



Tobacco Monitor

AN UPDATE ON THE MOST RECENT EVENTS AND FORECASTS

SEPTEMBER 2021

CROP MONITOR

The Tobacco Industry and Marketing Board (TIMB) in **Zimbabwe** revealed the latest statistics covering the 2021 crop season. A total of 208.8 million kg of tobacco leaf were sold, generating USD 583.8 million, an yearly increase of 14% and 28% respectively. The 2021 average price was USD 2.80, up from USD 2.50 in 2020. The vast majority (96%) of tobacco was sold via contract this season, while only 4% went through the auctions floors. The biggest export regions by total mass for the FCV tobacco type is the **Far East**, the smallest is **Americas**.

TIMB also published statistics suggesting that more than 67,000 farmers have registered for the 2021/22 tobacco growing season. The split by regions is as follows: **Mashonaland West** – 24,781, **Mashonaland Central** – 23,756, **Manicaland** – 10,063, **Mashonaland East** – 8,297, **Midlands** – 94, and **Masvingo** – 32, **Matabeleland** – 2. Early expectations for the next year's total volumes suggest further growth.

Zimbabwe's Tobacco Research Board is in possession of tobacco seed for the next five seasons and could supply certain varieties for up to 10 years. This requirement will aid the government's program of raising production to 300 million kg annually by 2025 through the Tobacco Value Chain Transformation Strategy.

The Reserve Bank of **Zimbabwe** is currently working on modalities of disbursing a USD 60 million tobacco facility after the government decided to start funding production using local resources. The Tobacco Production Localisation Revolving Fund is supposed to support growers during the upcoming season. This will help sustain the auction system which is now accounting for a very small share of total sales.





The Tobacco Board of **India** has established a crop size for the **Andhra Pradesh** region for 2021-2022 crop season of 130 million kg. This represents an increase of 15 million kg on a yearly basis. The decision is arguably driven by reasonable prices offered by traders for a big part of the latest tobacco crop. Earlier in 2021, the tobacco board increased the 2021–2022 crop size for **Karnataka** region to 97 million kg from last year's 88 million kg.

Farmers from **Malawi** have threatened to quit tobacco growing as a result of unsustainable payments. Local growers claim that the current system makes them poorer if they chose to engage in the business. In addition, tobacco farmers have said that unless the government intervenes to get rid of the contract system, they will likely switch to other crops, such as soya.

Meanwhile, sales at the Kanengo Auction Floors in **Lilongwe** came to a standstill on 23 August as farmers protested high rejection rates and low offers made by tobacco buyers. The offers reached as low as USD 0.50 per kg, which is below the minimum crop price set by the government. The Minister of Agriculture Lobin Lowe urged the buyers to comply with the country's regulations.



Recent tobacco sector-related reports from the **US** suggest that this year's crop in the state of **Kentucky**, one of the traditional tobacco growing regions in the market, benefited from good weather and overall positive growing conditions.

However, as demand for locally-grown tobacco has been in a state of perpetual decline there are fewer farmers engaging in production each year.



REGULA- TIONS

Government officials in **France** want to reduce the number of discarded cigarette butts (filters) by 40% in the next six years. According to expert estimates, local smokers throw on the streets around 23.5 billion sticks per year. What is crucial is that the **French** Environmental Ministry wants tobacco companies to help solve the problem. There is already a recycling and anti-waste law in France that requires companies to take responsibility for their products after their 'end of life'. The industry will have to contribute EUR 80 million per year to a newly created institution that will allocate the money to projects aimed at eliminating cigarette butts pollution and raising awareness. **The extra costs for companies will likely affect the entire tobacco supply chain.**

The **UK** government is considering rising the legal purchase age of tobacco and vaping products from 18 to 21 in order to reach its smoke-free goal by 2030. Extra bans on advertising are also likely. **This measure has already taken place in the US, among others, and is likely to spread to additional markets in the coming decade.**

The **UK** regulatory agency has updated its guidance on the sale of vaping products in the market. This action was provoked by the significant number of vaping product manufacturers, distributors and retailers confused about what could and could not be legally sold in shops, especially after the surge in new disposable vaping devices entering the **UK**.

Regulators in **Ukraine** have passed a law prohibiting the use of e-cigarettes in public places and imposed restrictions on advertising, sponsorships and promotion of such products. Flavours in vaping products, except for tobacco, are now also banned. **These measures were in part driven by the latest World Health Organization 'Report on the global tobacco epidemic, 2021' that was highlighted in the previous Tobacco Monitor edition.** Ukraine is one of the significant markets for emerging nicotine categories, where all leading international manufacturers have introduced their next generation alternatives.



