Tobacco Monitor
AN UPDATE ON THE MOST RECENT EVENTS AND FORECASTS
MARCH 2021
The latest burley production in Kentucky, US is likely to be small. According to recent estimates, the 2020 season will end up with roughly 41-42 million pounds. As a result, some growers are giving up on this tobacco variety. Rains are one of the primary reasons for lower yields, together with stagnant prices. FCV production in the state is likely to be around 10% lower compared to initial expectations.

Due to adequate rainfall, the Tobacco Industry Marketing Board in Zimbabwe (TIMB) is expecting a larger and better quality crop in the incoming season which is expected to start in March if the WHO protocols to control COVID-19 are being followed. In the meantime, farmers are insisting on new foreign currency retention thresholds from the Reserve Bank of Zimbabwe. Payment-related issues, logistical inconveniences and relations with foreign buyers remain among the key issues for local growers. Another pressing concern is the fact that nearly all leaf processing happens overseas. In order to retain a larger portion of the sector’s generated income, the country has an urgent need of developing extra local capabilities.

According to a recent WHO global report, during the period 2012 to 2018 tobacco leaves production has continued its historic shift from high-income to developing markets. Throughout this time, the global area under cultivation is reported to have decreased by 15.7%, while in Africa the registered growth is 3.4%. Regarding leaf production, global decline is 13.9%, while in Africa there is 10.6% growth. The study also highlights the biggest tobacco growing countries in the continent: Zimbabwe, Zambia, Tanzania, Malawi and Mozambique.
According to the Indian tobacco board, auctions in Andhra Pradesh, India are scheduled to open on 15 March. Overall, 115 million kg of golden leaves have been authorized for the region in the 2020/2021 season. Growers expect higher prices as the ones offered in Karnataka reached a record value of USD2.43 per kg, in addition to expecting higher grade production. So far, the tobacco board reported more than 60 million kg sold in Karnataka, resulting in over USD110 million in revenue.

The Association of Tobacco Growers of Brazil (Afubra) has started the insurance payments related to hail losses in the 2020/2021 season. The initial amount due is BRL42.5 million, or 40% of the total payment. The remaining funds will be transferred on a weekly basis. Elsewhere in the country, the commercialization in Rio Grande do Sul is currently advancing. According to local producers, the crop quality is better compared to last year.

In Salta, Argentina, growers and companies held a meeting to discuss production for the incoming season and specifically price expectations for Virginia tobacco. Meetings will continue throughout March.

Authorities in Indonesia have issued new regulations that apply to plantations in the country, assigning maximum areas for growth of certain commodities. As a result, tobacco plantations will be limited to 5,000 hectares. Notably, these aspects of the business have not been regulated in the past.
The new European Union (EU) EUR4 billion ‘Europe’s Beating Cancer Plan’, announced in the beginning of February, is based on an ambitious goal of creating a tobacco-free generation by 2040, meaning that fewer than 5% of the population would use tobacco in 20 years. To achieve this target, the EU intends to rigorously enforce the tobacco control framework and adapt it to the new market developments and trends. Future policies could include:

- Smoke-free environments to extend to e-cigarettes and heated tobacco.
- A full ban of flavors.
- Plain packaging for novel products.

As previously discussed in Tobacco Monitor, such measures are antithetical to the tobacco harm reduction concept and limit the growth potential of reduced risk products around the world.

The EU has also voiced its concerns regarding the misuse of cross-border shopping rules for private individuals purchasing tobacco products that leads to lost revenues and has a negative impact on national health policies. One of the potential solutions being discussed is for consumers buying tobacco across borders to pay the duties of their home countries. The EU is also considering mandatory or lower limits on the amount of cigarettes holidaymakers can bring back from member states for personal use. Public consultations will remain open until 23 April 2021.

Meanwhile, the French President has also revealed a 10-year strategy to combat cancer which includes a strong stance on tobacco. The government will provide EUR1.7 billion for scientific research, while one of the key goals is to make the generation turning 20 in 2030 smoke-free. Consequently, cigarette prices will continue to grow while smoke-free spaces will expand further.

