



Tobacco Monitor

AN UPDATE ON THE MOST RECENT EVENTS AND FORECASTS

JULY 2022

CROP MONITOR

Tobacco cumulative sales figures up to 24 June in **Malawi** show the following crop dynamic:

- Burley: 51.8 million kg sold leading to proceeds of USD 103.7 million. Average price is USD 2.00 per kg.
- FCV: 7.9 million kg sold leading to proceeds of USD 20.8 million. Average price is USD 2.65 per kg.
- Dark Fired: 1.5 million kg sold leading to proceeds of USD 2.9 million. Average price is USD 2.03 per kg.
- Total: 61.2 million kg sold leading to proceeds of USD 127.4 million. Average price is USD 2.08 per kg.



The sales volumes of all tobacco types in **Malawi** has consistently been on decline this year as opposed to the same period in 2021. As a comparison, the total sold quantities for the equivalent period last year was:

- 102 million kg, which raked USD 167.7 million.

Nevertheless, the pricing development is positive as 2021 average price during the same period was USD 1.64 per kg. This season, prices for Burley are firm and considered stable.



The latest tobacco production figures from the Tobacco Marketing and Industry Board (TIMB) in **Zimbabwe** show the following statistics as of the end of June 2022:

- Year to date sold quantity:
168,8 million kg
- Average price:
USD 3.02 per kg

TIMB has also undergone a rebranding of its corporate image, which is now available on the Board's official website.

The Research and Statistics Department of the Tobacco Growers Association of **Brazil** (Afubra) has provided the latest 2021/2022 season average values for the crop in the country:

- FCV: BRL 17.46 (USD 3.27);
BRL 10.54 (USD 1.97) in 2020/2021 or
66% yearly growth
- Burley: BRL 15.97 (USD 2.99);
BRL 10.02 (USD 1.88) in 2020/2021 or
59% yearly growth

The Tobacco Authority of **Thailand** (TOAT), one of the biggest tobacco manufacturers in the world, plans to rent out its land plots in prime areas in **Bangkok** and the provinces, aiming to increase revenue. The authority's acting governor said TOAT wants to auction off three plots this year. The rental period is for 30 years. TOAT expects earn at least THB 1.3 billion (USD 36.9 million) from such leases. The authority has 6,000 rai (approximately 960 ha) of plots across the country, of which 2,000 rai can be rented out as most have been leased to tobacco farmers to plant tobacco.



REGULA-TIONS

US is moving forward on a plan to mandate the elimination of nearly all nicotine in cigarettes, a policy that would completely shake the USD 95 billion cigarette industry and, health officials say, prompt millions of people to quit smoking. However, implementation is likely still many years away. The Food and Drug Administration (FDA) plans to publish a proposed rule in May 2023, after which it would invite public comments before publishing a final rule. Tobacco companies could then sue. **New Zealand** has also proposed a reduction of nicotine in cigarettes to very low levels as part of a broader plan to curb smoking. The **Los Angeles** City Council, US voted to end the sale of non tobacco-flavored products, including flavored e-cigarettes, menthol cigarettes and flavored cigars. If passed, the ban would go into effect in January 2023.

31 attorneys general called on the **US** FDA to reject marketing authorization for all non-tobacco nicotine products, which are currently being sold without regulation of their contents, manufacturing, health effects, warning labels or marketing claims. The experts argue that the lack of regulation on non-tobacco nicotine products has created an unlevel playing field, as manufacturers of one category of nicotine products have evaded regulatory burdens, while others must undertake the expense and effort to conform to FDA requirements.

The President of **Mexico** outlawed the sale of e-cigarettes, continuing the government's anti-vaping policy. **Mexico** had prohibited imports of devices in 2021. Even before that, consumer protection and other laws had been used to discourage sales. Regardless, locals still find ways to source e-cigarettes. At least 5 million Mexicans have tried vaping.

Canada is proposing that written health warnings be printed on individual cigarettes, the first country to do so. A 75-day public consultation period will start on June 11 and this will inform the development of the proposed new regulations. Other suggestions include extending the list of health risks printed on cigarette packs.

