



Tobacco Monitor

AN UPDATE ON THE MOST RECENT EVENTS AND FORECASTS

FEBRUARY 2021

CROP MONITOR

The Tobacco Association of Malawi (TAMA) revealed that the 2020 production closed at 114 million kg despite demand exceeding 165 million kg. The 2021 crop is forecast to be short as well- likely below 130 million kg, **lower than the projections shared during ITGA's AGM 2020**. Currently, farmers are reaping, while commercial FCV growers are curing. The second wave of Covid-19 hit **Malawi** hard affecting office and field activities, which could create further operational complications.

In addition, AHL Group announced a lay off impacting 40% of the company's workforce due to pressing financial challenges. The local government already supported the organization and owns a 40% share in it.

According to the Tobacco Industry and Marketing Board (TIMB) in **Zimbabwe**, the 2020 season brought USD 763 million in tobacco exports. This amounts to 30% of the country's total foreign exchange. The primary destination for **Zimbabwean** tobacco leafs is **China**, accounting for a third of the overall figures.

- The average price in 2020 was USD 4.06 per kg, down from USD 4.51 per kg in 2019.
- TIMB also revealed that growers have planted 107,000 ha of tobacco compared to 114,000 ha the year before.

Regardless, the Board expects higher productivity. At the moment, there is a shortage of fertilizers in Zimbabwe but a solution is expected in the weeks to come.

The Government of **Tanzania**, after meeting the **Tanzania** Tobacco Board (TTB), announced its intention to explore opportunities in additional tobacco markets. As a result, the Minister of Agriculture wants to revive the processing factories in **Morogoro** and **Songea** as soon as possible. The local authorities are unhappy with the mode of operation of foreign buyers and intend to adopt a government-to-government strategy with neighboring countries. The Deputy Minister of Agriculture revealed that tobacco production in Tanzania is expected to grow to 67,000 tons in 2020/2021, up from 42,000 in 2019/2020.

22nd Century Group, a manufacturer focused on developing low-nicotine containing cigarettes, is increasing its **US** planting program with select farmers in the country's tobacco belt. The company's products contain, on average, around 0.5 milligrams of nicotine per gram of tobacco, around 50 times less than the concentration in standard cigarettes. The company's flagship brand VLN is in the final stage of receiving a Modified Risk Tobacco Product (MRTP) designation by the FDA.

The **Kentucky** Labor Cabinet in the **US** has launched an online survey to understand the level of payment for tobacco growers in the 2020 season. This is intended as a step forward in establishing a prevailing wage for tobacco farm workers in the state.

Despite the global pandemic, **Brazil** remains the leader in tobacco exports bringing in USD 1.64 billion in 2020, a decrease from USD 2.14 billion in 2019. The country exported 514,000 tons during the year, 35,000 tons reduction on an annual basis. Tobacco accounts for 0.8% of all exports in **Brazil** and 9.5% in the state of **Rio Grande do Sul**, which is home to more than half of the country's tobacco leaf production. The total number of growers in **Rio Grande do Sul** in the new season will be around 71,000 or 2,000 less than the season before. The top 3 tobacco export markets for **Brazil** are:

- **Belgium:** USD 414 million
- **China:** USD 153 million
- **US:** USD 125 million

Brazil's productivity is forecast to be 2% higher despite losses caused by drought. According to the Association of Tobacco Growers of **Brazil** (Afubra), some farmers stopped growing tobacco leading to a 6% drop in the area planted. In January, growers in both **Brazil** and **Argentina** met with industry representatives to discuss crop prices. A common concern is the constant growth of production costs. In **Argentina**, inflation puts extra pressure on farmers.

A bill that could potentially move the classification of tobacco leaf in the hands of qualified technicians registered at the **Brazilian** Ministry of Agriculture is being debated. It aims to ensure fairer pricing.

Tobacco exports in **Pakistan** registered a 9.7% year-on-year increase during the first five months of the financial 2020/2021, according to the Bureau of Statistics. In volume terms the growth was 5.2%, reaching 4,424 tons.

REGULA- TIONS

The Federation of All **India** Farmer Associations (FAIFA) have urged the Prime Minister to withdraw a new bill regulating cigarettes and tobacco products. The Cigarettes and Other Tobacco Products Act (COPTA) aims to:

- Ban the retail sale on loose sticks.
- Prohibit the sale of tobacco products to people under the age of 21.
- Add further rules on advertising and promotions.

FAIFA stated that the proposed rules will have a devastating effect on farmers and stimulate criminal organizations in their illicit trade operations.

