



# *Tobacco Monitor*

AN UPDATE ON THE MOST RECENT EVENTS AND FORECASTS

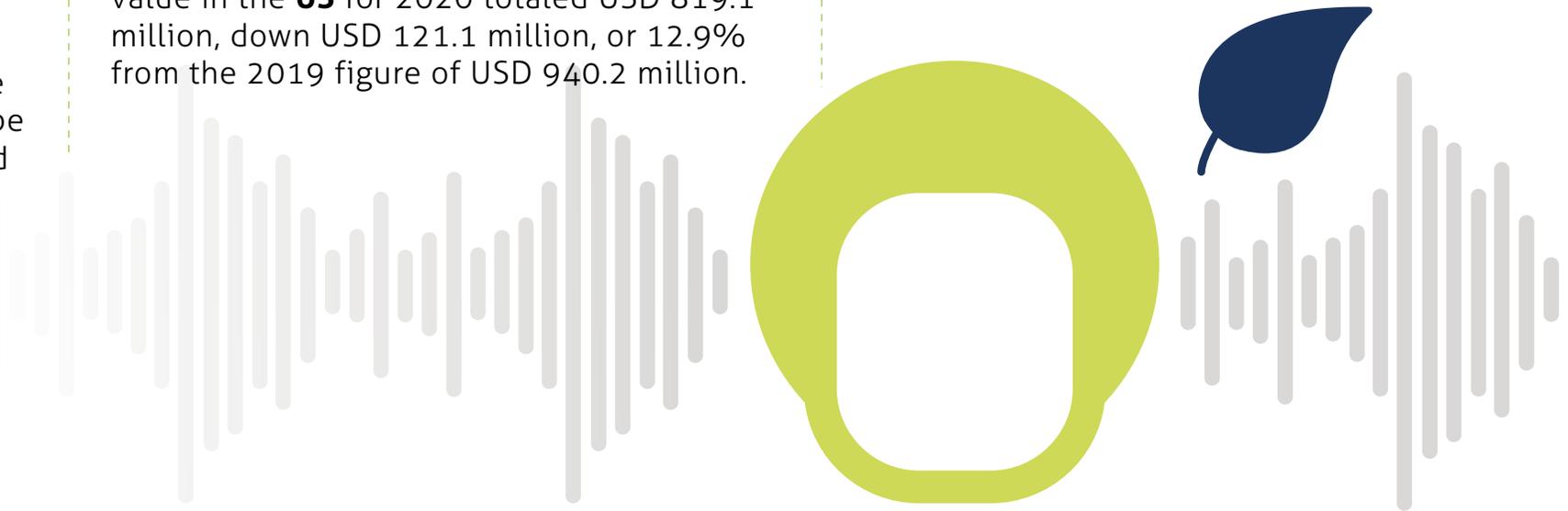
JULY 2021

# CROP MONITOR

Direct exports of **US**-grown tobacco leaf, excluding **US**-grown tobacco leaf in exported finished goods, aggregated nearly 85.8 million kg in 2020, valued for export at around USD 620 million. 2020 leaf exports were down 10.2 million kg (-10.6%) in volume and about USD 85 million (-12.1%) in value compared to 2019's 96.0 million kgs valued at over USD 705 million. Flue-cured tobacco, representing over 42.9% of total leaf export volumes for 2020, decreased 29.0% in volume and 31.7% in value while burley, the second largest exported leaf type at almost 10.5% of total volume, decreased 10.7% in weight and 12.3% in value.

Despite higher volumes in some finished goods categories, overall leaf product in 2020 was down, driven by lower acreage and yields. Leaf tobacco production in the US for all types totaled over 389.4 million pounds, down 16.8% or more than 78.5 million pounds, from the 2019 production figure of 468.0 million pounds. Except for **Georgia**, all other tobacco producing states (**Kentucky, North Carolina, Pennsylvania, South Carolina, Tennessee, and Virginia**) reported a decrease in volume for 2020 compared to 2019. Average yields fell by 4.6% to 1,966 pounds per acre in 2020 compared to 2,060 pounds per acre in 2019. Leaf production value in the **US** for 2020 totaled USD 819.1 million, down USD 121.1 million, or 12.9% from the 2019 figure of USD 940.2 million.

By type, the price of flue-cured tobacco in 2020 was USD 1.98 per pound, up 5.5% on a yearly basis while the price of burley tobacco was USD 2.02 per pound, up 6.9%. Leaf prices in 2020 for all other tobacco leaf types were mixed compared to 2019: Maryland leaf was down by 1.6% at USD 1.86 per pound; dark fire-cured leaf was up by 0.7% at USD 2.75 per pound; dark air-cured leaf was up by 2.7% at USD 2.48 per pound; and Pennsylvania Seedleaf cigar filler was down by 19.0% at USD 2.73 per pound.

