



Tobacco Monitor

AN UPDATE ON THE MOST RECENT EVENTS AND FORECASTS

NOVEMBER 2021

CROP MONITOR

The Minister of Agriculture in **Malawi**, Lobin Lowe, announced the country will continue to rely on tobacco in the long term and urged buyers and other stakeholders to ensure that farmers do not lose interest in the crop. Citing Japan Tobacco International's (JTI) recent USD 1 million investment in its **Malawi** factory, the Minister shared it is pleasing that companies consider **Malawi** as a leading processing country. However, while expressing confidence in tobacco, Lowe lamented farmers' low earnings. Growers retain little money after repaying the inputs they got from tobacco companies. Lowe also voiced concerns that the ministry did not get enough forex from tobacco sales.

A plan to introduce contract farming in tobacco is facing fierce opposition among leaf growers in **India**. During a significant gathering in **Guntur** for the World Tobacco Growers' Day celebrations, farmers demanded that the central government abandon its proposals, arguing that contracting would put growers at risk of exploitation. Growers also praised the fairness and transparency of the auction system, which provided greater market stability than contracting. Meanwhile, **India's** Ministry of Commerce and Industry has cut the penalty on "excess" tobacco produced during the 2021-2022 cropping season by 50% to help farmers compete on the world market. Following the penalty reduction, authorized growers must pay INR 1/kg (USD 0.01) and 5% of the value of their excess production during the 2021-22 cropping season.

The Ministry of Agriculture in **Cambodia** announced that the export of tobacco to the international markets dropped 53.6% in the first nine months of the year. From January to September, Cambodia exported a total of 2,514 tonnes of tobacco to eight countries: **Vietnam, Belgium, Hungary, Bosnia and Herzegovina, China, Indonesia, Singapore and Germany**. The biggest export market, by a large distance, is Vietnam- with a total of 2,432 tonnes. The areas known to have the best potential for growing tobacco are along the Mekong delta, including the Tonle Sap and Tonle Bassac rivers, especially in **Tboung Khmum, Kampong Cham, Kratie and Kandal** provinces. Last year, Cambodia exported 5,820 tonnes of dried tobacco worth a total of USD 17.4 million.





The latest data regarding **China's** tobacco trade balance covers the first four months of 2021. During this time, leaf exports, most of which were FCV, amounted to over 35.9 million kg worth USD 115 million. This represents a -7.2% drop in volume terms and -12.4% decline in value. Leaf imports, most of which were FCV from **Brazil**, totaled over 50.9 million kg worth \$295.5 million, down -2.7% in volume and almost -38.3% in value when compared with 2020.

Cuba kicked off its 2021-2022 tobacco growing season by planting of 25,000 hectares in October. Around 13,800 producers are expected to harvest 27 million kg of tobacco during the season. Average yield is forecast to be around 1.1 tons per hectare. The largest producing area in the country is located in the western province of **Pinar del Río**, where 16,373 hectares will be planted, while 760 hectares are for the production of the famous Havana cigars. Growers in **Pinar del Río** will plant 510 hectares of FCV leaf for a cigarette factory in the neighboring **Artemisa** province. However, local players report shortages of inputs due to the global crisis generated by the COVID-19 pandemic and the reinforcement of the **United States** economic embargo.

The Vice President and Health Minister of **Zimbabwe** wants to enforce a tax on cigarettes and alcohol to financially help the country's health sector. The Minister suggested that alcohol and cigarette manufacturers would be directly taxed and also proposed diverting some Zinara funds to the Health Ministry in order to avoid overtaxing citizens. The proposal was made in response to parliamentarians who suggested that the treasury should introduce a 1.5% cancer levy across all sectors of the economy to fund cancer related medical needs.



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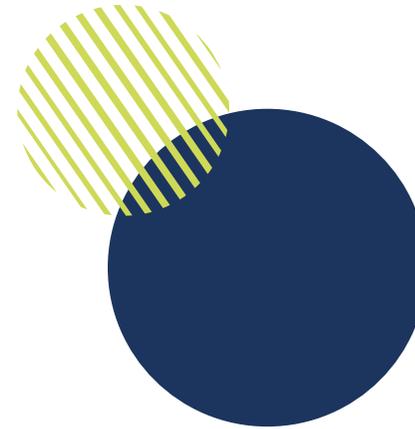
One hundred harm reduction experts drafted a letter urging the parties to the Framework Convention on Tobacco Control (FCTC) to encourage the World Health Organization to support and promote the inclusion of tobacco harm reduction into the FCTC. Among the group's key messages are: Tobacco harm reduction presents significant public health opportunities; E-cigarettes are a driver of smoking cessation; Tobacco harm reduction can contribute to the Sustainable Development Goals.