The government of **Assam** in **India** has banned the manufacturing, storage, transportation, display, distribution and sale of gutkha, pan masala and all other chewing products that contain tobacco or nicotine . The one-year rule entered into force on 12 January 2021.

The **Bulgarian** Government will provide the tobacco sector BGN 71.6 million in relation to the 2020 campaign. However, tobacco remains outside the EU 'de minimis' scheme that is used to support businesses during the pandemic because of the nature of the business, regardless of the National Association of Tobacco Producers (NAT2010) well-supported request.

Manufacturers selling tobacco products in the **UK** must comply with new packaging requirements after Brexit. As a result, the **UK** government has issued different guidance for the relevant changes applicable in **Great Britain** and **Northern Ireland** respectively. The rules relate to health warnings and do not extend to tracking and tracing, which will be dealt with separately.



The **US** FDA has finalized two essential rules for companies that plan to market novel tobacco products in the country, which provide minimum requirements for content, format and review of premarket tobacco product applications (PMTAs) and substantive equivalence (SE) reports- the two pathways to market authorization in the **US**.

However, the new administration has frozen all rules introduced in the last days of Trump's government. This is a common practice in **US**, but the future ramifications of it are currently unclear. FDA's CBD enforcement policy draft guidance was also withdrawn.

Egypt will carry out a scheduled tax increase on cigarettes in July 2021. The multi-year rule applies to both local and international brands and entered into force in 2018. In addition, the excise law foresees the following increases:

- EGP 0.25 per pack every three years until 2027 (a total of EGP 1.5 for the entire period)

Tax reforms in the market have led to doubling of the state's revenue from tobacco products in the last 5 years, exceeding EGP 70 billion (around USD 4.5 billion).

The authorities in **Egypt** have created a first of a kind observatory in the **Middle East** to monitor tobacco companies operating in the market. The new entity will look into manufacturers' spending, promotional activities and interaction with the larger scientific community.

Smoking in public places in **Milan, Italy** is now only permitted if a safe distance of 10 meters between people can be guaranteed. Currently, exceptions are being made for closed rooms, but the total city ban on public smoking is scheduled to come into effect in 2025.

Two cities in **California, US**, have removed tobacco products from all store shelves starting 1 January 2021.

This is part of a larger effort to phase out tobacco sales around the globe. Such initiatives illustrate the likely next steps in trying to further restrict the industry.

INDUSTRY UPDATES

The Federal Statistics Office in **Germany** published that a total of EUR 28.8 billion worth of tobacco products were taxed during 2020, representing a 5% year-on-year increase. The biggest growth contributors are:

- Fine cut tobacco- up 10.6%
- Pipe tobacco (including tobacco for shisha and e-cigarettes)- up 44.3%

These changes were explained by changing consumer patterns due to the global pandemic. The increased demand for fine cut is also driven by closed borders and search for cheaper products internally.

The trend was highlighted during last year's AGM. In volume terms, cigarettes have registered a 1.1% decline compared to 2019.

