



Tobacco Monitor

AN UPDATE ON THE MOST RECENT EVENTS AND FORECASTS

DECEMBER 2021

CROP MONITOR

The Brazilian Tobacco Growers Association (Afubra) revealed the first estimate for the 2021/2022 tobacco crop in the three southern states of **Brazil** - 569,539 tons. The numbers show a reduction of 9.4% compared to the last season that closed at 628,489 tons. In terms of planted area, there was a reduction of 9.8%, from 273,317 hectares to 243,590 hectares. The expected productivity is 2,310 kg/ha; while in the last harvest, it was 2,299 kg/ha. Afubra's President highlighted that the reduction in the tobacco production area was expected: "This is not negative, on the contrary, it is necessary, since, for several harvests, Afubra and the entities representing tobacco growers warn of the need to adapt our product offer to market demand. Another factor that weighed in this reduction in planting was the great frustration that tobacco growers had in the last harvest, in the commercialization. With other crops providing greater profitability, many producers are investing even more in the diversification of their properties".

Brazil's leaf tobacco sector "inaugurated" the tobacco harvest on October 28, the Tobacco Growers' Day, in **Rio Grande do Sul**, which is the principal tobacco growing region in the country and home to 71,000 tobacco farmers.

During the opening event, SindiTabaco's President emphasized the inauguration of the harvest is an excellent opportunity to acknowledge tobacco farmers' social and economic contributions. Around 10% of **Rio Grande do Sul** exports last year consisted of tobacco shipments, making it a vital component of the local economy.

The agenda of the tobacco harvest opening ceremony and the celebration of the Tobacco Growers' Day, also included the signing of the technical cooperation term of the Corn, Bean and Pastureland after Tobacco Harvest Program, which, in **Rio Grande do Sul**, is run in partnership with the state government, through the Secretariat of Agriculture. The diversification program is supported by the SindiTabaco, Afubra and SEAPDR, and also counts on the participation of such entities as Emater, Fetag and Farsul. The program encourages diversification moves and the maximum use of the resources of rural properties. It suggests both pasturelands and the cultivation of grain crops after tobacco harvest, as a manner to make the most of the land.

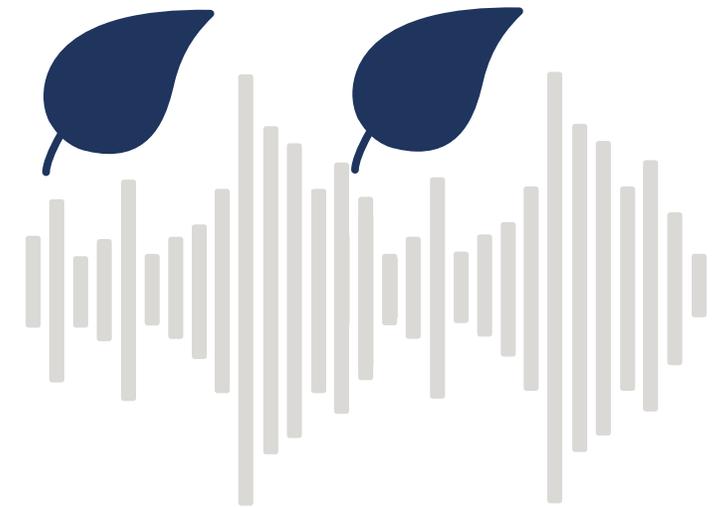


The Leaf Tobacco Deliberative Council in **Japan** released its report on the consultation for domestic tobacco cultivation area and purchase prices for 2022. The domestic tobacco cultivation area will be set at 3,889 hectares, a decrease of 34% compared to the cultivation area of the previous year. The leaf tobacco purchase price will remain unchanged from last year at an average of JPN 1,924.15 (around USD 16.95) per kilogram for all leaf types. In addition, as a result of the cultivation area adjustment, the Leaf Tobacco Deliberative Council agrees to reduce the total tobacco cultivation area in **Japan**. 1,729 Japanese leaf tobacco growers indicated their intention to cease tobacco cultivation, resulting in a reduction of the total area of tobacco cultivation to 1,822 hectares.

