



Tobacco Monitor

AN UPDATE ON THE MOST RECENT EVENTS AND FORECASTS

MARCH 2022

WAR IN UKRAINE

- In addition to the terrible humanitarian crisis that is currently taking place in **Ukraine**, the long term agricultural implications of the war will bring significant additional burden on the general population in the region and beyond.
- **Ukraine** and **Russia** account for almost a third of global wheat exports, which creates worries related to food shortages and skyrocketing commodity prices in the foreseeable future. Experts have already noted that **Africa** is particularly vulnerable.
- Philip Morris International (PMI), Imperial Brands and Japan Tobacco International (JTI) have temporarily suspended operations in **Ukraine**, while the EU has halted tobacco exports from **Belarus**.

ITGA will continue monitoring the situation and provide updates to its Members.

CROP MONITOR

The decentralization of the tobacco auction system in **Zimbabwe** is becoming a permanent feature of the sector. Decentralized sales started in 2021, with floors opening in **Marondera, Rusape, Karoi, Bindura** and **Mvurwi**. The Tobacco Industry and Marketing Board (TIMB) stated that decentralization of sales would continue in 2022 because it brought convenience and reduced transport cost to farmers who sold their production at the nearest town. During the 2021-2022 summer cropping season, **Zimbabwean** farmers put just over 105,000 ha of land under tobacco, slightly down from 106,494 ha last year.

In addition, TIMB has licensed 33 buyers and 31 contractors for the 2022 marketing season. According to the **Zimbabwe** Tobacco Association (ZTA), most farmers with an irrigated crop have finished reaping, and some have started grading their leaf. TIMB has also revealed the opening dates for auction and contract floors for the 2022 season- 30 March and 31 March, respectively. During the 2022 season, growers will retain 75% of their earnings in hard currency, up from 60% last season.

An indigenous tobacco contracting company, Voedsel, will set up a multi-million-dollar tobacco processing plant in **Rusape, Zimbabwe**, in a move that is set to promote value addition of the sector. This goes in line with the Tobacco Value Chain Transformation Plan promoted by the government.

The Tobacco Commission in **Malawi** registered a profit of MKW 325 million (around USD 400,000) in 2021, allowing it to recover from previous financial losses. Last year, the entity registered a net loss from its operations. The Tobacco Commission said it strengthened its regulatory framework, enhanced tobacco production and marketing integrity, improved stakeholder understanding of the commission's mandate and roles, improved financial sustainability and bolstered institutional capacity.

This year, the marketing season in **Malawi** will open in March, well ahead of the timing of previous seasons.





ExpoAgro, the largest fair in **Brazil** dedicated to family farming, organized by the Tobacco Growers' Association of Brazil (Afubra) will be held from 23 to 26 March in **Rio Padre, Rio Grande do Sul**. In 2021, the event was postponed due to Covid-19. Every year, the team of Afubra and partner entities do their best to develop a technical program that meets the needs of the farmers, whilst keeping them informed about the novelties of the agricultural sector through practices that comprise management, field demonstrations, exhibitions and information on thematic areas. One of the novelties in 2022 will be an Agro Innovation Space focusing on new technologies.

The Cayman Cigar Company has produced its first cigars using tobacco grown and hand-rolled in the **Cayman Islands**.

The President of the **Dominican Republic** highlighted that Dominican tobacco and cigars are the “star” products of the country’s productive sector. In 2021, total exports reached USD 1,236 million. An unprecedented figure that marks a historical peak in the last 10 years and that reflects a year-on-year growth of 32% and 30% compared to 2020 and 2019, respectively. The President pointed out that the attention that the government has paid to the needs of the tobacco sector and the coordination between the Ministry of Agriculture, the Agricultural Bank and the Tobacco Institute play a key role in achieving these results. Tobacco accounts for 17% of all exports from free zones and generates close to 6% of the country’s total foreign exchange. In the last year, the generation of jobs in free zones has been higher than in the tourism sector.

The Undersecretary of Tobacco of **Misiones, Argentina** provided details of the negotiations that are taking place to fix the price of tobacco in the province. Producers have demanded a price increase of over 70%. Drought and inflation in **Argentina** as well as bad weather in **Brazil** are playing their part in the dynamic.