The US FDA will prioritize best selling products in reviewing the premarket tobacco product applications due to their high public health impact. So far, the agency has accepted applications for around 84,000 products while refusing another 3,100 products. The process is not likely to finish any time soon.
The authorities in Germany are proposing a new, first of a kind, tax on nicotine-containing vaping products entering into effect in mid-2022. The rate would start at EUR0.02 per mg of nicotine in e-liquids with scheduled increases to 2026. The measure is expected to generate EUR135 million in 2022 and nearly EUR3 billion by 2026. Vaping advocates strongly oppose such policies as they could discourage switching cigarette users. The future course of the category is likely to be decided by the end of the year.

Regardless of previous statements projecting no tax increases for traditional categories, there will be hikes for combustibles as well. For example, excise on cigarettes will rise by EUR0.08 per pack and EUR0.15 per 40gr of fine cut tobacco starting 2022.

Authorities in Nigeria and Sri Lanka are taking measures to restrict the sale of single sticks. In the former, new rules require tobacco companies to sell cigarettes in sealed and tamper-proof packaging, while in the latter the government is drafting a new restrictive bill to limit such practices.

Azerbaijan is applying new tax rates on a range of tobacco products to include all tobacco types in the list of excisable goods. Tobacco intended for smoking, chewing and sniffing will be taxed at AZN30 per kg, while tobacco consumed through the process of heating will be taxed at AZN12.9 per 1000 units.

Excise duties on tobacco products increased by 8% in the latest South African budget review. Industry stakeholders are worried this could intensify the illicit trade problem in the country.

Organizations in Kenya are urging for rising the minimum legal age to access tobacco from 18 to 21. Such measures are getting up to speed in different parts of the world. For example, the former US President already signed a federal rule, while others, such as Singapore, have gone through a gradual year-by-year increases to arrive at 21.

The Federal Board of Revenue in Pakistan will introduce a Track and Trace system extending to tobacco from 1 July as per recommendations by the WHO. This comes at the back of several unsuccessful attempts to launch such system.

A court in Brazil has affirmed the Brazilian Health Regulatory Agency (ANVISA) power to ban the use of additives in tobacco products. This is likely to put an end to flavored tobacco variants in the market.
Philip Morris International (PMI) reported its top line full-year results for 2020:

- Revenue is down 3.7% to USD28.69 billion.
- Operating income is up 10.8% to USD11.67 billion.
- Cigarette volume is down 11.1% to 628.52 billion sticks.
- Heated tobacco shipment volume is up 27.6% to 76.11 billion units.

PMI wants smoke-free products to account for more than 50% of revenues by 2025, an increase from earlier target range of 38-42%. IQOS ILUMA, a heated tobacco product, featuring a novel heating mechanism will be launched in the second part of the year, while IQOS VEEV, PMI’s e-vapor device, will be introduced in more than 20 markets in 2021.

British American Tobacco (BAT) reported its top line full-year results for 2020:

- Revenue is down 0.4% to GBP25.78 billion.
- Profit is up 10.5% to GBP9.96 billion.
- Combustible volume is down 4.5%.

BAT also reported 13.5 million consumers of its non-combustible products, or 3 million more on a yearly basis. The company’s target for 2030 is 50 million. BAT considers 2021 as a pivotal year for its future and announced of a program called QUEST that aims to transform it into the ‘Enterprise of the Future’. The key ingredients of this approach are: driving simplification and efficiency, unleashing innovation, empowering the organization, shaping sustainability, technology & digital.

British American Tobacco (BAT) reported its top line full-year results for 2020:

- Revenue is up 6.8% to KRW5,301.6 billion.
- Net income is up 13.1% to KRW1,173.1 billion.
- Domestic cigarette volume is up 2.5% to 41.6 billion sticks.
- Overseas cigarette volume is up 12.1% to 48 billion sticks.

Japan Tobacco Group (JT) reported its top line full-year results for 2020:

- Revenue is down 3.8% to JPY 2.09 trillion.
- Operating profit is down 6.6% to JPY469.1 billion.
- Domestic cigarette volume is down 8.2% to 114.9 billion units.
- Overseas cigarette volume is down 2.3% to 435.7 billion sticks.
JT also revealed a change in the company’s operational model that includes the consolidation of the domestic and international businesses. As a result, the headquarters will move to **Geneva, Switzerland**. In addition, JT will close two factories in **Japan** and make cuts to its workforce in the course of the year. Among the key JTI’s objective going forward are strengthening the competitiveness of the reduced risk products category through prioritized investments and maintaining investments towards combustible products. During the second half of 2021 the company is expected to launch a new heated tobacco device.