The Ministry of Health in **Bangladesh** will attempt to ban e-cigarettes and oral nicotine pouches. The proposal would also tighten restrictions on traditional tobacco products. It includes a ban on flavors and an increase in the size of graphic health warnings to 90% of packaging.

Kazakhstan will outlaw the sale and use of vaping devices. Lawmakers also decided to introduce an excise tax on "smoking sticks" at 70% of the excise tax on cigarettes. This likely refers to heated tobacco.

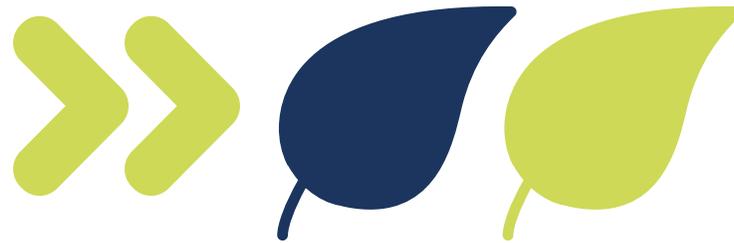


The **European** Commission proposed to prohibit the sale of flavored heated tobacco in the **EU**. This comes in response to the significant increase in the volumes of heated tobacco sold across the region. A recent report showed a 10% growth in the sales volumes of heated tobacco in more than five Member States and overall in the **EU**, heated tobacco exceeded 2.5% of total tobacco sales. The proposal will now undergo a period of scrutiny by the Council and the **EU** Parliament and enter into force 20 days after the publication in the Official Journal. States will have eight months to transpose the Directive into their national law and additional three months of transition.

The **EU** has imposed sanctions against Neman Grodno Tobacco Factory and Inter Tobako in **Belarus**. This is part of the next package of sanctions on **Russia** due to the war in **Ukraine**. The factory accounts for 70% of domestic cigarettes sales and has been accused of being a key source of illicit cigarettes that are found in the EU.

The **Dutch** government is considering increasing the price of cigarettes to between EUR 30 and EUR 47 per package in 2040, which resembles the strategy **Australia** took over a decade ago. In the **Netherlands**, cigarettes currently cost about EUR 8 per package. The government wants to increase that to EUR 10 per pack. The substantial price hike is one step in the government's plan to achieve a "smoke-free generation" by 2040, as set down in the National Prevention Agreement of 2018. The government wants only 5% of **Netherlands** residents to smoke by 2040. Currently, smoking prevalence in the country is around 20%.

The Supreme Court of Appeal in **South Africa** agreed with an earlier High Court judgment that the regulation banning the sale of tobacco products during Covid-19 lockdown was invalid.



The authorities in **Singapore** have destroyed vaping products worth USD 0.75 million. In Singapore, it is an offence to sell, possess for sale, import or distribute e-vaporizers and related components. Violators risk hefty financial penalties and even jail terms. Authorities are also monitoring online channels to stop the potential inflow of such products. Meanwhile, the smoking prevalence in **Singapore** dropped to 10% in 2020 from 14% in 2010. The Ministry of Health attributes this to its multi-year, multi-pronged approach to reduce and discourage the use of tobacco products.

The **UAE** entered into force new regulations that include e-cigarettes in the wider tobacco regulatory framework. There is now a prohibition to use novel products in closed spaces, while authorities are also blocking websites that promote such products. Meanwhile, the National Health Survey indicated that the prevalence of adult tobacco smoking has declined from 11% in 2010 to 9% in 2018.

INDUSTRY UPDATES

The **US** FDA issued marketing denial orders to JUUL Labs for all of their products currently marketed in the US. According to the agency the products premarket tobacco product applications lacked sufficient evidence regarding the toxicological profile of the products to demonstrate that marketing of the products would be appropriate for the protection of the public health. Later on, JUUL was granted an emergency stay order by the FDA but some analysts argue the company reportedly explores a bankruptcy filing. The situation will develop in July. Meanwhile, British American Tobacco (BAT) is expected to benefit the most by the decision as it is currently the US vapor leader with 35% share through its Vuse brand. Juul is second with 33%.