Tobacco farmers in the **Ilocos** Region, the **Philippines** have urged local governments to provide immediate support for affected farmers after off-season rain flooded tobacco farms in **Ilocos Sur, Ilocos Norte, La Union, and Abra**. This year’s crisis is a repeat of a previous incident in January 2021. According to the National Tobacco Administration, farmers production incurred considerable damage.



REGULA- TIONS

The **EU** Parliament has adopted, by a margin of 652 votes to 15, a report on Cancer prevention and Treatment that recognizes the potential contribution of vapor products to smoking cessation. Nevertheless, the report also underlines the need for further research on vaping. The role of flavours, and their potential ban, is also being discussed- something that could be included in the next revision of the EU Tobacco Products Directive.

The **European** Commission has proposed a law that would hold large companies operating in the EU accountable for environmental violations or human rights abuses committed by businesses in their supply chains. Under the legislation, businesses would need to establish mechanisms to detect, prevent and mitigate breaches of human rights, such as child labor, as well as environmental hazards in their supply chains. National governments would define the financial penalties for violators.

The **Swiss** referendum regarding the measure to limit tobacco advertising seen by minors was held in mid-February. 56.6% of the voters supported the initiative: "Yes to the protection of children against tobacco advertising". A majority of the country's 26 cantons also backed the proposal, allowing it to pass. People living in French- and Italian-speaking cantons and urban areas supported the call for tighter advertising restrictions. A number of German-speaking cantons from central and eastern **Switzerland** were against it.

Smoking in cars with children in **Northern Ireland** is now illegal. It is already illegal to smoke on public transport or to smoke in work vehicles used by more than one person.

The **Israeli** Parliament has approved an amended version of the country's tax bill related to e-cigarettes and e-liquids. The new tax rate is: 270% of the wholesale cost, plus 8.16 NIS per milliliter, with a minimum total tax on all products equivalent to 15.6 NIS/ml (1 NIS=USD 0.32). In fact, this change brings the rate down but vaping activists still think it will create major barriers for manufacturers.



Altria announced that an Administrative Law Judge (ALJ) dismissed the Federal Trade Commission's (FTC) claims against Altria and JUUL Labs arising out of Altria's 2018 minority investment in JUUL. Following a three-week trial, the ALJ found that the evidence failed to sustain the alleged violations. In April 2020, the FTC issued an administrative complaint against Altria and JUUL alleging that Altria's 35% investment in JUUL and the associated agreements constitute an unreasonable restraint of trade and substantially lessened competition in violation of the Antitrust Act.

California could ban single-use cigarette filters, e-cigarettes and vape products through a new bill that is now under review. There is no target date for when the ban would take effect. A similar measure is being proposed in the **New York** Legislature.

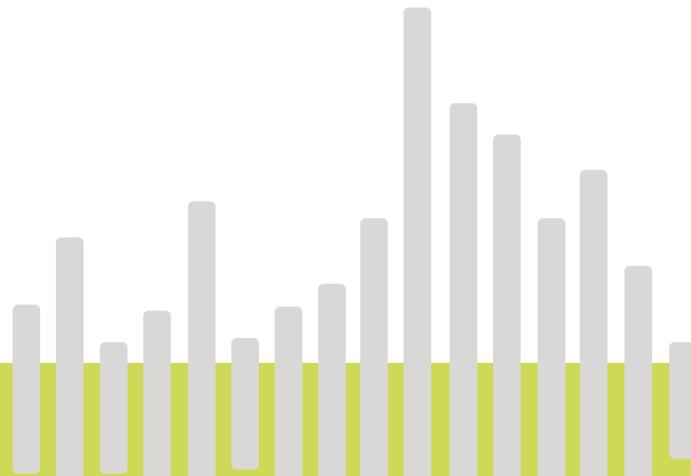
The **US** Senate confirmed Dr. Robert Califf as the Food and Drug Administration (FDA) Chief in a close vote. The 50-46 decision revealed significant divisions over the agency's policies on opioids and abortion medications and Califf's ties to the drug industry. Notably, the new FDA Chief has been antagonistic toward vaping as a consumer product.