The **Turkish** Ministry of Agriculture and Forestry has adopted an amendment to the regulation of manufacturing and labeling of tobacco products, requiring the increase in the size of the pictorial health warnings of cigarette packs. The health warnings will increase from currently covering 85% of both the widest front and back surface areas of the package to covering at least 85% of the widest front surface and 100% of the widest back surface of the cigarette packages, while covering at least 85% of both the widest back and front surfaces areas of packages for non-cigarette products.



Stocks of leading **Chinese** e-cigarette manufacturers took a hit in the beginning of August after state-owned media reported about the risks of vaping. Such news often give clues about incoming regulatory changes. Among the affected companies are RELX Technology, Smoore International and China Boton Group.

Thailand is in the process of updating its cigarette excise structure. Currently, the law stipulates a 20% tax to the retail price for packs costing up to THB 60 (USD 1.85). If the retail price exceeds THB 60 per pack, a 40% tax rate becomes applicable. The new flat tax rate of 40% was scheduled for application in October 2019, but there has been opposition from key stakeholders resulting in a delay of two years. The new structure aims to strike a balance between farmers' income, public health, government revenue and efforts to prevent smuggling.

The **US** Food and Drug Administration (FDA) has postponed the deadline by which cigarette manufacturers must print new health warnings on their products once again to 11 October 2022. The FDA encourages manufacturers to submit their compliancy plans by December 2021. The decision will introduce images covering 50% of the front and rear panels of cigarette packs, in addition to 20% of the top section of advertisements.

The **US** FDA issued the first marketing denial orders for electronic nicotine delivery system (ENDS) products after determining the applications for about 55,000 flavored ENDS products from three applicants lacked sufficient evidence that they have a benefit to adult smokers sufficient to overcome the public health threat posed by the well-documented, alarming levels of youth use of such products.



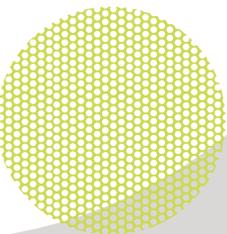
INDUSTRY UPDATES

Philip Morris International (PMI) announced the launch of IQOS ILUMA, the latest addition to its growing portfolio of smoke-free products. The new device becomes the brand's first tobacco-heating system to introduce induction-heating technology, which utilizes no blade and requires no cleaning. The IQOS ILUMA series offers two devices in **Japan**: IQOS ILUMA PRIME and IQOS ILUMA. The innovative heating technology in these devices is the SMARTCORE INDUCTION SYSTEM that heats the tobacco from within the new TERA SMARTCORE STICK. These newly designed sticks are to be used only with IQOS ILUMA, which features an auto-start function that detects when the TERA stick is inserted and automatically turns on the device.

The company has also raised its bid to buy Vectura to more than GBP 1 billion. PMI intends to "operate Vectura as an autonomous business unit that will form the backbone of its inhaled therapeutics business".

PMI has submitted an offer for a new cigarette factory license in **Egypt**. This happens after the initial bidding terms were amended in order to answer some of the manufacturers' concerns. However, the other big tobacco players that were expected to take part in the process – British American Tobacco, the distributor of Imperial Tobacco, Al-Mansour Group, and Japan Tobacco International, have asked for another delay and additional changes to the license terms in order to submit their proposals.

Shenzhen IVPS Technology Co is considering an initial public offering (IPO) in **Hong Kong** as soon as next year. The company could raise between USD 500 million and USD 1 billion. Shenzhen IVPS Technology Co produces the popular Smok brand that is used by over 80 million consumers around the world. IPOs of **Chinese** e-cigarette manufacturers are becoming increasingly popular in recent years, despite the regulatory uncertainty in their home market.



Altria reported its Q2 and HY1 2021 results:

- Q2 Net revenues are USD 6.9 billion, an increase of 8.9%
- HY1 Net revenues are USD 13.0 billion, an increase of 1.9%.

Altria expanded the distribution of IQOS into retail stores statewide across **Georgia, Virginia, North Carolina** and **South Carolina** and to the **Northern Virginia** metro market. However, the ongoing legal dispute over heated tobacco patents has delayed the national expansion of IQOS in the **US**. In Q2, the smokeable products segment reported 1.4% domestic cigarette shipment volume increase, primarily driven by trade inventory movements, partially offset by the industry's rate of decline. Cigars shipment volume registered a 8.1% increase.