BAT released its 2022 First Half Pre-Close Trading Update. According to company officials BAT's transformation continues at pace, with strong revenue and volume growth in all three New Categories driving share gains across key markets. BAT expects to deliver on its GBP 5 billion New Category revenue and profitability targets by 2025. 2022 guidance figures include:

- Revenue growth of 2% to 4% at constant currency
- Further growth in BAT's non-combustible product consumer base which reached 19.4m in Q1

Vuse is now value share leader in the **US**, extending global leadership position in Vapor. Heated tobacco category volume share is up 1.5 ppts in the Top 9 markets to reach 19.6%. Continued volume share leadership in Modern Oral in **Europe** at 69.3%. Continued value growth in combustibles against a challenging macro-economic backdrop.

Kaival Brands Innovations Group, the **US** distributor of all products manufactured by Bidi Vapor, announced it reached an agreement with Philip Morris Products S.A., a wholly owned affiliate of Philip Morris International (PMI) for the development and distribution of electronic nicotine delivery system products in markets outside of the **US**, subject to market (and regulatory) assessment. **It is worth noting that PMI already distributes the next generation products of another tobacco manufacturer, KT&G, in markets outside of South Korea.** PMI officials noted that this agreement is another step toward accelerating the delivery of a smoke-free future.



Pyxus International announced its results for the quarter and fiscal year ended 31 March 2022:

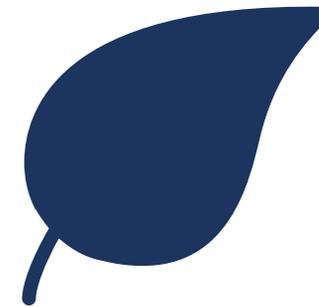
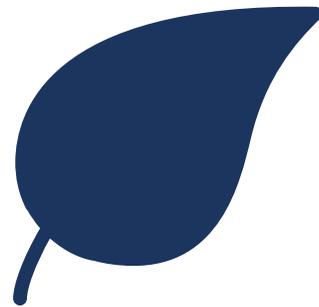
- Sales and other operating revenues were USD 1,639.9 million, which increased USD 308.0 million or 23.1% from the prior fiscal year.
- Gross profit as a percentage of sales was 13.8%, which increased from 12.1% in the prior fiscal year.

According to the company's CEO Pyxus increased market share in **Africa, Asia, and South America** and contributed to a 16.8% increase in kilo volume compared to last year. The 7.5% increase in average price per kilo was primarily due to product mix having a higher concentration of lamina in **Asia, Africa, and Europe**, as well as customer and grade mix in **Africa and North America**.

The Electronic Cigarette Industry Committee of the **China** Electronics Chamber of Commerce released its Blue Book of Electronic Cigarette Exports. The report estimates that the country's electronic cigarette exports will reach CNY 186.7 billion (USD 27.82 billion) this year, with exports of the first quarter already totaling CNY 45.3 billion. According to the Blue Book, the exports of e-cigarettes in **China** was CNY 138.3 billion in 2021, an increase of 180% year-on-year. Among the over 1,500 e-cigarette enterprises in **China**, more than 70% were export-oriented. Among the biggest destinations for such products are the **US** (58%), the **EU** and the **UK** (24%) and **Russia** (8%). The domestic e-cigarette industry directly employs about 1.5 million people and indirectly employs 4 million people, totaling about 5.5 million people.

Sources in **China** indicate that security authorities have handled 43,000 tobacco-related crimes and detained 44,000 suspects from 2017 to 2021, preventing losses of over CNY 100 billion (USD 15 billion) for the country. The police also seized 2.1 million counterfeit cigarettes, nearly 100,000 metric tons of tobacco leaves and about 1,700 machines used to make the fake cigarettes during the period. The ministry worked with **China's** State Tobacco Monopoly Administration to deploy law enforcement authorities to target such crimes.