In addition, the **US** FDA has postponed the effective date of its pictorial health warning rules to 9 April, 2023, which marks yet another delay in the process.

Mexico introduced a new tobacco control law that includes bans on tobacco advertising, promotion and sponsorship, alongside restrictions on public smoking. Use of e-cigarettes and heated tobacco products will also be prohibited in indoor public places.

The **South African** government announced it will propose a new tax on vaping products that will take effect in 2023. The suggested tax rate would be "at least" ZAR 2.90 (around USD 0.19) per milliliter. It would apply to all e-liquid, with or without nicotine.

A five-year action plan aimed at curbing tobacco consumption and reducing the harm caused by smoking has been approved by the government of **Thailand**. It includes expanding the capacity of state agencies to control domestic consumption, reduction of new smokers and enhanced public awareness of tobacco advertising, creating community networks to provide assistance for those addicted to tobacco, full disclosure of tobacco product contents, ban smoking in public areas and workplaces. The budget is THB 498 million (around USD 15 million).



INDUSTRY UPDATES

PMI announced its full-year 2021 results:

- Net revenues are up by 9.4%; or up 6.7% exc. currency and acquisitions.
- Operating income is up by 11.2%; or up 8.9%, exc. currency and acquisitions.

Estimated international industry cigarette and heated tobacco unit volume, excluding **China** and the **US**, of 2.6 trillion, increased by 2.4%, driven by the **EU, Middle East & Africa, South & Southeast Asia** and **Americas** regions, partly offset by the Eastern **Europe** and **East Asia & Australia** regions. The increase in PMI's heated tobacco unit shipment volume was mainly driven by the **EU** (notably **Italy**), **Eastern Europe** (notably **Russia** and **Ukraine**) and **Japan**.

PMI plans to manufacture IQOS in the **US** to get its tobacco-heating device back on the market. The company has not specified where it will be manufacturing but said it plans to sell IQOS in the **US** in the first half of 2023.

British American Tobacco (BAT) released its preliminary 2021 results:

- Adjusted Revenue is up by 6.9% led by pricing and New Category growth.
- Adjusted Profit is up 5.2% including a negative transactional FX impact.

New Categories revenue is up 51% to GBP 2,178 million. Non-combustible consumers increased by 4.8 million to reach 18.3 million.

KT&G released its full year 2021 results:

- Revenue is up 1.6%, while operating profit is up 19.8%.

In **South Korea**, the company sold 41.1 billion sticks, 1.3% decrease, due to shift of consumer demand toward heated tobacco. Internationally, KT&G sold 38.8 billion sticks, a 7.4% decrease, due to decline in demand in the **Middle East** and logistics restrictions in **Asia Pacific**.

JTI released its full year 2021 results:

- Revenue increased by 11.1% to JPY 2,324.8 billion.
- Adjusted operating profit increased by 25.4% to JPY 610.4 billion.

Total international shipment volume increased by 5.6%, driven by market share gains and favorable industry volume comparisons in several markets, notably in the first half, due to travel restrictions and lower illicit trade volume. In **Japan**, combustible sales volume decreased by 10.0% due to industry volume contraction and a loss in combustible market share.

Swedish Match released its 2021 full year report:

- Reported sales increased by 11% to 18,489 MSEK.
- Reported operating profit from product segments increased by 14% to 8,136 MSEK.

The company announced “impressive” performance for the Smokefree product segment with strong growth in both the **US** and **Scandinavia**. Growing demand for natural leaf cigars drove the robust full year local currency financial performance for the Cigars product segment.

Universal released its nine month results ending 31 December 2021:

- Sales and other operating revenue is up 7% to USD 1,456.6 million.
- Operating income is up 21% to USD 103.2 million.
- Tobacco Operations sales and other operating revenue is down 1% to USD 1,268.6 million.
- Tobacco Operations operating income is down 2% to USD 105.6 million.

Tobacco Operations segment results declined largely due to tobacco shipment timing, partially offset by a favorable product mix consisting of a higher percentage of lamina tobacco as well as increased value-added services to customers. **Africa** sales volumes were lower on smaller burley crops as well as slower shipment timing.