The ban on mailing vapor products through the **US** Postal Service (USPS) took place in October. Nevertheless, there is still a possibility for the USPS to mail vapor products, albeit under narrowly defined circumstances. Hemp and CBD products that fall outside of the vapor product scope, for example vape pens, may still be mailed if they contain less than 0.3% of THC.

The **US** Food and Drug Administration (FDA) issued two final rules for the premarket review of new tobacco products. They provide additional information on the requirements for the content, format and review of premarket tobacco product applications (PMTAs) and substantial equivalence (SE) reports- the two most common pathways through which a manufacturer can seek marketing authorization for a new tobacco product from the FDA. According to the agency, the finalization of these rules helps to ensure that all future submissions contain the basic information needed to determine whether the new tobacco products meet the relevant premarket requirements to efficiently and effectively implement the Family Smoking Prevention and Tobacco Control Act.

Turning Point Brands, a leading manufacturer of traditional and alternative tobacco products in the **US**, such as Stoker's long cut chewing tobacco and next generation vaping platforms, has challenged the **US** FDA orders that denied some of the company's products access to the market. Later on, the agency rescinded the marketing denial order (MDO) because the FDA had found relevant information that was not properly assessed. Several other companies are awaiting decisions on their own MDO challenges.

Meanwhile, the agency issued warning letters to 20 companies for continuing to unlawfully market electronic nicotine-delivery system (ENDS) products that are the subject of MDOs.



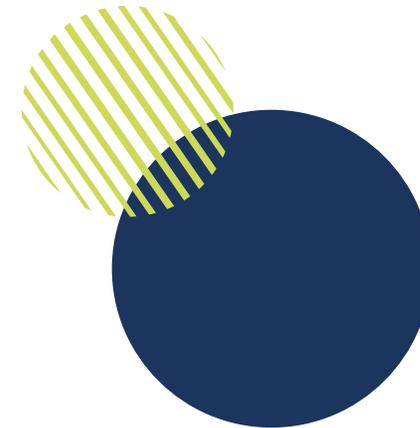
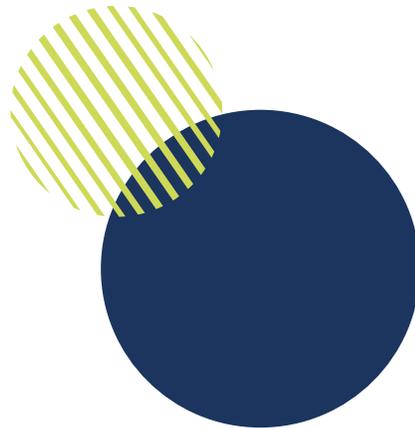
Myanmar has become the latest country to enforce standardised plain packaging for all tobacco products currently on the market. The new policy requires pictorial health warnings to cover 75% of the front, back, sides and top of the packaging. Flavours are also prohibited.

Individual cigarettes could have “smoking kills” printed on them under new measures proposed by MPs to encourage more people to quit smoking in the **UK**. Other potential amendments include: Raise the legal age for buying cigarettes from 18 to 21; Stop e-cigarette makers using tactics that might entice children to try them, such as sweet flavourings and cartoon characters; Make it illegal to give e-cigarettes away free as sampler products, as some manufacturers have done.

The Finance Ministry in **Indonesia**, one of the biggest cigarette markets in the world in volume terms, has confirmed a tax increase due to be implemented during the new year. The Ministry decided to raise the excise because it is considered to be effective in controlling tobacco consumption, particularly among children. According to local authorities, there was no tax increase in 2019 and the sale reached 356.5 billion cigarettes with the price of IDR 22,940 per pack. In 2020, there was a tax increase which resulted in price increase to IDR 24,632 per pack and the sale dropped to 322 billion cigarettes.

The Digital Economy and Society Minister in **Thailand** is exploring ways to legalise the sale of e-cigarettes despite strong opposition from health activists and anti-smoking campaigners. The Minister claimed that “if it is possible to turn tobacco grown in **Thailand** into e-cigarette products and export them, both the Tobacco Authority of Thailand and tobacco growers will benefit from this”.

Lawmakers in **Hong Kong** passed a long-delayed bill banning the import and sale of e-cigarettes and heated tobacco products in the region. The ban will come into effect in mid-2022.



