



# *Tobacco Monitor*

AN UPDATE ON THE MOST RECENT EVENTS AND FORECASTS

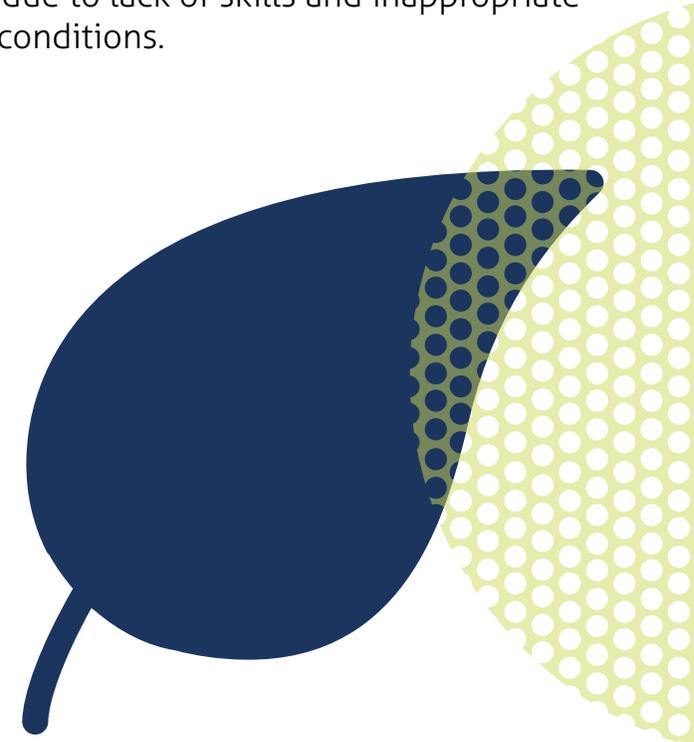
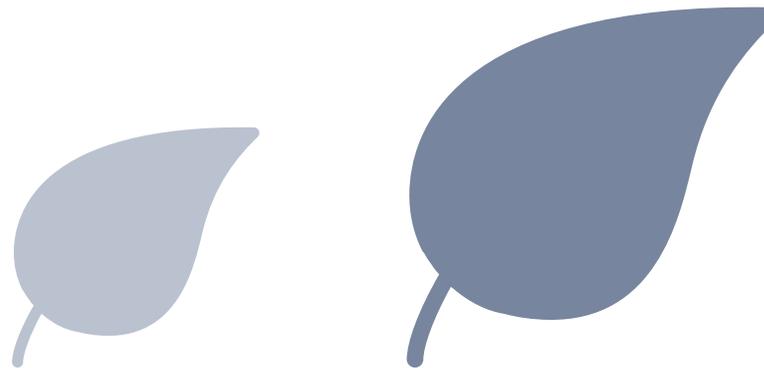
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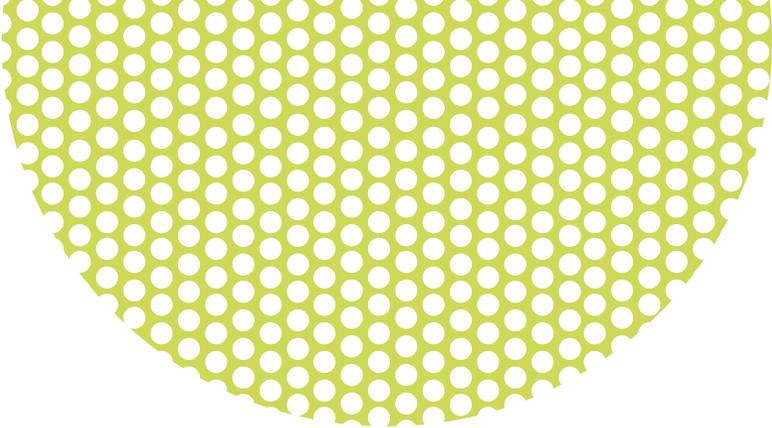
# CROP MONITOR

**Zimbabwe's** Minister of Agriculture wants to create a tobacco industry that is worth USD 5 billion by 2025. During the season's opening event, stakeholders were informed that the government would increase funding for both large-scale and small-scale tobacco farmers to stimulate output. As part of the wider plans, the intention is to rise tobacco production to 300 million kg per year and increase local financing from 30% to 70% per hectare. As a reference, last season's crop reached 184 million kg. In addition, TIMB also foresees an accelerated value addition and beneficiation from the current 1% to 30% by 2025.