The latest KPMG report regarding illicit cigarette trade in the **EU** revealed 8.1% prevalence (counterfeit and contraband) in the region or 35.5 billion sticks. This represents growth of 3.9% compared to 2020 or additional 1.3 billion sticks. This was largely driven by developments in France.



SUSTAIN- ABILITY

PMI published its Environmental, Social & Governance (ESG) Key Performance Indicators Protocol (KPI). This follows the company's Sustainability Index and is a separate, dedicated explanation of the Sustainability Index's mechanics. This document describes how the Sustainability Index will measure PMI's progress toward reaching the goals outlined in its 2025 Roadmap and provides details about the 19 metrics that comprise PMI's Sustainability Index. This announcement also follows the release of PMI's Integrated Report 2021, which includes details of the company's Sustainability Index and the 2022 Proxy Statement, which provides details on how long-term executive compensation is linked to the company's 2025 Roadmap through the Sustainability Index.

KT&G published its business ethics charter, which contains common standards of conduct for its companies. The third revision of the charter since its inception in 2003 aims to reflect the altered business environment, and covers global business expansion and reinforced ESG management, among other provisions. The ethics charter contains eight themes and 31 items. The primary topics are business ethics, protection of assets and information, domestic and international transactions, and social responsibility. Responsible research and development and social media use were added as new subcategories.

FEELM, the atomization technology platform belonging to SMOORE - the world's largest vape manufacturer, has joined the Carbon Disclosure Project (CDP), as part of its parent company's listing. CDP is an independent not-for-profit organization that manages a global disclosure system and repository for environmental reporting. FEELM will measure, manage, and periodically disclose its environmental impact data to CDP through SMOORE, as part of the global effort to mitigate climate change. In May 2022, FEELM announced its commitment to achieve carbon neutrality by 2050, with a strategic executive plan that includes: introducing zero-carbon vape technology solutions, adopting eco-friendly materials and green packaging, supporting the global supply chain in de-carbonization, and activating the recycling program of vape pod cartridges and devices with clients.



Zimbabwe is seeking to move away from using firewood and switch to gas to cure tobacco in a bid to curb deforestation. In a statement, TIMB said it is seeking gas technology companies to partner with it in establishing a centralized gas curing facility for tobacco. According to TIMB, of the 262,000 hectares lost to deforestation in the country every year, 15 to 20% of this is attributable to tobacco growing, particularly curing. TIMB argued the centralized gas facility should allow for multiple farmers to cure their tobacco at the same time. The partner is required to develop a pilot project which can be replicated in other tobacco-growing areas. Last year, the country sold 186.6 million kg of tobacco leaf valued at USD 515.9 million, up 16.8% in volume and 31% in value over sales in 2020.

Alliance One International has announced the phase two results of the partnership of its **Brazilian** subsidiary with Bayer Crop Science, which was formed with the goal of providing quality maize seeds and agronomic support to smallholder tobacco farmers in **Brazil**.

Following the completion of the 2021 growing season, participating farmers reported a 15% average increase in maize yield compared to the 2020 growing season. Through the partnership, Alliance One **Brazil's** goal is to help its contracted farmers diversify their income by strengthening the quality and yield of a crop that is complementary to tobacco. Farmers that participated in phase two of the program earned an average of USD 270 more per hectare of maize when compared to the prior crop.

The **Quebec** government in **Canada** wants to help Medicago replace PMI, that is preventing it from selling its vaccines internationally, with another investor. In May, the World Health Organization rejected the **Quebec** biopharmaceutical's COVID-19 vaccine, which uses plants in its manufacturing process. The reason for the rejection is the presence of tobacco company PMI as a minority shareholder in the company, a decision linked to a policy of the UN agency adopted in 2005. Medicago's Covifenz vaccine, the only COVID-19 shot manufactured in **Canada**, was licensed by Health **Canada** in February for adults aged 18 to 64. In December, the company said its two-dose vaccine was 71% effective in preventing COVID-19 infections, according to a large study that included several variants, including Delta.



SOURCES





International Tobacco Growers' Association

Thank you!