INDUSTRY UPDATES

Philip Morris International (PMI) reported its Q3 2021 results:

- Net revenue is up by 9.1%;
- Adjusted operating income is up by 7.4% on an organic basis.

Cigarette and heated tobacco unit shipment volume is up by 2.1% (reflecting cigarette shipment volume down by 0.4%, and heated tobacco unit shipment volume up by 23.8% to 23.5 billion units).

In addition, PMI will pay TRY 2.88 billion (USD 326 million) for the remaining shares of PHILSA and PMSA the company did not already own in **Turkey**. Prior to the announcement, PMI was already in possession of about 75% of the shares.

British American Tobacco (BAT) will cease all operations in military-ruled **Myanmar** and withdraw by the end of this year. The decision was taken having assessed the long-term viability of its **Myanmar** business. BAT started operating in the market in 2013.

Japan Tobacco International (JTI) reported its Q3 2021 results:

- Revenue increased 10.6% to JPY 621.5 billion;
- Adjusted operating profit at constant currency increased 12.4% to JPY 173.0 billion.

JTI's total shipment volume increased 1.7%, building on quarterly market share gains, partially resulting from lower illicit trade volume.



Eastern Co, one of the biggest tobacco manufacturers, achieved record sales in the fiscal year 2020/21. The company produced about 70 billion local cigarettes, an annual growth of 16%. Eastern Co also recorded a net income of EGP 16bn, a growth of 11%. The company is currently studying the opportunity to produce reduced-risk products in **Egypt**.

The **Belgian** Competition Authority has charged four cigarette manufacturers- PMI, Imperial Brands, JTI and BAT with breaching competition laws by exchanging information in relation to future prices to wholesalers. The leading international companies account for 90% of the cigarette market in the country.





Imperial Brands released a Pre-close trading update in October. The company's highlights include:

- Delivering in line with guidance and on track to meet full year expectations;
- Focus on top five priority markets beginning to arrest long-term share declines;
- Market trials underway with heated tobacco in **Czech Republic** and **Greece**, and blu in the **US**;
- Significant new hires to strengthen capabilities across the Group.
- Continued strong cash generation supporting the planned investment behind the new strategy.

According to the Independent **European** Vape Alliance (IEVA), participants in the public consultation organized by the European Commission (EC) regarding the review of the Tobacco Products Directive (TPD) are split on multiple questions regarding e-cigarettes and e-liquids:

- Harmonization of tax rules for e-liquids containing nicotine: 45.6% against, 44.8% in favor, almost 10% undecided;
- Harmonization of tax rules for e-liquids that do not contain nicotine: 50.8% against, 40% in favor, almost 10% undecided.
- Establishment of a minimum tax on e-cigarettes: 46.7% answered "none", 41.6% answered "0.10 EUR/ml", 5.6% answered "0.30 EUR/ml", 6.1% "don't know" or no answer.

The EC is expected to complete the proposal to revise the TPD within the next couple of months.

Sales of flavoured tobacco products are growing at a blistering pace in **South Korea**. According to data from the Ministry of Economy and Finance, domestic tobacco sales declined to 3.59 billion packs last year from 4.4 billion packs in 2011. In contrast, sales of flavored tobacco products more than quintupled from 260 million packs to 1.38 billion packs during the same period. Sales of e-cigarettes also jumped from 80 million packs in 2017 to 380 million packs last year, with sales of flavoured e-cigarettes surging from 50 million packs to 310 million packs.

The total number of cigarettes sold in the **US** increased from 202.9 billion in 2019 to 203.7 billion in 2020, the first time annual cigarette sales have increased in 20 years.