Meanwhile, by the end of April, growers in **Zimbabwe** have earned USD 90.4 million from sales of tobacco, or a total of 35.3 million kg, a significant improvement as compared to last year. The current average price of USD 2.56 per kg is also considerably higher, up from USD 2.25 during the same time in 2020. The bulk of the crop has been sold through contract floors, which is becoming the new normal in the market. Contracted growers have sold 32.6 million kg worth USD 783.6 million while 2.6 million kg worth USD 6.8 million were sold through auction sales. Rejection rates remain low at around 3%, slightly worse on a yearly basis. In addition, the new payment system that is in place allows transactions to go within minutes rather than days.

**Malawi's** President has urged tobacco growers to switch to other cash crops, including cannabis, as he sees no future in the golden leaf due to anti-smoking lobbies which are leading to a decline in tobacco trade. Notably, in preparation for cannabis cultivation, the country has created a Cannabis Regulatory Authority. Tobacco contributes more than 60% of **Malawi's** export earnings. Some critics have warned that moving to cannabis would be difficult due to lack of skills and inappropriate climate conditions.





**Malawi's** Minister of Agriculture has called all tobacco stakeholders to discuss the high rejection rate since the beginning of the season. More than 70% of the bales bought through auction have been rejected. The Minister also encouraged growers to diversify by going into alternative crops, such as soya, groundnuts and cotton to reduce their tobacco dependency.

The Tobacco Board of **India** has authorized 97 million kg for **Karnataka** in the 2021-2022 season, an increase by 9 million kg compared to the season before. Tobacco growers who switched to producing other crops, such as ginger, following the crop size reduction in 2020-2021 reportedly suffered heavy losses, which intensified the pressure on the Board to rise the guidance for 2021-2022. There is also an ongoing problem with significant percentage of low grade tobacco in the region.

At the same time, growers in **Andhra Pradesh** threatened to stall auctions if there is no improvement in tobacco pricing. By the end of April, farmers in **Andhra Pradesh** have marketed only 12.5 million kg of their 70 million kg crop. Overall, the second wave of Covid-19 that hit the country is having a negative effect on the sector.

The latest USDA survey of tobacco farmers in the **US** has showed the following projections for the incoming tobacco crop:

- Flue-cured: 127,500 acres, no change from last year.
- Burley: 40,850 acres, down 6% from last year.
- Fire-cured: 15,050 acres, up 5% from last year.
- Dark-air cured: 10,000 acres, up 2% from last year.



# REGULA- TIONS

The WHO released a new technical manual on tobacco tax policy that shows countries ways to cut down more than USD 1.4 trillion in health expenditure. According to the agency, improved tobacco taxation could be the key component in “building back better” after the Covid-19 pandemic. The WHO believes that only 14% of the **global** population is covered by enough tax on tobacco products, i.e. at least 75% of the retail sales price.

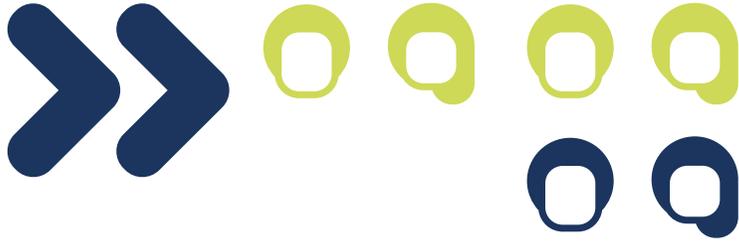
The **US** FDA announced it is working toward issuing proposed product standards within the next year to ban menthol as a characterizing flavor in cigarettes and ban all flavors, including menthol, in cigars. FDA believes there is strong evidence that a menthol ban would help people quit smoking. **It is likely that the industry will bring legal challenges against the ruling.** Currently, menthol cigarettes account for a third of the **US** market. Notably, menthol flavour in e-cigarettes is not part of this decision.