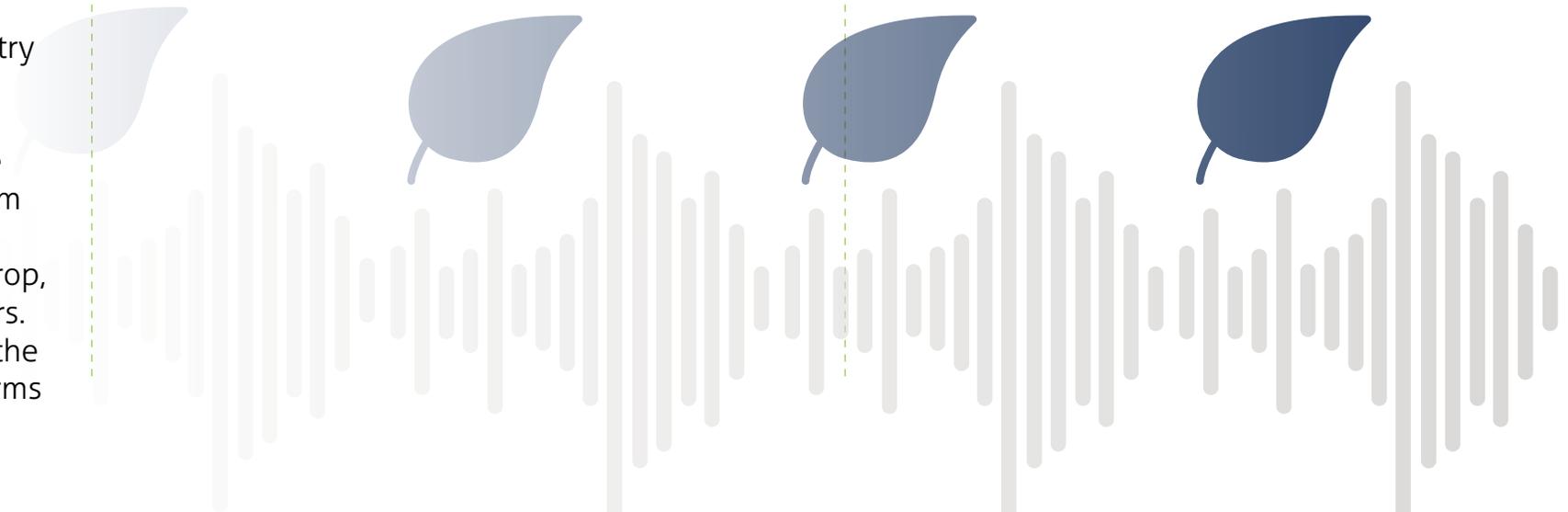




Tobacco leaf prices in **Tanzania's Tabora** region have increased ten times to TZS 4,000 (USD 1.72) per kg during the current season as a result of the availability of reliable buyers and the quality of the end product. The price rise is now reportedly turning into a major incentive for small-scale tobacco growers in the region who are increasing their production levels to take advantage of the situation. In addition, extension officers have been visiting farmers throughout the growing season, giving agronomical advice and additional services. This resulted in better quality of the leaf.

**Pakistan** Tobacco board announced dates for commencement of purchase of the new FCV tobacco crop in Khyber Pakhtunkhwa and Mianwali district of Punjab. According to notification, the decision was taken in tripartite meeting that the purchase of 2021 tobacco crop would commence from 1 July to 2 July in plain areas and from 7 July to 12 July in sub-mountainous areas.

By the end of June 2021, the Tobacco Industry and Marketing Board (TIMB) in **Zimbabwe** reported USD 451 million from the sale of 165 million kg of tobacco, a 36.3% increase compared to last year's USD 331 million from 137 million kg. An estimated 96% of the tobacco delivered came from the contract crop, with just 4% being sold on the auction floors. Most farmers have been satisfied with how the season is progressing so far especially in terms of payment modalities.