The signing up deadline for the 2021/22 tobacco farming season in **Zimbabwe** revealed a decrease in the number of tobacco farmers registered. According to the Tobacco Industry and Marketing Board (TIMB) 110,772 tobacco farmers have registered, while during the previous year that number was 112,472. Alternatively, the area under irrigated tobacco has increased by 50% to 15,000 hectares due to adequate amounts of rain.

Sources have revealed that **Syria's** tobacco crop output continues to rise with farmers in Hama province having finished harvesting for the current season. The latest production was about 1,734 tonnes, including 1,504 tonnes of FCV and 237 tonnes of Burley. Tobacco cultivation is concentrated in **Freekeh, Shataha, Salhab, Ain al-Krum, al-Asharnah** and **Nahr al-Bared** regions.

Tobacco sales in **Tanzania** increased to 57 million kg in 2020-2021. As a reference, sales during the 2017-2018 season amounted to around 39 million kg. The improvement, according to Deputy Minister for Agriculture, was a result of massive awareness campaigns being undertaken by the government. During the current season, about eight local buying companies had entered into contracts with producers of tobacco countrywide. **Tanzania** is eyeing the **Chinese** market for potential tobacco revenue growth in the immediate future.



REGULA- TIONS

The new Build Back Better plan in the **US** that was briefly discussed in Tobacco Monitor's October edition continues to capture the spotlight in the most profitable market in the world. While the initially proposed increases in taxation for traditional tobacco products were removed, the ones for vapour have remained. The latest version of the bill calls for USD 50.33 per 1,810 milligrams of nicotine for "any nicotine product that has been extracted, concentrated or synthesized." The previously proposed vapor tax was USD 100.66 per 1,810 mg. Vapour advocates have voiced their concerns that such measures are likely to increase tobacco smoking prevalence.

Meanwhile, the **US** pictorial health warnings were postponed once again. The new effective date for the FDA's final rule on

During ITGA's AGM 2021, Michiel Reerink, Alliance One International Corporate Affairs Director, provided a detailed update about the recently held COP 9. The reports about technical matters including heated tobacco, research of evidence on novel and emerging products as well as the guidelines on advertising were deferred without discussion until COP10. Another focus of the presentation was the increasing regulatory requirements around supply chains and **EU's** resolution on corporate accountability. It is very likely that in the near future companies that want to sell products in the **EU** will be required to do supply chain due diligence in order to demonstrate there are no violations of human rights and no environmental standards are being broken. Reerink advised that every company and supplier should prepare for this legislation accordingly.

Tobacco plain packaging continues to gain momentum **worldwide**, according to a new report released by the Canadian Cancer Society. At the moment, 21 countries have adopted such regulations, while 14 others are in different stages of implementing the measure.

Plain packaging includes health warnings on packages and prohibits tobacco company branding such as colors, logos and design elements. It also requires the brand name to be a standard font size, style and location on the package and the brand portion of each package to be the same color, such as an unattractive brown. The package format is also standardized.



US President Biden announced that he would nominate Dr. Robert M. Califf, a former commissioner of the **US** Food and Drug Administration (FDA), to lead the agency again. His decision ends nearly a year of political uncertainty as the White House vetted then dropped several candidates after complaints that some were too close to the pharmaceutical industry. Califf has been a forceful advocate for tobacco control.

The **Spanish** Society of Pulmonary and Thoracic Surgery (SEPAR) has asked for the country's anti-smoking laws to be updated and reinforced to help people stop smoking. Among the proposed measures are: increase of prices for nicotine products, tightening the restrictions on smoking in public places, plain packaging and more aid and health care to help people quit smoking.

The **Taipei** City Government became **Taiwan's** first local government to pass a jurisdiction-wide ban on e-cigarettes via a self-government ordinance. If the measure is ratified, the city would impose a broad-ranging prohibition on the sale, advertisement, display and commercial transportation of novel tobacco products, including vaping devices and heated tobacco units. Additionally, vaping and using heated tobacco products is to be banned in a 50m zone around schools.