Swedish Match reported its top line full-year results for 2020:

- Revenue is up 13% to SEK16,698 million.
- Operating profit is up 23% to SEK 7,160 million.

ZYN nicotine pouches are registering record sales, while smoke-free and cigars are also showing double-digit growth. Notably, COVID-19 effects elevated the fundamentals of the company during 2020, mainly due to traditional tobacco product dynamics in the US.

For 2021, Swedish Match expects even more demand for less harmful alternatives to cigarettes. Investments will be focused on the expansion of nicotine pouch production capacities.

PMI’s affiliate in the **Philippines** will eliminate around 300 jobs at the **Marikina** factory. This is part of a streamlining process in response to the global pandemic and market conditions in the last few years. Company representatives commented that laid off personnel will receive generous separation packages. **This is another example of downsizing that Tobacco Monitor is closely following across the world.**
**SUSTAINABILITY**

The Tobacco Farmers Union in **Zimbabwe** has urged the government to make contracting companies treat small-scale farmers as equal partners. The Union believes that farmers’ interest in the crop is going down due to unfair distributions of earnings.

A recent study covering **Malawi** has found out that tobacco growing helps achieve at least eight of the Sustainable Development Goals, including zero hunger, quality education, gender equality among others. One of the main problems facing the market is the lack of complementary crops. Tobacco’s share in **Malawi**’s GDP is estimated at 15%.

**BAT** is considering selling cannabis-related products, especially CBD, in an attempt to diversify its revenue sources according to the company’s Chief Marketing Officer. BAT recognizes the challenging regulatory environment of the emerging sector but is nevertheless building a portfolio of the future. The **global** pandemic has pushed the company to shake up the existing business model.

**Morocco** could allow the farming, export and domestic sale of cannabis for medicinal use. The move is intended to help the farmers in the Rif mountains. This is now possible as critics dropped their opposition after the UN removed the plant from its list of tightly controlled narcotic drugs. However, the recreational use would remain forbidden.

**22nd Century Group** has launched a new technology platform that will enable the company and its partners to rapidly identify and incorporate commercially viable traits of hemp and cannabis plants to create new product lines. Such tools can significantly reduce the time to develop new plant varieties. **The opportunity to engineer specific cannabinoid profiles could be a key part of the incoming global recreational marijuana market.**
Public Health England, the executive agency of the Department of Health and Social Care in the UK, released a report claiming that vaping is better than nicotine replacement therapy for stopping smoking. Evidence over the years suggests that as the use of vaping products in quit attempts increases, the number of successful quits in England also increases. However, vaping has plateaued as incorrect perceptions of its relative risks compared to smoking may be discouraging smokers from using vaping to quit. In addition, the percentage of young people (aged 11 to 18) who never smoked and currently vape remains below 1%.

Ireland is the country with the highest share of cannabis consumers in the EU (measured as usage during the last 12 months)- 17%, followed by Luxembourg and Latvia. The EU’s average is 7%. Among the lowest in this metric are Greece, Malta and Cyprus with 2% or less.

Kenya intends to classify non-tobacco nicotine pouches as tobacco products under a new tobacco control law. This would introduce the same marketing, promotional, advertising, and public use restrictions as other tobacco products. BAT is the pioneer in commercializing the product in Africa. Nairobi was chosen as the site for a plant to produce non-tobacco nicotine pouches targeting the wider African region. The investment is valued at KES2.5 billion. However, legal disputes have led to temporal suspension of sales.

An Indian-based start up business has focused on recycling cigarette waste to produce a wide variety of useful products such as toys and manure. According to the team behind the initiative, more than 100 billion cigarettes are dumped on the streets of India each year creating a serious pollution challenge. The novel method is used to clean and process the cellulose acetate into new products. The project distributes special bins to street vendors and offers a rate of INR250 per kg. So far, the initiative extends to 250 districts across India with an ambition to cover the entire country in the next 5 to 10 years.
Thank you!