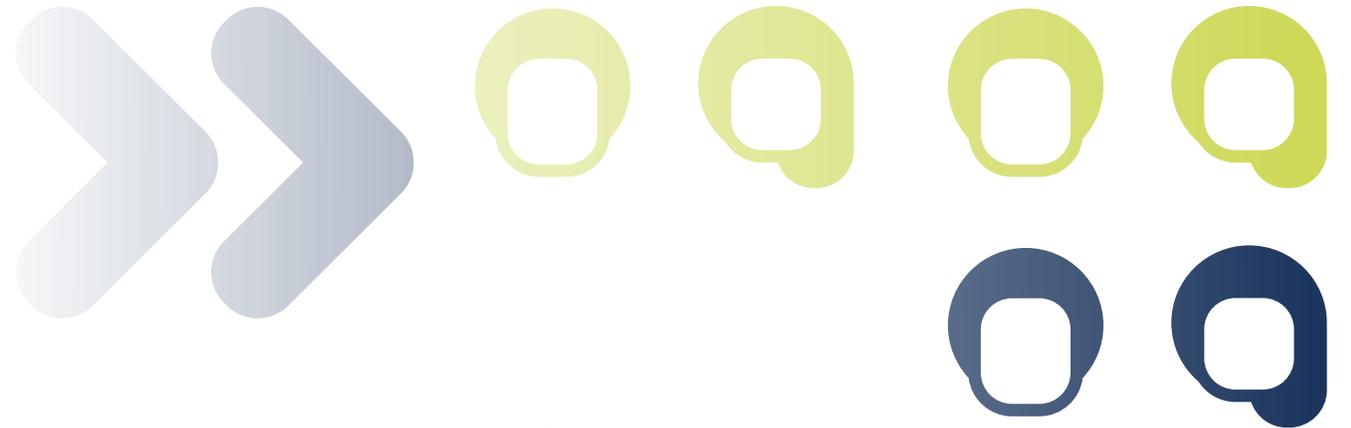
# REGULA- TIONS

British American Tobacco (BAT) and Imperial Brands have failed to persuade the high court in the **UK** to strike out a case against them that alleges they are responsible for the exploitation of **Malawian** farming families and child labour in their drive for profits. The companies deny all allegations.

The National Assembly of **Bhutan** passed a bill, in a first step towards lifting the ban and legalizing selling, buying, possession, distribution, and transportation of tobacco in the country. The aim of the measure is putting a check on the spread of COVID-19, threatened by the continuous smuggling of tobacco products through **Bhutan's** porous southern border.

Pro-vaping organizations in the **EU** expressed concerns about the recent **EU** Commission report on the application of the Tobacco Products Directive, **outlined in the previous edition of Tobacco Monitor**. According to the Independent **European** Vape Alliance, the effect of the commission's proposals would be to ban most vaping products on the market available today. For example, the potential removal of flavours could lead to eliminating two-thirds of the current market. Other concerns for the e-cigarettes industry include: the failure to acknowledge the concept of harm reduction; that some proposals could lead to more young people smoking; and that there is not enough focus on smoking.

The **German** Bundestag and Bundesrat approved legislation that will increase tobacco tax rates in the country. Excise on cigarettes will rise by an average of EUR 0.10 in 2022, followed by another EUR 0.10 in 2023 and EUR 0.15 in both 2025 and 2026. E-cigarettes and heated tobacco products will also be affected. The increase for 10ml e-liquids will be EUR 1.60 in 2022, rising to EUR 3.20 by 2026. Additional tax increases for heated tobacco means that such products will increasingly be treated as cigarettes. Tobacco taxation contributes around EUR 15 billion in **Germany**. Vapour companies believe that such measures will significantly limit the potential harm reduction opportunities in the market.



The **US** Small Business Administration urged the Food and Drug Administration (FDA) to allow nicotine products to remain on the market for another year while their premarket reviews are in progress. Currently, manufacturers who made submissions on time may leave those products on the market until September 2021. Considering the large volume of applications, it is unlikely that the agency will be able to process all before manufacturers are required to pull their products off the market. Small players fear that the current approach of reviewing applications based on market share will mean their reviews won't be completed on time.

The **Washington DC** council voted to ban the sale of flavored tobacco products, including menthol cigarettes. With this legislation, **DC** joins **Massachusetts** in one of the next generation restrictions on the industry.

JuulLabs agreed to pay **North Carolina** USD 40 million to settle the first of a series of lawsuits claiming the company's marketing practices fueled addiction to nicotine among youngsters and created a new public health problem. Juul is currently losing share in the US e-vapour market.

A lawsuit challenging the constitutionality of the FDA's authority over vapour products in the **US** has failed after the Supreme Court refusal to review a lower court ruling .