New Zealand has banned smoking in cars with minors effective 28 November. The measure is part of the government's commitment to achieve its "Smokefree 2025" target and follows moves such as plain packaging of cigarettes, a retail display ban and progressive vaping legislation that supports vaping use as a quit-smoking tool. **The country is often at the forefront of innovative legislative measures regarding tobacco.**

The government of **Malaysia** intends to introduce excise duties on all vapor products containing nicotine. British American Tobacco (BAT) representatives commended the action, saying it was a right move towards tobacco harm reduction in **Malaysia**. Alternatively, the Malaysian Council for Tobacco Control and its partner NGOs are opposed to the proposal and suggest banning e-cigarettes altogether instead. At the moment, there is no regulatory framework guiding the industry in the country.



INDUSTRY UPDATES

China's State Council has amended the country's tobacco monopoly law to include vapour products in local regulations. As a result, new types of tobacco products, such as e-cigarettes, will be managed like combustible cigarettes. This is a signal that e-cigarettes, which have stood in a grey area of government regulation for a long time, are finally moved under supervision in **China**. **This could certainly be interpreted as a major development in the global e-cigarette scene.** China is the biggest market for tobacco products in the world and also the major manufacturer of vaping hardware globally. While this could hurt the short term prospects of some local companies, it likely improves the long-term trajectory of the category. It is not surprising that leading Chinese e-cigarette manufacturers have welcomed the step.

Philip Morris International (PMI) met with the FDA in the **US** to present its argument for why the tobacco giant and Altria should be allowed to import and sell IQOS heated tobacco in the market. The **US** Trade Representative will make a recommendation to President Joe Biden after listening to input from a number of agencies, including the FDA. The company's argument to keep selling IQOS includes the public health benefit of the device.

According to experts, in the worst case scenario for Altria and PMI, the two companies would have to go back to the drawing board, moving production to the **US** or changing up the design enough to avoid patent infringement claims.

Later in November, the **US** Trade Representative has upheld the International Trade Commission's (ITC) PMI's IQOS tobacco heating device infringes on patents held by BAT. As a result of the ITC ruling, Philip Morris USA (Altria) is barred from importing PMI's IQOS 2.4, IQOS 3, IQOS 3 Duo heat-not-burn products. It also was ordered to halt future sales of Marlboro HeatSticks already in the **US**. Altria will likely appeal to the US Court of Appeals for the Federal Circuit, which handles patent lawsuits. That process could take up to a year to reach a decision, with the likelihood of a successful appeal not favourable.



Imperial Brands reported its full year results statement for the period ending 30 September 2021:

- Revenue is up 0.7% to GBP 32,791 million, while operating profit is up 15.2% to GBP 3,146 million.
- In organic adjusted terms, which excludes the contributions from the divested Premium Cigar Division, Revenue is down -1.9%, while operating profit is up 2.1%.

According to company officials, the five-year plan to transform Imperial is divided into two distinct periods: “The year ahead will complete the two-year strengthening phase, with further investment in our five priority markets and NGP pilots, the embedding of new ways of working and cost-saving initiatives. This period builds the foundations for the subsequent three-year phase, which focuses on the acceleration of returns and sustainable growth in shareholder value.”

Dutch researchers are calling on the government to substantially increase local tobacco taxes to successfully encourage smokers to quit. Their study found that half of **Dutch** smokers surveyed would only quit if cigarettes cost EUR 60.00 per pack, while 10% would quit if cigarettes cost at least EUR 12.00 per pack. Cigarettes in the **Netherlands** currently cost on average EUR 8.20 per pack and this is scheduled to rise to EUR 10.00 by 2023. The current smoking prevalence in the **Netherlands** is 22%, with the government aiming to bring levels down to 5% by 2040. This is in line with smokefree targets in a number of other developed markets around the world.