The new **US** administration is also considering requiring tobacco manufacturers to lower the nicotine in all cigarettes to such levels that are no longer addictive. **If enacted, these policies are likely to radically change the industry dynamics in one of the most profitable tobacco markets in the world.** In addition, lawmakers introduced a bill that would establish a federal tax on vaping products and rise tobacco excise for the first time in a decade.

**Estonia’s** parliament voted to suspend e-liquid taxation until the end of 2022. The goal is to make it possible to lower prices and reduce illicit trade pressures. According to experts, more than half of the country’s e-liquid usage is coming from manually mixed, cross-boarder or smuggled products. **The decision was praised by tobacco harm reduction advocates.**

After a decision by the Court of Justice of the **European Union, Hungary** was forced to increase excise tax rates on tobacco products. Earlier this year, the court warned that **Hungary** is breaching the **EU** guidance that stipulates the excise tax on tobacco products must reach 60% of the average retail price and be at least EUR 90 per 1,000 cigarettes. As a result, following the 7% tax hike in January 2021, there was an additional increase by 5% in April 2021. Some specialists fear this will make the market increasingly vulnerable to illicit products from the market’s eastern borders.





**Finland's** Social Affairs Ministry proposed new tobacco regulations that could pave the way for plain packaging and additional flavour restrictions. If enacted, the changes are likely to enter into force between 2022 and 2024.

According to the **Russian** Ministry of Healthcare, tobacco companies operating within the member states of the **Eurasian** Economic Union should be required to manufacture self-extinguishing cigarettes. The measure aims to influence the prevention of fire outbreaks, lowering fatalities and injuries caused by negligent smoking.

A High Court in **India** is considering a temporary ban on cigarettes and bidis sales amidst the worsening situation with the pandemic.

**Saudi Arabia** banned the sale of tobacco products to people under 18 years old and smoking in places where children are present. In the last couple of years, the country has increased taxation on shisha and introduced additional tobacco restrictions.

**Taiwan** could ban e-cigarettes in the second half of 2021. The local government has reportedly prepared a draft with amendments which has been sent to the Parliament for approval. This could result in prohibition of manufacturing, importation, sale, supply, display, and advertisement of vaping devices and novel tobacco products, including heated tobacco.

The government of **New Zealand** is considering to ban cigarette filters, reduce nicotine levels in tobacco products, minimize the number of tobacco outlets and outlaw tobacco sales to new smokers, among other measures. Small business owners are worried this could drive them out of business. **The country is at the forefront of the next generation tobacco control measures.**

A recent study in **New Zealand** recommended the local government to impose pictorial health warnings on roll-your-own (RYO) tobacco products. According to the authors, RYO smokers comprise 40% of the tobacco user population in the country. **It is highly likely that pictorial health warnings will extend to smaller tobacco categories in multiple markets around the world in the near future.**



# INDUSTRY UPDATES

PMI reported its Q1 2021 results:

- Net revenue is USD 7.59 billion, up from USD 7.15 billion on a yearly basis.
- Adjusted operating income is USD 3.49 billion, up 25.2%.
- Cigarette shipment volumes are down 7.3% to 145.51 billion sticks.
- Heated tobacco shipment volumes are up 29.9% to 21.73 billion units.

Company executives consider this performance as a “strong start to the year”.

Altria reported its Q1 2021 results:

- Net revenue is USD 6.03 billion, down 5.1% on a yearly basis.

This was mainly driven by declines in the smokable product segment.

- Domestic cigarette shipment volumes are down 12% to 22 billion sticks.

Regardless, the company officials believe they have achieved a strong start of the year and are on track to deliver against the full-year plans.

Altria also announced the complete global ownership of the nicotine pouch product on!, after acquiring the remaining 20% shares the company did not already own.

JTI reported its Q1 2021 results:

- Revenue is JPY 547.4 billion, up 5.3% on a yearly basis.
- Adjusted operating profit is JPY 178.1 billion, up 21.3%.
- Total shipment volumes increased by 5.8%.

This performance was fueled by market share gains in combustibles, mainly in Taiwan and the UK.

In addition, JTI is now prioritizing the launch of Ploom X, its next generation heated tobacco device.