The All Party Parliamentary Group on Smoking and Health in the **UK** is urging the government to use the opportunity provided by Brexit to take its place on the world stage as a world leader in tobacco control. Among the group's recommendations are: funding for tobacco control programs to be secured through a 'polluter pays' amendment forcing manufacturers to pay to deliver the end of smoking; targeted investment to provide additional support to help smokers quit; tougher tobacco regulations to protect young people such as raising the age of sale to 21.

A new bill that was introduced in the **UK** House of Lords suggests a requirement for cigarette manufacturers to print health warnings on individual cigarette sticks. These texts could include messages such as 'smoking kills' and 'you don't need me anymore'. **This is part of the next generation tobacco regulations that could become increasingly prevalent in the next decade.**

Five local authorities in the **UK** have banned smoking in pavement pubs, cafes and restaurants before a new push by the government to achieve a smoke-free status in less than a decade. The COVID outdoor eating culture has given the issue of smokers outside a new visibility. Last summer there was an attempt to push through an amendment to legislation in the House of Lords to make pavements smoke free, but it failed. The government is expected to publish a new tobacco control plan later in 2021 that could introduce tough new regulations in the country.



# INDUSTRY UPDATES

The **World** Health Organization published a report detailing what it describes as attempts by manufacturers to avoid regulation of e-cigarettes and heated tobacco products. The key takeaways of the study include:

- Alternative product manufacturers attempt to avoid products being regulated so as to fall within regulatory or legislative gaps.
- Manufacturers are expected to use arguments concerning the relative risk of different product categories and the need for coherent regulation along a continuum of risk.

**The battle over tobacco product alternatives is likely to culminate during COP9 later this year.**

The popular annual KPMG study investigating the illicit trade consumption in the **EU, UK, Norway** and **Switzerland** revealed the latest developments in the continent: **EU27** illicit cigarette consumption increased in 2020 - the rise in volumes represents the first illicit increase since 2011, accounting for 7.8% of the total market, up from 7.3% in 2019. Increasing **EU27** illicit consumption was driven by an increase in Counterfeit which almost doubled to reach the highest level recorded in this study, partly offset by declines in Illicit Whites and Other Contraband and Counterfeit. The tax loss for governments of the **EU's** 27 member states amounts to approximately €8.5 billion per year.

BAT added 1.4 million non-combustible product consumers in Q1 2021 to reach a total of 14.9 million users. This supports the company's targets that include GBP 5 billion in New Category revenue by 2025, 50 million consumers of non-combustible products and carbon neutrality across own operations by 2030. Notably, the company does not expect recovery in the Global Travel Retail until 2022. In e-vapour, BAT reported Vuse approaching global leadership with 31.4% value share in the top 5 category markets. In heated tobacco, BAT reached 16.2% share in the top 9 markets, while in Modern Oral the company share in the top 5 markets accounted for 40.2%.





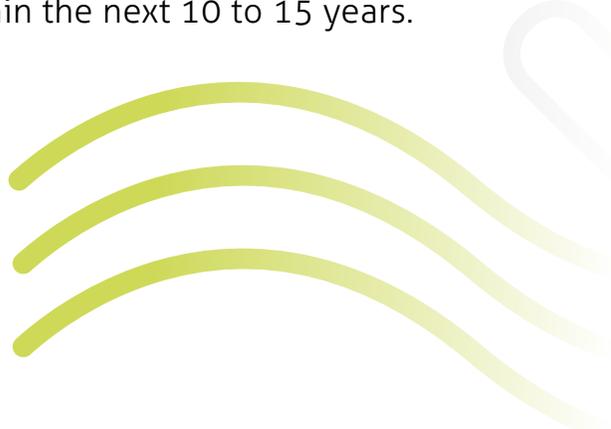
KT&G's heated tobacco device Lil Solid 2.0 and its consumable elements- the Fiit sticks continued their global expansion with launches in **Central Asia** and **Southeastern Europe**. As part of a collaboration agreement between KT&G and PMI, Lil Solid 2.0 has been introduced into four countries- **Armenia, Serbia, Kyrgyzstan** and **Kazakhstan**. The product is also available in the company's home market- **South Korea** and in **Russia, Ukraine** and **Japan**.

**Egypt** made amendments to the invitation for tobacco companies to bid for a license to manufacture cigarettes in the market after a number of international players complained about the original terms. This action could potentially end the monopoly of Eastern Co, one of the biggest cigarette makers in the world. Under the new conditions, the winning bidder should produce 1 billion cigarettes per year instead of 15 billion. Authorities also removed a rule saying they would not be offering any other licenses after the tender for a decade. The deadline to submit offers is 1 August 2021.

