making use of external smoking facilities.

- B and C In the UK, public smoking bans in Scotland and Wales were followed by a ban in England in July 2007 and then by a ban in Northern Ireland. The view is that the bans accelerated the existing falling trend in cigarette volumes due to high prices and high levels of illicit trade.

The general view is that public smoking bans, when these include restaurants and bars, create lifestyle changes which reduce the incidence of smoking severely until adjustments are made but then some of the losses in volumes are recovered whereas changes due to price are more permanent.
Impact of Regulatory measures + Tax increase on Cigarette Consumption in Japan

- 1971: Year starts with 220 Billion Pieces.
- 1998: Advertising restrictions on main media/‘brand sharing’.
- 2001: Underage sales prohibited.
- 2004: Outdoor advertising ban.
- 2006: Restrictions on sponsorship.
- 2008: TASPO cards for Vending machines.

Year


Billion Pieces

200,00 220,00 240,00 260,00 280,00 300,00 320,00 340,00 360,00 380,00 400,00

Impact of Regulatory measures + Tax increase on Cigarette Consumption in Japan

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- 2001: Underage sales prohibited.
- 2004: Outdoor advertising ban.
- 2006: Restrictions on sponsorship.
- 2008: TASPO cards for Vending machines.
Impact of Regulatory measures + Tax increase on Cigarette Consumption in the United Kingdom

1965: Cigarette advertising on television and radio banned by legislation.
1983: First voluntary agreement published.
1986: Cigarette advertising banned in cinemas by legislation.
1994: Voluntary agreement restricting advertising on posters and point of sale.
2004: Advertising at POS limited.
2005: Brand-sharing prohibited.
2007: Public smoking ban.
The World Health Organization’s (WHO) Framework Convention on Tobacco Control (FCTC):

- Work began in 1999;
- Entry into force: 27 February 2005;
- Signatories to the Convention Today: 168.
Control Measures with International Impact

- **WHO** – Framework Convention on Tobacco Control (**FCTC**).
- **European Council's** decision on decoupling subsidies from tobacco production;
- **FDA** regulation (disclosure and ingredients);
- **ECOSOC** (Global Compact);
- Canada Bill **C32**;
Key Provisions

- Elimination of Advertising and Promotion;
- Protection from Environmental Tobacco Smoke (Smoking Bans);
- Larger health warnings (30-50%);
- Pictorial warnings:
- Ingredient disclosure;
- Prohibition of sales to minors (age verification, elimination of vending machines, etc.);
- Price and tax measures to reduce consumption;
- Combat illicit trade (INB).
Article 17: Removed after ITGA Lobbying

Each Party undertakes to phase out, with the view to eliminating subsidies, including tax exemptions, loans and rebates, for tobacco growing and manufacturing of tobacco products.”

A/FCTC/INB5/2 - 25 June 2002
COP 1, Geneva, 6-17 Feb. 2006: Creation of *ad hoc* study group on alternative crops;

COP 2, Bangkok, 30 June-6 July 2007 - Study group recommendation:

“There is a huge research gap that needs to be filled related to the health effects of tobacco growing (*green tobacco sickness* in particular), the testing of *cotinine* presence in farmers and the environmental (*deforestation, toxicity, soil depletion*, etc.) and socioeconomic (*child labour, opportunity cost of tobacco growing*, etc.) impacts of tobacco growing.” A/FCTC/COP/2/11
COP 3, 17-22 Nov. ‘08 in Durban, South Africa.

>> Articles 9&10 Wk Group (Regulation of the contents of tobacco products and of tobacco product disclosures) to submit the first set of draft guidelines for CoP4;

>> Creation of Working group on economically sustainable alternatives to tobacco growing, Articles 17&18. To submit policy options and/or recommendations for CoP4;

>>> 1st meeting held from 16 -18 Sept. ‘09 in New Delhi, India.
>>> 2nd meeting planned in Ghana in April ‘10.

COP 4, 15-20 Nov. 2010 in Punta del Este, Uruguay.
Brazil’s Conditions to ratify the FCTC:

- Brazil declares that, with regards to the preamble paragraphs 15 & 16, and Articles 4 (6), 17 and 26 (3) of WHO’s FCTC, there will be no prohibition with regards to tobacco growing or any restrictions to national politics that, currently, support growers who dedicate themselves to that activity.

- Furthermore, Brazil declares that it is imperative that the Convention acts as an effective instrument to mobilize at international level, technical and finance resources to help developing countries to find viable alternatives to tobacco production as part of national strategies for a sustainable development.

