



Tobacco Monitor

AN UPDATE ON THE MOST RECENT EVENTS AND FORECASTS

JUNE 2022

CROP MONITOR

The **Brazilian** Tobacco Growers Association (Afubra) presented a preliminary assessment of the **Brazilian** tobacco crop for the 2021/2022 season. Marketing surveys indicated a 43% yearly increase in the price paid for Virginia (BRL 10.54 to BRL 15.09)/(USD 2.13 to USD 3.04) and 35% for Burley (BRL 10.02 to BRL 13.48)/(USD 2.02 to USD 2.72). This season, companies are paying more than USD 3.00 per kg of Virginia, and there is a strong competition to purchase the remaining stocks. By the end of April, on average in the three southern states of **Brazil**, 73% of the Virginia, 93% of Burley and 92% of Comum tobacco were sold. Increasing costs of energy, fuel, imported fertilizers, local logistics and labor are significantly affecting the cost of tobacco. These also impact the export prices for 2022.

Tobacco cumulative sales figures up to 27 May in **Malawi** show the following dynamic:

- Burley: 19.9 million kg sold leading to proceeds of USD 38.6 million. Average price is USD 1.94 per kg.
- FCV: 3.9 million kg sold leading to proceeds of USD 10.4 million. Average price is USD 2.67 per kg.
- Dark Fired: 0.04 million kg sold leading to proceeds of USD 0.08 million. Average price is USD 2.03 per kg.
- Total: 23.8 million kg sold leading to proceeds of USD 49 million. Average price is USD 2.06 per kg.

The increase in the daily sales of burley on **Lilongwe, Malawi** floors combined with better prices had resulted in higher earnings in the last week of May. Weekly figures show that 6.8 million kg of burley were sold at an average price of USD 2.02 per kg, generating USD 13.7 million, which represents a 73% increase in weekly burley sales revenue.

In terms of total sales, the current figures should be compared to last year's results during the same time: 67.9 million kg sold at average price of USD 1.64, leading to proceeds of USD 111.6 million.



By the end of May, farmers in **Zimbabwe** have sold 102.3 million kg of tobacco worth USD 305.2 million. This is 17% less than in the comparable period last year, as reported by the Tobacco Industry and Marketing Board (TIMB). Of these, 95.3 million kg were sold through the contract system while the rest was traded at auctions. The average price in the current season has been USD 2.98 per kg, up 10.5% on a yearly basis. The tobacco being sold this year was grown under challenging weather conditions, characterized by late and erratic rains. Industry officials expect the country's farmers to harvest 210 million kg of tobacco this year, down from 250 million kg harvested in 2021.

Meanwhile, the number of new tobacco growers in **Zimbabwe** for the 2021/2022 season has declined by 50% compared to the previous year. TIMB's chief executive explained the situation: "The decline witnessed in terms of registration of new tobacco growers can be attributed to viability issues. The cost of production is going up and the growing demand of the US dollar component in the operations. Even farm laborers now demand payment in foreign currency. So without development funding, it becomes a challenge for new tobacco farmers to register."

In addition, TIMB has released a statement to say that all farmers must be paid within two days after delivering their crops to auction.

British American Tobacco (BAT) **Kenya** paid contracted tobacco farmers KES 1.2 billion (USD 10.3 million) last year, a reduction of almost 15% from KES 1.4 billion they received in 2021. According to BAT **Kenya**, growers supplied 7.2 million kg of leaf tobacco in 2021 compared to 8.3 million kg in the previous year. BAT provides farmers upfront loans for inputs equal to 30% of potential gross income, and those who fail to meet their obligations are not given a contract for the following year. Some farmers may also have switched to other tobacco producers or crops during the year, which would explain the drop in income and leaf deliveries. Nevertheless, the company recorded an 18% increase in net profit to KES 6.5 billion for 2021, driven by higher revenues and lower costs.



REGULATIONS

The **US** Food and Drug Administration (FDA) is currently accepting comments regarding the proposed rules prohibiting menthol cigarettes and characterizing flavors in cigars. The public has the chance to provide comments until 5 July. Predictably, the proposed rules have resulted in mixed reactions from key industry and public stakeholders. The agency has also submitted a status report for products that currently have a premarket tobacco product application under review. The FDA states that it expects to have resolved 63% of the applications set out in its original priority by June 30, 2022, and 72% of the applications in its original priority set by the end of the year.

Meanwhile, the effective date to introduce pictorial health warnings for tobacco products in the **US** was postponed again. The new date of the rule is 8 July 2023. The regulation was supposed to be implemented back in 2021.

Australia could increase the minimum age to purchase cigarettes. This is part of a recommendations package for the 2022-2030 national tobacco strategy. At the moment, the age limit is 18 years. The new policy development comes as a national survey, conducted by the Cancer Council, that revealed most **Australians** would support a policy that stops retailers from selling cigarettes completely. **Australia** is already home to the most expensive cigarettes in the world, with a typical 20-pack costing CAD 40 (USD 16). That means those who smoke a pack a day will be spending about CAD 12,500 (USD 9,950) a year - more than any other country in the world. Neighboring **New Zealand** is also one of the most progressive countries when it comes to limiting the industry through regulations.