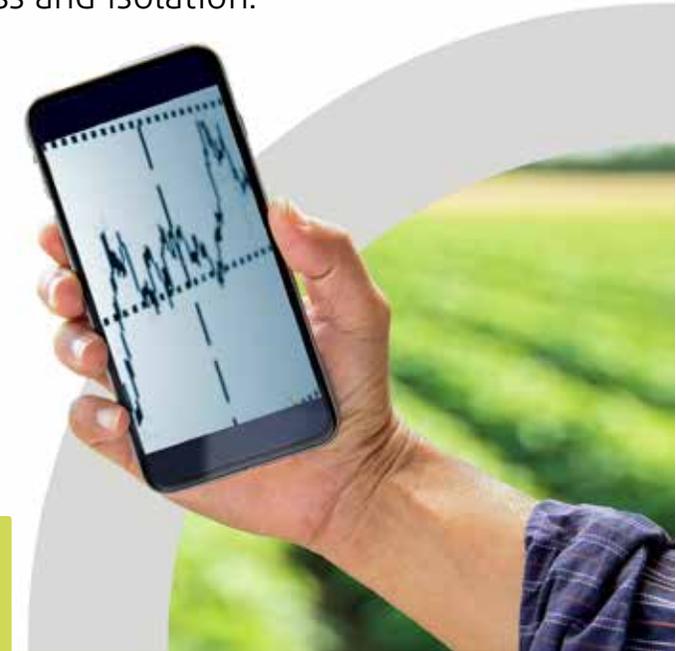
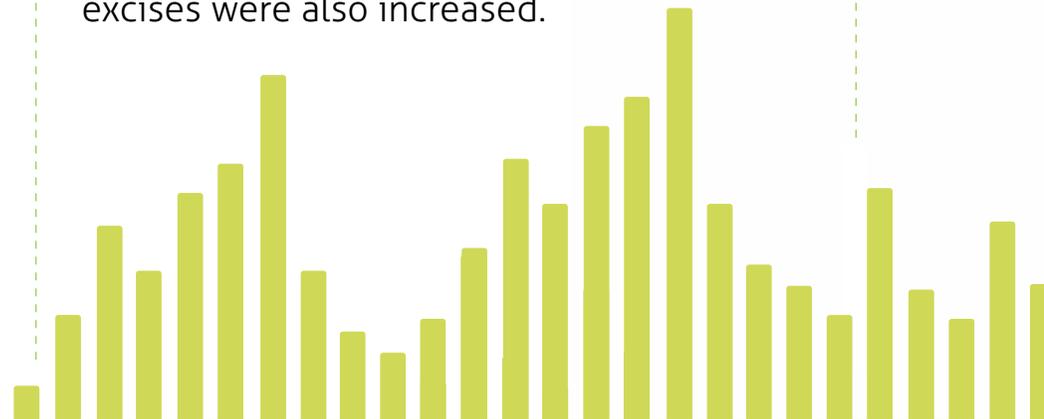
The National Health Surveillance Agency (Anvisa) in **Brazil** has once again postponed the decision to allow e-cigarettes and heated tobacco products in the market. A possible resolution could be expected towards the end of 2021.

The sale of e-cigarettes in **US** convenience stores have registered double-digit year-on-year decline. The trend started with FDA's restriction on flavors and intensified with the downtrading dynamic to economy cigarettes because of the pandemic.

Illicit cigarettes account for more than half the total value of smuggled goods in **the Philippines**, or PHP 5.22 billion. Covid-19 was a key catalyst in the demand for cheaper products. In addition, tobacco excises were also increased.

Consumers in **South Korea** have spent a record amount of money on tobacco and alcohol in Q3 2020. Notably, the 6.2% growth is the highest registered since records began. Local sources have pointed to the pandemic and the corresponding stricter social distancing measures as the key determinants for this trend.

A recent study investigating tobacco consumption during the Covid-19 lockdown in **New Zealand** showed an increase of daily cigarette use due to high stress levels, loneliness and isolation.





British American Tobacco is trying to block imports of Philip Morris International's IQOS range in the US, claiming it infringes the company's patents. The **US** International Trade Commission will release their findings in May, outlining a possibility of a ban, which could arrive as early as November 2021.

This could significantly hinder the commercialization of heated tobacco in the market and reduce the growth potential of the product around the world.

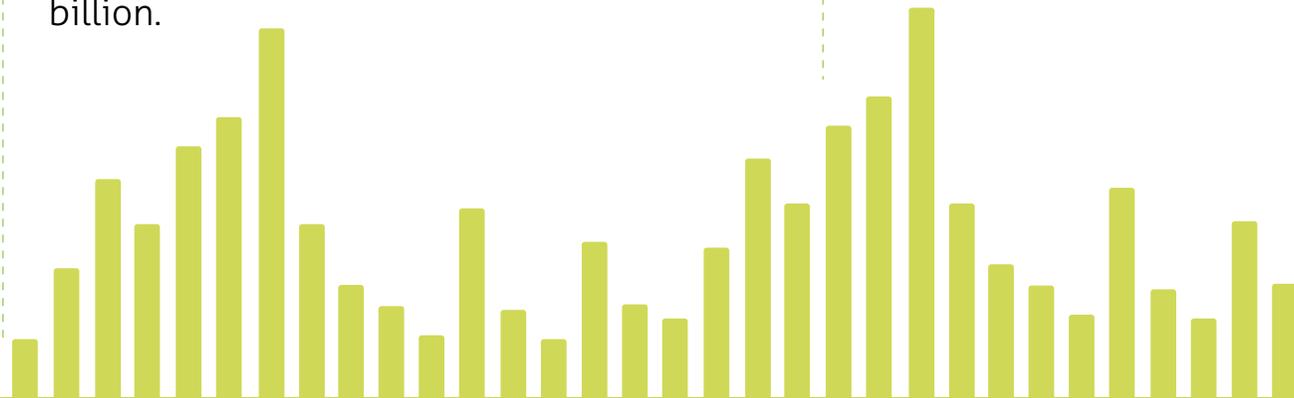
Imperial Brands announced a new **global** strategy based on 3 pillars with a timeframe of 5 years:

- Focus on priority combustible markets - (**USA, Germany, UK, Australia** and **Spain**).
- Drive value from the company's broad portfolio- prioritizing countries where the company has leadership positions and exiting ones with weaker standing.
- Build a targeted Next Generation Products business- focusing on heated tobacco in Europe, Vapor in the US, and Oral in selected European markets.