Eurostat released the latest statistics related to tobacco use in the **EU**. According to the study, the average of daily smokers for the region stood at 18.4%. About 5.9% of **EU** citizens smoked more than 20 cigarettes a day. Across the **EU** Member States, the countries with the largest shares of daily cigarette smokers were **Bulgaria** (28.7%), **Greece** (23.6%), **Latvia** (22.1%), **Germany** (21.9%) and **Croatia** (21.8%). Alternatively, the countries with the smallest shares of daily smokers were **Sweden** (6.4%), **Finland** (9.9%), **Luxembourg** (10.5%), **Portugal** (11.5%), and **Denmark** (11.7%).



SUSTAIN- ABILITY

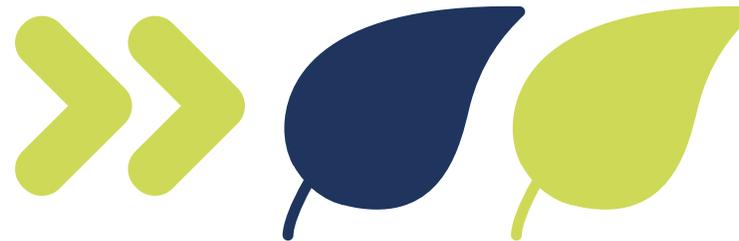
Germany is likely to become the first European country to legalise cannabis and authorise its sale for recreational purposes, as a result of a coalition agreement for a new government. According to a recent study, legalising cannabis could bring Germany annual tax revenues and cost savings of about EUR 4.7 billion (USD 5.3 billion) and create 27,000 new jobs.

According to Euromonitor International, the global cannabis sector that consists of Adult-Use, Medicinal and CBD products, could be valued at over USD 90 billion by 2026.

PMI announced its plans to dedicate a further USD 200 million to investments in early and growth-stage companies through PM Equity Partner (PMEP), PMI's corporate venture capital arm. This allocation follows a 2016 commitment of USD 150 million that PMEP has since invested and is intended to support PMI's smoke-free and beyond nicotine ambitions. PMEP is focusing on four distinct segments: Life science innovations, such as inhaled therapeutics. Industrial technologies like industrial robotics and automation, the internet of things, and technology-based process optimization. Product technologies, particularly those that relate to inhalation and aerosolization, chemical formulation, and bio-authentication. Consumer engagement technologies, such as user identification and age authentication, innovative customer care, and experience management.



Essentra Filters, a major filter manufacturer for the industry, has launched a new product - ECO Active Filter, the latest item in its proprietary range of sustainable filters. Developed as an alternative to active carbon acetate filters, ECO Active is plastic-free and 100% biodegradable. **This goes in line with the global regulatory push to limit cigarette butts pollution and reduce plastic waste to more manageable levels.**





According to recent reports, **Australian** scientists are training oyster mushrooms to “eat” tobacco butts. The process involves breaking down their microplastics and creating a reusable product. Expert studies have found out that about 4.5 trillion cigarette butts are tossed away as litter worldwide every year. In Australia, each year 8 billion butts are discarded into the environment— about a third of the total number of cigarettes consumed.

Continental Tobaccos Alliance (CTA), a large **Brazilian** tobacco exporter, has been charged with using slave labour in the country’s first government action against a tobacco company for conditions on a farm. Nine workers, of whom five were children aged from nine to 16, were rescued from a farm in **Venancio Aires** in the southern state of **Rio Grande do Sul** that had an exclusive contract with the company. CTA argued it was not responsible for the workers but it had a contract with the farm owner who was responsible for hiring. If found guilty of using slave labour after a government review, CTA could be added to Brazil’s “dirty list” of companies that have engaged in slave labour. Companies remain on the list for two years and are barred during that period from receiving state loans. The list is also used by international buyers.

The Growing Up Right Institute received the **Brazilian** Child-Friendly Award, which is promoted by the Ministry of Women, Family and Human Rights (MMFDH), through the National Secretariat for the Rights of Children and Adolescents (SNDCA). The practice “Professional Learning as an alternative of the fight against child labor in the rural area” came in the first place in the category Promotion of the Rights of Children and Adolescents, with a grade 80, the highest among all the participants of the seven categories of the announcement.

You can read more about the Institute in ITGA’s latest Tobacco Courier magazine, dedicated to Child Labour elimination initiatives.



SOURCES





International Tobacco Growers' Association

Thank you!