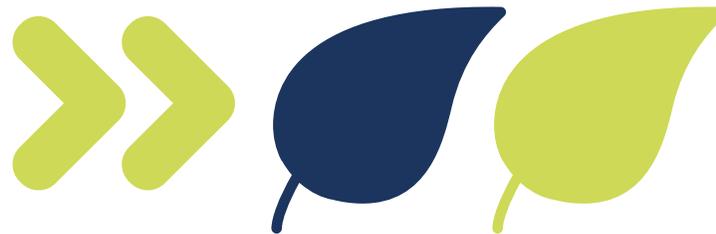
SUSTAIN- ABILITY

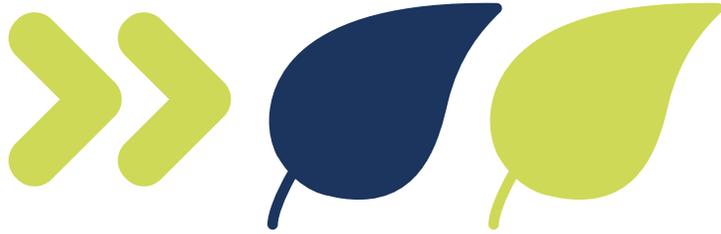
E-cigarettes could be prescribed on the National Health Service (NHS) in **England** to help people stop smoking tobacco products, as the Health and Social Care Secretary welcomed the latest step forward in the licensing process for manufacturers. The Medicines and Healthcare products Regulatory Agency (MHRA) is publishing updated guidance that paves the way for medicinally licensed e-cigarette products to be prescribed for smoking cessation. This could mean **England** becomes the first country in the world to prescribe e-cigarettes licensed as a medical product. If a product receives MHRA approval, clinicians could then decide whether it would be appropriate to prescribe an e-cigarette to NHS patients to help them quit smoking. It remains the case that non-smokers and children are strongly advised against using e-cigarettes.

A recent government drug report in **Germany** revealed the latest data on legal and illegal drugs, as well as developments in the trafficking of illegal substances in the market. Cannabis dominates the illegal drug market in **Germany**. In addition, cannabis use among young adults (aged 18 to 25) rose by almost 9%, up from 15.3% to 24.1%.

US FDA announced it has authorized the marketing of four new oral tobacco products manufactured by U.S. Smokeless Tobacco Company LLC under the brand name of Verve. Based on the FDA's comprehensive review of available scientific evidence in the company's PMTAs, the agency determined the marketing of these products would be consistent with the statutory standard, "appropriate for the protection of the public health."

Cannabis users in **Malta** will be able to grow plants at home or buy the substance from specially set up associations, according to a cannabis reform bill. However, smoking the product in public will remain against the law. According to the bill, adults can legally possess up to 7 grams of cannabis without the risk of arrest or confiscation. They are also allowed to grow up to four cannabis plants at home. Up to 50 grams of dried cannabis buds may be stored at home at any time. These changes were already part of a white paper presented by the government last year. However, the bill introduced in parliament in October now also provides for the establishment of cannabis associations. These associations will allow cannabis users who do not want to or are unable to grow the plant at home to legally purchase the drug by becoming members and buying from them.

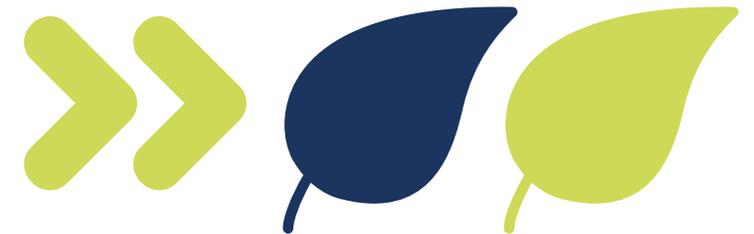




PMI has released its Low-Carbon Transition Plan (LCTP), showcasing the company's ambitious new sustainability targets and setting the scene for how it will operate in future. Recognizing the urgent action required to tackle the climate change crisis, the LCTP brings forward PMI's aim to achieve carbon neutrality in its direct operations by five years to 2025. It also includes the company's new target of achieving net-zero emissions across its entire value chain by 2040- 10 years earlier than its previous 2050 goal. Furthermore, the plan introduces an ambition for PMI's critical suppliers to adopt Science Based Targets (SBTs) in line with the SBTs that PMI has already committed to- aligned with the 1.5°C pathway central to meeting the goals of the Paris Agreement.

BAT invested in a startup company, Tru Inc, a maker of energy and wellness drinks, amid efforts to move away from tobacco and nicotine. BAT's corporate-venture unit Btomorrow Ventures led a funding round of about USD 3.5 million in **Natick, Massachusetts**-based Tru. The company sells sparkling beverages as well as effervescent tablets that it says help with energy, concentration or sleep. The company wants to turn Tru into a challenger brand to billion-dollar players like Red Bull and Vitamin Water.

BAT announced it has signed up to the UN-backed Race to Zero campaign, committing to net zero emissions by 2050. Race to Zero is the largest ever alliance committed to halving global emissions by 2030 and achieving net zero carbon emissions by 2050. The campaign represents over 4,000 businesses estimated to cover nearly 25% global of CO2 emissions and more than 50% of GDP. This commitment is the latest step in BAT's transformation journey.



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TEMPO.CO

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International Tobacco Growers' Association

Thank you!