- Finally, Brazil also declares that it does not give its support to any proposal that aims at using WHO’s FCTC as an instrument for discriminatory practices that go against the free market rules.
• However, WHO forgot the economic viability and its support to eventual alternatives;

• Brazil is a ‘Key-Facilitator’ of the Working Group for Art.º 17&18;

• Brazil is a ‘Member’ of the Working Group for Art.º 9 &10;

• 2010 is a decisive year and Brazil’s participation at the negotiation table is fundamental to assure that all tobacco growers’ rights are respected.
Other Legislation

**Family Smoking Prevention & Tobacco Control Act:** It has already allowed the Food & Drug Administration (FDA) to demand the disclosure of ingredients and respective quantities; supervise the introduction of the ‘Modified Risk Tobacco Products’; to claim the disclosure, by the industry, of documents on the effects on health and ban ingredients; from September 22, 2009, there is a ban on cigarettes and any other element that constitutes them (filters, mortises) that contain artificial or natural flavors, spices or plants, including strawberry, grape, orange, clove, cinnamon, pineapple, vanilla, coco, chocolate, cherry or coffee, which could provide them with a characteristic taste.

**European Council's Decision:** Elaboration of the guidelines on ingredients;
BillC32: Ban of aromatic ingredients, “Additives that have flavouring properties or that enhance flavour.”

The following additives are excluded: Benzoic acid (CAS 65-85-0) and its salts; butylated hydroxytoluene (CAS 128-37-0); citric acid (CAS 77-92-9) and its salts; fumaric acid (CAS 110-17-8); glycerol (CAS 56-81-5); guar gum (CAS 9000-30-0); menthol (CAS 89-78-1); menthol (CAS 2216-51-5); menthone (CAS 14073-97-3); propylene glycol (CAS 57-55-6); sodium alginate (CAS 9005-38-3); triacetin (CAS 102-76-1); amino acids; coloring agents; essential fatty acids; fruits, vegetables or any product obtained from the processing of a fruit or vegetable; glucuronolactone; probiotics; spices, seasonings and herbs; sugars and sweeteners; vitamins and minerals.
“Prohibition of sale, distribution or offer of aromatic cigarettes with ingredients providing them with a sweet or acid taste in violation of law limits.”

The Minister must publish in the Gazeta a list of all the forbidden tobacco products, namely, if they have fruity, sweet or confectioner like (sweets) characteristics or if the characteristics of the products or the way they are promoted, can encourage minors to smoke.”
Impacts for Brazil

- Canada is a Key-Facilitator of the Working Group for Art.º 9 & 10;

- The example regarding the prohibition of additives and aromatic ingredients in Canada could be followed by other countries;

- In Brazil, such a prohibition could be disastrous for the 49,200 families producing Burley;

- COP 4 will be held in November 2010 in Uruguay – position papers will have to be submitted until May 2010;
Future Trends?
Global Cigarette Consumption

Total & American Blend consumption

Total (incl. PRC) | Total (excl. PRC) | Am. Blend (incl. PRC) | Am. Blend (excl. PRC)
WHO’s own Estimates

“Current estimates show that the world number of smokers is going to experience an increase from the current 1.3 billion to more than 1.7 billion by 2025 (partly due to a global population explosion), even if the global consumption prevalence (percentage of people consuming tobacco) is maintained.

Bearing in mind the premise of the decrease of the global prevalence at an annual rate of 1%, it can be anticipated that the number of consumers is going to rise to 1.46 billion by 2025.”
Future Trends?
Alternative Uses: GM Tobacco

- Use of seeds/ leaf for bio-fuel;

- Production of photovoltaic cells;

- Detection of land mines and counteraction of TNT contamination;

- Development by Bayer of a new production process to produce biotech drugs in tobacco plants;
Future Trends?
Alternative Uses: GM Tobacco

- Purchase by Philip Morris Int. of a large position in Medicago Inc., a Quebec City biotech company that plans to make vaccines from tobacco leaves.

- Creation of Anthrax, Anti-Hepatitis B, cervical cancer, SARS, Cruise ship virus vaccines;
Future Trends?
Alternative Uses: GM Tobacco

- Creation of a "biosimilar" collagen to human collagen;
- Assistance in breast cancer diagnosis and treatment;
- Economical means of production of novel feedstocks, such as biodegradable polymers;
- Provision of material for varied wood-based applications, e.g. particleboards that can be used as low cost boards for mass housing.
Thank You for Your Attention.

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