KT&G reported its Q2 2021 results:

- Sales are up 4.7% to KRW 950.9 billion (USD 822 million).
- Operating profit is down 11.8% to KRW 326.4 billion (USD 282 million).

These movements were driven by growth in the domestic and global heated tobacco business, partly offset by a F/X drop. In **South Korea**, the company registered a combined volume performance of 10.3 billion sticks, 200 million units less than Q2 2020. The decrease in cigarette sticks is compensated by growth in heated tobacco. KT&G's domestic market share for the novel category is now 39%. Internationally, the company has registered shipment volumes of 11.9 billion sticks, a 14.4% year-on-year drop affected by declines in the **Middle East**.

RLX Technology from **China**, one of the fastest growing vaping companies, reported its Q2 2021 results:

- Net revenues are RMB 2,541.4 million (USD 393.6 million), up 6.0% on Q1 2021.

Performance was driven by an increase in sales to offline distributors, which was mainly attributed to the expansion of the distribution and retail network. The slowdown in Q2 sequential revenue growth was primarily due to external factors including the negative publicity on e-vapor, coupled with the fact that the draft rules announced in March 2021 had not been formally confirmed and no new implementation details had been revealed. Impacts from such external factors, along with recent extreme weather in several provinces of **China** and tightened social restrictions on a national level due to delta outbreaks, are likely to persist. The company has recently launched its vaping products in Saudi Arabia.

SUSTAIN- ABILITY

KT&G deployed employee volunteers to assist leaf tobacco farmers who are struggling due to a shortage of workers in **Asan City, South Chungcheong Province** in **South Korea**. The crop is usually harvested between July and August. Covid-19 and the declining rural population have created workforce issues to the local sector. Such programs have been in place for the last 15 years.

Researchers in **Western Australia** discovered a new wild tobacco species that kills insects. The tobacco plant is covered with sticky hairs on which flies, mosquitoes and aphids met an untimely death.

The quickly growing **Chinese** e-cigarette manufacturer Geekvape will invest in creating a CNY 10 billion (USD 1.55 billion) ecosystem in the **Guangdong - Hong Kong - Macao Greater Bay Area** with the support of the **Shenzhen** Municipal Government. Over the next two years, the company plans to build a modern industrial park for intelligent manufacturing that will help customers address their needs for increased production capacity.

Geekvape also entered into a commercial partnership with the **French** football club Paris Saint-Germain. Both sides will work together on campaigns, TV commercials and co-branded products in authorized markets.

Swisher, a **US** manufacturer specializing in cigars, smokeless tobacco, nicotine pouches, and other tobacco-related products, announced an initiative to fund innovative brands through the launch of Matchbook Capital. The person leading the new Swisher division has expertise in the cannabis and alcohol industries. Matchbook Capital is most interested in emerging industries (such as cannabinoids), experimental categories and innovative consumer packaged goods.





PMI announced the acquisition of OtiTopic, a **US** respiratory drug development company with a late-stage inhalable acetylsalicylic acid (ASA) treatment for acute myocardial infarction. If approved, the treatment can address the significant unmet medical need of the over 83 million people, in the **US** alone, at intermediate to high risk for myocardial infarction. This action is another step forward in the company's 'beyond nicotine' future. **The acquisition of OtiTopic follows other two significant nontobacco acquisitions by PMI - Vectura and Fertin Pharma earlier this year.**

PMI published its **global** business transformation-linked financing framework, which integrates the company's smoke-free transformation into its financing strategy. The Framework includes two Sustainability Performance Targets (SPTs), with an observation date 31 December 2025:

- Increase PMI's full-year 2025 smoke-free/total net revenue percentage to more than 50%, from the 2020 baseline of 23.8%.
- Increase the number of markets where PMI's smoke-free products are available for sale to 100 markets by the end of 2025, from the baseline of 64 markets on 31 December 2020.

PMI opened up a HUF 3 billion (USD 10.2 million) e-cigarette recycling center near **Budapest** in **Hungary**. The facility can recycle 150,000 electronic devices per month, but capacity can be further increased. The operations will create around 100 new jobs.

PMI considered selling its Marlboro business in order to exit the cigarette industry. However, the company decided to keep the business in order to finance the growth in 'wellness products'. According to PMI's CEO, three-quarters of the company's resources go to cigarette alternatives at the moment. Earlier in 2021, PMI officials commented on the possibility of exiting cigarettes in key markets within the next decade.







International Tobacco Growers' Association

Thank you!