**Egypt** postponed the tender for license to produce cigarettes and vapour products in the country. The move was about to end the monopoly of the state-owned Eastern Co, one of the biggest tobacco companies in the world. **As discussed in previous editions of Tobacco Monitor, foreign players were vocal critics of the conditions of the initial auction.** No further clarifications related to future developments of the issue were provided by the local authorities.

According to a report by Campaign for Tobacco-Free Kids, less than half of the 483 smokeless tobacco factories operating in **Bangladesh** pay taxes. The lack of an effective tracking and tracing system and the informal nature of the market are signaled out as major issues. At present, one in five Bangladeshi adults uses smokeless tobacco.

RJ Reynolds Vapor Co., a BAT company in the **US**, has petitioned the Patent and Trademark Office for review of several claims relating to the functionality of e-cigarettes in a patent assigned to PMI. The company requests the cancellation of the claims as unpatentable. **This is another example of BAT and PMI disputing intellectual property.**

The **UK** Advertising Standards Authority (ASA) banned an advertisement for JTI's Nordic Spirit nicotine pouches for implying the product has a mood-altering and stimulating effect. The ad appeared in a streaming service and depicted people using the product before playing video games.

In addition, the Bureau of Investigative Journalism has accused JTI of placing stealth advertisements for its tobacco products on social media in **Germany**. The company believes that its activities are in compliance with the law.

# SUSTAIN- ABILITY

A University in **Turkey** has developed an anti-Covid-19 drug and vaccine candidate using a protein produced by the tobacco plant *Nicotiana Benthamiana*. The future potential treatment could be applied via injection or spray. BAT is also in the process of testing a tobacco-based vaccine for Covid-19.

The Governor of **Jujuy** province in **Argentina** proposed tobacco farmers to begin growing cannabis instead of tobacco. However, some key sector stakeholders have argued that the crop will remain the main source of income for the years to come, so farmers should fight to continue growing tobacco. **Argentina is one of the markets that has a more favorable attitude to the emerging cannabis category from a regulatory perspective.**

The **US** House of Representatives passed a legislation that would allow banks to serve cannabis companies in states where the product is legal. **This is a significant milestone in the development of the cannabis category in the country.** At the moment 36 states have legalized medicinal cannabis, while 17 allow its recreational use.

MG Health, the first **African** cannabis grower, received a permission under the **EU's** Good Manufacturing Practices protocol allowing it to export the product to **EU** countries for medicinal purposes. The **Lesotho** company currently produces around 250 kg of packed cannabis flower a month. Export could start as early as June 2021.



PMI has started exploring the cannabis industry for its market possibilities. Nevertheless, the company's focus remains firmly on smoke-free products. **Contrary to other leading manufacturers, which have already invested in cannabis, such as Altria, BAT and Imperial Brands, PMI has been more conservative in this avenue until now.**

Organigram Holdings, a company where BAT holds a minority stake, has acquired The Edibles & Infusions Corp in **Canada** for CAD 35 million. The entity specializes in pot edibles such as gummy bears, brownies and drinks. The move was motivated by increased demand for such products during the recent lockdowns. This is yet another illustration of the potential of cannabis products and the level of involvement of big tobacco manufacturers in the emerging business.



Public and environmental health communities need to unite in their efforts to ban cigarette filters for the benefit of the people and the planet, according to a recent university study in the **UK**. **Tobacco Monitor has already presented some of the likely next generation tobacco regulations connected to cigarette butts pollution in previous editions.** An estimated 4.5 trillion cigarette filters are deposited into the environment each year. The authors are skeptical about the industry's efforts to develop biodegradable filters, which they say would still emit harmful chemicals into the environment if discarded improperly.

KT&G provided a leaf tobacco planting service in **South Korea** to help farmers struggling due to workers shortage amidst the Covid-19 pandemic. The company is the only purchaser of domestic leaf tobacco. As part of KT&G's agreement with growers, a 30% prepayment of the sales price is made to each farmer in cash. The company also takes care of health check ups for growers and scholarships for their children.

The Federation of **Greek** Tobacco Industry Employees and the Hellenic Federation of Enterprises have reached an agreement for a wage increase covering all tobacco businesses in the market and provision for new specializations. According to the Statistics Service in **Greece**, the sector gives employment to over 2500 people.



# SOURCES





Thank you!