The share value of the **China**-based RLX Technology, a manufacturer focused on vapor products, increased by 86% in their **US** stock market debut, giving the company a market capitalization of nearly USD 35 billion.

Nat Sherman International brands were sold by Altria to private investors in the **US**. As a result, the brands will be sold by a new company- Ferio Tego. The latest owners have announced their intention to start selling a new cigar line in the spring of 2021. Ferio Tego also owns Nat Sherman's pipe tobacco range, but there are no immediate plans for its continuation.

A former employee of the Foundation of Smoke Free **World** (FSFW) filed a lawsuit against the organization claiming she was fired for raising concerns regarding the company's ties to the tobacco industry. The **World** Health Organization has previously refused to interact with the FSFW citing the conflict of interests between the industry and public health.



SUSTAIN- ABILITY

British American Tobacco has launched its first CBD product, VUSE CBD Zone. The range comes in three e-liquid flavors and two nicotine strengths. The pilot phase of the project will be carried out in **Manchester, UK**, with further roll out plans scheduled for later in 2021.

The majority gained by Democrats in the **US** Senate has provided a boost to various cannabis stocks. The emerging sector's expectations are for a national cannabis reform that can open up more business opportunities.

Authorities in **Mexico** approved new rules regulating the use of cannabis for medicinal purposes, allowing pharmaceutical companies to begin research. According to the regulations, companies need to:

- Get permission from the local health regulator COFEPRIS.
- Comply with strict regulations concerning sowing, cultivation and harvesting of cannabis.
- Conduct research in controlled, independent laboratories.

At the moment, export of **Mexican**-grown cannabis remains forbidden but legalization of recreational usage is in the final stages of regulatory development.

Pyxus International plans to divest its cannabis operations in order to focus on the core business of tobacco and e-liquids. What is more, the company is already restructuring its industrial hemp and CBD operations to minimize its stake in the business. As a result, Pyxus three **Canadian** cannabis subsidiaries filed for and received protection from their creditors under the CCA act in **Canada**.



Essentra Filters has launched three new plastic-free, 100% biodegradable filter solutions. This is in large part driven by the ongoing debate around single-use plastics and sustainability.

The EU is currently developing a Directive to regulate such products. Cigarette butts were singled out as one of the primary sea pollutants and will be a key focus point for future regulations.

The **North Carolina** Tobacco Trust Fund Commission in the **US** is now accepting grant applications for 2021. The objective of the campaign is to support the agricultural industry, rural communities and stimulate economic development. Funds will be awarded in the fall of 2021 to selected innovative projects.



The **US** Department of Agriculture will provide additional aid through the Coronavirus Food Assistance program. Notably, eligibility now extends to include tobacco growers. Nevertheless, the new White House administration has halted the program until further notice. Local offices will continue to accept applications during the evaluation period until 26 February.

More than 620 gasoline engine water pumps were provided to tobacco growers in the city of **Batac** in the **Philippines**. This is part of the government commitment to support workers in the tobacco sector by supplying the necessary equipment to boost productivity and income during the pandemic.

The Minister of Agriculture in **Argentina** met with Minister of Agro and Production of **Misiones** to advance an agenda for the implementation of projects to assist local farmers. Among the investors discussed were the National Tobacco Fund and the risk management program- GIRSAR.

The Agroindustrial Cooperative in **Misiones** (CTM), the main exporter of tobacco leaf in **Argentina**, has joined other companies in a water value program. As part of it, the organization pays monthly in accordance to the quantities extracted and consequently used in the industrial process.

An inter-institutional project developed by the Agrotechnical School of **Perico**, **Argentina** has advanced a method to recover the soil after tobacco cultivation with ecological alternatives. As a result, the Special Tobacco Fund (FET) is now in the process of supporting the initiative.

SOURCES



REUTERS



THE WHITE HOUSE



WINSTON-SALEM JOURNAL



Argentina.gov.ar



El Tribuño



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Thank you!