Synthetic nicotine, and nicotine-free e-liquids, will be banned in **China** from 1 October, when the country's standard for e-cigarettes takes effect. That is likely to have a significant impact on the global availability of certain products, given the central role of the country in the global supply chain for the emerging categories.

Kazakhstan is raising taxes on cigarettes and heated tobacco products next year. By 2024, cigarette excise taxes should be no lower than EUR 28 (USD 30).



According to the **Bangkok, Thailand** Metropolitan Administration, the city will implement its first-ever tobacco tax. The new structure will tax each cigarette up to THB 0.10 (USD 0.003) per stick. The tax, known as “Tobacco Tax for Local Maintenance” is intended to help limit consumption of tobacco. The tax money will be used “for maintenance of Bangkok city”. Other locations in Thailand have been collecting taxes on tobacco products since 2003, but Bangkok has never implemented such a tax, despite efforts by various politicians and anti-smoking activists. Previous attempts to amend the act in 2016, 2017 and 2020 were struck down because they targeted too many sectors.

Approximately 40 members of parliament have adopted a declaration to achieve tobacco-free **Bangladesh** by 2040. Local officials noted the progress of **Bangladesh** in tobacco control, through the Smoking and Using of Tobacco Products (Control) Act 2005, as amended in 2013, and the Smoking and Tobacco Products Usage (Control) Rules 2006 and 2015, which led to a reduction in overall adult smoking rates from 43.3% in 2009 to 35.3% in 2017.

Going tobacco-free or smoke-free, which means achieving smoking prevalence levels below 5%, is becoming a national target for an increasing number of markets.

A stricter revised Tobacco Act took effect on 1 May as part of a long-term strategy to take **Finland** off smoking. The legislative change is particularly aimed at protecting young children from the harmful effects of second-hand smoke. It is also intended to reduce littering and environmental damage related to smoking, which is quickly becoming another frontier in tobacco control. The revised act also bans tobacco flavoring products. These include flavor cards that can be put inside a cigarette pack to add tastes. Plain packaging will enter into effect in May 2023.



INDUSTRY UPDATES

Philip Morris International (PMI) held its 2022 Annual Meeting of Shareholders. The company's CEO noted that **global** performance in 2021 was excellent, while 2022 started strong. Key topics discussed included: robust business fundamentals and rapid progress on its smoke-free transformation; investments in wellness and healthcare to drive long-term growth; continued progress on sustainability. PMI has also briefed shareholders about efforts to support its employees, their families and others impacted by the war in **Ukraine**.

PMI is taking over Swedish Match in a deal worth USD 16 billion. This will allow PMI to create a comprehensive smoke-free product portfolio globally, underpinned by a leading R&D engine for science, innovation, and growth through the companies' complementary capabilities; directly enter and compete in the large, attractive and growing US smoke-free market by: (i) further supporting and developing Swedish Match's oral nicotine portfolio in the **US** and (ii) leveraging Swedish Match's substantial operational platform in the **US** to unlock commercial opportunities across other smoke-free categories in the coming years; and drive accelerated **global** expansion opportunities for Swedish Match's oral nicotine products through PMI's **international** commercial infrastructure and financial resources.

ITC, one of the biggest **global** manufacturers based in **India**, released its fiscal year results. Revenues of INR 591.01 billion (USD 7.6 billion) are up 22.7% over the previous fiscal year. ITC's cigarette business progressively recovered on the back of improved mobility and easing of restrictions, surpassing pre-pandemic levels in the latter half of the year. ITC reports that the cigarette business continues to counter illicit trade and reinforce market standing by fortifying the product portfolio through innovation, democratizing premiumization across segments and enhancing product availability backed by superior on-ground execution.



KT&G revenue and operating profit registered double-digit growth in Q1 2022. Revenue went up by 11.5% to KRW 844.8 billion (USD 673 million), while operating profit went up by 10% to KRW 272.6 billion (USD 217 million). Company officials noted: "Our sales expansion of heated tobacco products in both **domestic** and **overseas** markets, along with increasing export volume of our traditional tobacco products, led to the growth of the company's total revenue". KT&G sold about 9.54 billion cigarettes in **South Korea** in the first quarter of this year. The figure represents a 0.9% decrease on a yearly basis. However, its market share increased by 1.2 percentage points to 65.7%. KT&G's **overseas** sales volume of regular cigarettes skyrocketed by 43.8% to sell 11.5 billion, thanks to the export recovery in the **Middle East** and **Asia Pacific** region.

BAT launched its heated tobacco product glo in **Cyprus**. The company is focused on developing a multi-product portfolio to position itself better for the future.

Aspire Global, a major **Chinese**-based e-cigarette manufacturer that recently branched out into cannabis vaping, has applied to **US** regulators to pull out of a proposed listing that would have raised USD 135 million as tighter rules at home make fundraising more difficult. This is a result of the local government which has clamped down on the growth of vaping companies, mandating pre-approval for IPOs and restricting foreign investment. More than half of the company sales come from **Europe**, with **China** coming second and the **US** third.