In **Asia**, although trading volumes were down on high freight costs, operations saw a more favorable product mix, as well as increased value-added services for customers. Operations in **Europe** experienced higher energy costs.

Pyxus announced its result for the quarter ended on 31 December 2021:

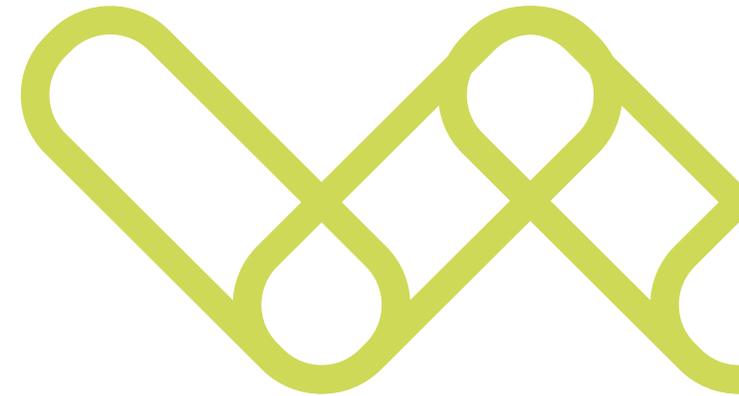
- Sales increased USD 49.3 million, or 13.0%, to USD 428.9 million.

The increase was due to a 18.7% increase in leaf volume from USD 17.5 million of shipments in **Africa** that were delayed by the COVID-19 pandemic and customer shipping instructions from fiscal 2021 into the current quarter, larger crop sizes in **Africa**, and timing of shipments.

- Gross profit increased USD 2.7 million, or 4.3%, to USD 65.2 million.

Pyxus has completed the sale of assets of FIGR Norfolk, the final step in the company's strategic decision to exit its cash flow negative cannabinoid operations. In addition, the company is no longer involved in activities related to industrial hemp or CBD.

The **Indian** conglomerate ITC, one of the biggest tobacco manufacturers in the world, released its Q3 results. The company reported robust broad-based recovery in Cigarettes. Net segment revenue is up 13.6% aided by increase in mobility, agile supply chain and market servicing. Recent launches include differentiated offerings anchored on the vectors of filters, variants and packaging formats. Wide availability of smuggled cigarettes continues despite strong deterrent actions by enforcement agencies.



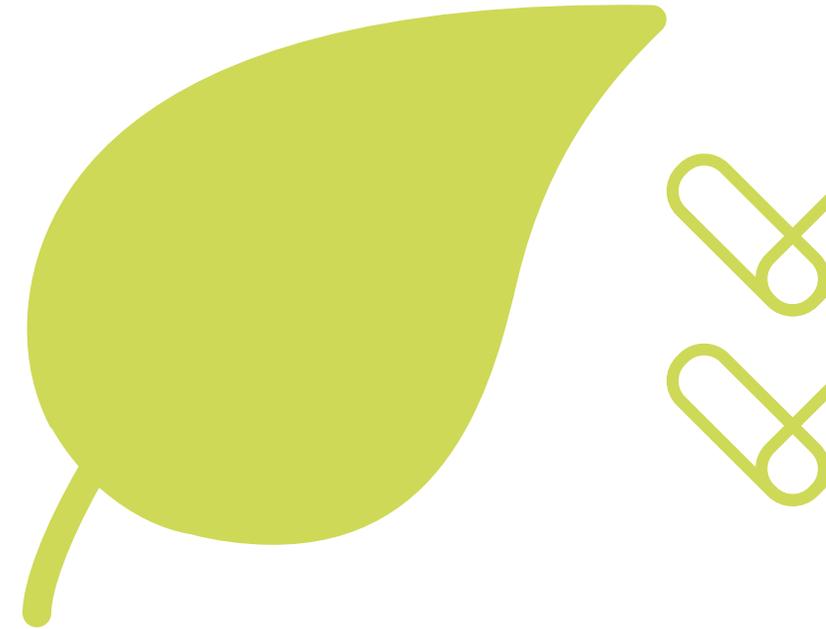
SUSTAIN- ABILITY

A **Swedish** company is using crows to pick up cigarette butts from the streets of a city near Stockholm. The founder of Corvid Cleaning, the company behind the method, estimates that his approach could save at least 75% of the costs associated with picking up cigarette butts in the city. More than 1 billion cigarette butts are left on **Sweden's** streets each year, representing 62% of all litter.