According to a report by the National Institute of Public Health in **Denmark**, while the number of young Danes smoking cigarettes has decreased, the number of young people who use at least one tobacco or nicotine-related product has increased since last year from 27% to 28.6%. This is attributed to rising consumption of alternative tobacco categories.

The Ministry of Health in **Saudi Arabia** has launched a two-year anti-smoking campaign. This is part of the country's Vision 2030 to reduce smoking prevalence, that currently stands at around 20%, to 8%. The first phase of the project will target non-smokers, while the second will focus on smokers. Nowadays, there are around 5.5 million smokers in **Saudi Arabia**.

Cigarette sales in **Japan** dropped below 100 billion sticks in 2020 for the first time in decades as more smokers embraced heated tobacco. In the FY ending in March, cigarette sales plunged by a record 16.3% to 98.8 billion sticks, the lowest since 1990 when comparable data became available. Last month, PMI's new CEO announced that the company could stop selling cigarettes in the market within the next 10 to 15 years.



# SUSTAIN- ABILITY

SindiTabaco made a statement pointing out the significant progress **Brazil** has made in the battle against Child Labor. As a clear example of the organization's long term commitment to the cause is the launch of it's The Future is Now program in 1998, four year before the start of the International Labor Organization's World Day Against Child Labor. As years went by, these initiatives evolved and gave rise to the Growing Up Right Institute, which has already benefited 500 teenagers in rural areas. The institute pioneered professional learning programs for the young in the countryside, qualifying adolescents through rural management and entrepreneurship courses. **ITGA also commemorated the World Day Against Child Labor on 12 June with a series of Social Media engagements.**

Alliance One (AOI) **Brazil** partnered with Bayer Corp Science to provide maize seeds and agronomic support to small tobacco farmers in **Brazil**. The aim of the initiative is to help contracted growers diversify their income by strengthening the quality and yield of an complementary crop. According to AOI's representatives, around two-thirds of the contracted **Brazilian** farmers produce maze along with tobacco. During the 2020 season, AOI **Brazil** implemented a pilot project with 2,300 farmers to evaluate interest in future program participation. As a result of the feedback, the company will implement the project across its full farmer base throughout the 2021 season. Over the next three years, Alliance One **Brazil** intends to expand the project to include other crops and will evaluate how the project could be expanded throughout its global operations.

Japan Tobacco International published its first Human Rights Report revealing the company's contribution to the UN's Guiding Principles (UNGP) on Business and Human Rights. The report sets out the pillars of JTI's human rights strategy, which is an essential part of the group's business activities and one of three absolute requirements of its sustainability strategy. JTI has used the UNGPs as a framework for safeguarding human rights across nine identified salient issues. These cover child labor, environmental impacts, fair wage, forced labor, harassment and gender impacts, health and safety, health risk, non-discrimination and equality, and working hours.





Farmers in **Zimbabwe** have welcomed the Tobacco Transformation Plan which is aimed at boosting production through local funding. The government launched a tobacco value addition and transformation roadmap under the National Value Chain Tobacco Transformation Plan, which aims at localizing tobacco financing and transforming the industry into a USD 5 billion business by 2025. **More information about the targets of the plan are available in Tobacco Monitor's May 2021 edition.**

Of the 15 products leading the **Dominican Republic's** total exports in 2021, tobacco ranks second, trailing only gold, according to data published by the **Dominican Republic's** Export and Investment Center. Total exports reached USD 3.7 billion in the first four months of 2021, of which USD 344.5 million corresponds to tobacco. The Tobacco Institute of the Dominican Republic revealed that 4,286 producers distributed in 13 provinces of the country participated in the 2020 harvest. These provinces are, in hierarchical order by area planted: Santiago, Valverde, Monte Cristi, Espaillat, Azua, La Vega, Santiago Rodríguez, Monseñor Nouel, Puerto Plata, Sánchez Ramírez, Monte Plata and San Juan and Elías Piña.

The jobs generated in the tobacco sector are as follows: 61,853 in farms, 49,029 processing employees in factories.

A vaccine for COVID-19 that was created from a tobacco plant is now ready to trial in the **UK** and other countries. This type of vaccine is derived from the *Nicotiana benthamiana* plant that contains nicotine and grows in **Australia**. The new vaccine named CoVLP produces a virus like particle (VLP) which mimics the potentially lethal spike protein that hooks onto cells.

BAT is also currently testing a vaccine candidate for COVID-19. However, it is not currently approved or licensed for use anywhere in the world.



# SOURCES





International Tobacco Growers' Association

Thank you!