The Cigar Association of **America** (CAA), an industry trade group, has released its first report on cigar imports for 2022 and the year is starting off on a positive. CAA estimates that 21.4 million premium cigars were imported to the **US**, an increase of 3.8% compared to the 20.6 million premium cigars the group estimated for January 2021. The increase is led by two countries: **Nicaragua** imported 14.725 million premium cigars, up from 12.345 million in 2021, and **Honduras** increased its output to the US from 2.418 million to 3.212 million. The **Dominican Republic's** exports to the **US** decreased by more than 40%. CAA says 3.319 million **Dominican** premium cigars were imported in January 2022, down from 5.56 million in 2021.

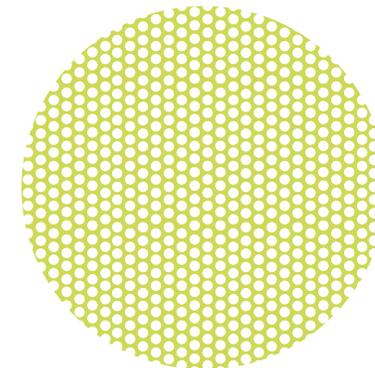
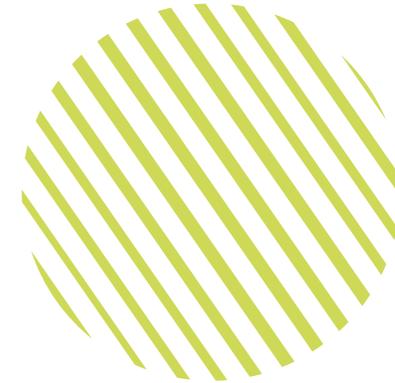
SUSTAIN- ABILITY

The **World** Health Organization (WHO) is urging governments **worldwide** to ban tobacco industry “greenwashing” - the touting of sustainability credentials as a way to distract from the health and environmental impacts of smoking. The agency underlines the ecological impact of tobacco and nicotine products. The authors urge organizations to avoid partnerships with cigarette companies engaged in environmental activities that could promote the industry as an environmental partner.

The environmental, social, governance (ESG) field will likely be a new battleground for companies and regulators in the immediate future.

PMI released its third annual Integrated Report, which includes an updated Statement of Purpose, a new ESG framework, as well as detailed information about PMI’s strategic vision, performance, governance, and value creation model. The content was informed by a formal sustainability materiality assessment conducted in 2021. PMI recognized two distinct topic areas: those related to PMI’s products and those related to its business operations. This distinction forms the basis of PMI’s new approach to sustainability, which consists of eight impact-driven strategies that aim to address its most material ESG topics. These eight strategies - four aimed to address the impact of PMI’s products and four aimed to address the company’s operational impact - are accompanied by a framework of nine governance-related factors.

PMI also announced that it has reached its **global** company-wide target to improve gender balance, ensuring at least 40% female representation in managerial roles by 2022. The new target - 35% of women in senior roles by 2025 - demonstrates the company’s desire to continuously improve gender representation.

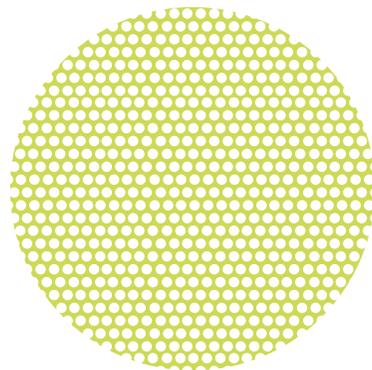


JTI Leaf **Malawi** Limited says it will stop buying tobacco from farmers who will not be curing their tobacco leaf in live barns by 2025. JTI Leaf is promoting the use of live barns to reduce reliance on natural woodlands for construction materials and carbon emissions in the tobacco production chain. Tobacco remains **Malawi's** main foreign exchange earner, bringing in 60% of the country's foreign exchange earnings and contributing about 13% to the overall economy.

22nd Century Group, a leading agricultural biotechnology company focusing on reduced nicotine tobacco, hemp/cannabis, and hops advanced plant technology, announced the acquisition of the privately held GVB Biopharma. As a contract development and manufacturing organization, GVB is believed to be one of the largest providers of hemp-derived active ingredients for the pharmaceutical and consumer goods industries **worldwide** based on total tonnage. GVB operates three **US** manufacturing facilities in **Oregon** and **Nevada**, including a 30,000-square-foot hemp ingredient manufacturing facility in **Central Oregon**, a 40,000 square-foot white-label, finished product manufacturing facility in **Las Vegas**, and an industrial-scale hemp extraction facility in **Prineville, Oregon**.

In May, ITGA paid a tribute to women in tobacco growing by making women a focus point in the latest Tobacco Courier magazine. If you want to read more about struggles and hopes of women from multiple tobacco growing markets, please download a copy of the magazine from your membership account, or get in touch with our team for more information: itga@tobaccoleaf.org.

We have also raised awareness on social media regarding popular myths and facts about tobacco growing. Follow us @TobaccoGrowers on Twitter for regular updates.



SOURCES





International Tobacco Growers' Association

Thank you!