The focus on cigarette butts pollution is a clear trend for the industry and will remain in the spotlight for the foreseeable future.

The UN Environment Program (UNEP) and the Secretariat of the World Health Organization Framework Convention on Tobacco Control (WHO FCTC) will launch a social media campaign to raise awareness about the environmental and health impacts of microplastics in cigarette butts. The partnership is facilitated through UNEP's Clean Seas campaign, a **global** coalition comprised of 63 countries devoted to ending marine plastic pollution. Globally, more than six trillion cigarettes are produced annually, each containing filters, or butts, that are mainly composed of microplastics known as cellulose acetate fibres. Cigarette butts account for more than 766 million kg of toxic trash each year. They are also the most common plastic litter on beaches, making marine ecosystems more susceptible to microplastic leakages.

Medicago, a **Canadian** biopharmaceutical company backed by PMI, and GlaxoSmithKline announced that Health Canada has granted approval for COVIFENZ, COVID-19 vaccine. This vaccine is indicated for active immunization to prevent coronavirus disease 2019 caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) in individuals 18 to 64 years of age. COVIFENZ is not currently approved or authorized for the prevention of COVID-19 or any other indication anywhere other than **Canada.**





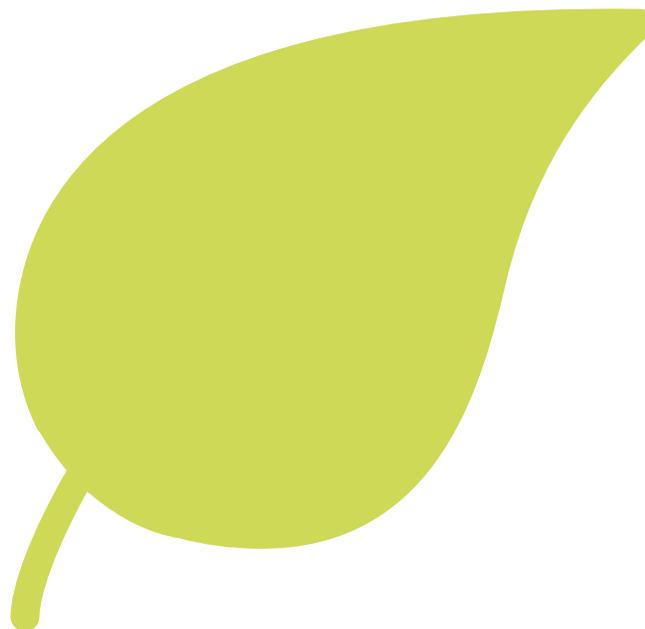
JTI announced an upward revision of its sustainability targets embedded in the 'JT Group Environment Plan 2030', as well as determination to achieve Net-Zero Greenhouse Gas emissions across the entire value chain by 2050.

"We believe, under the new operating model, all these measures will further strengthen our business foundation towards sustainable growth and help us build a more agile and consumer-centric organization."

BAT appointed Senthil Vel as its new chief medical officer. According to the company, Dr Vel will play a central role in BAT's extensive research and development programmes, which supports the company's commitment to reducing the health impact of its business by offering consumers a range of alternative reduced risk tobacco and nicotine products. He will be responsible for overall medical governance, ensuring robust medical processes and best practice are applied to all aspects of BAT's work.

Philter Labs, the company that launched the first and only technology-enabled personal microfilters to eliminate 97% of airborne contaminants and secondhand smoke and smell, announced Btomorrow Ventures, the venture arm of BAT, has exercised its option to make a follow-on investment into Philter Labs, after leading the round for the Preferred Series A.

Philter Labs is the leader in micro-filtration for the cannabis and nicotine markets with its patented Particulate Capture Technologies for standalone handheld filters and next generation vaping devices that removes particulates, airborne contaminants, and odor from secondhand smoke and exhalant.



SOURCES





International Tobacco Growers' Association

Thank you!