



Tobacco Monitor

AN UPDATE ON THE MOST RECENT EVENTS AND FORECASTS

AUGUST 2022

CROP MONITOR

Tobacco cumulative sales figures up to 22 July in **Malawi** show the following crop dynamic:

- Burley: 67.0 million kg sold leading to proceeds of USD 135.9 million. Average price is USD 2.03 per kg.
- FCV: 12.4 million kg sold leading to proceeds of USD 34.0 million. Average price is USD 2.73 per kg.
- Dark Fired: 2.3 million kg sold leading to proceeds of USD 4.4 million. Average price is USD 1.93 per kg.
- Total: 81.8 million kg sold leading to proceeds of USD 174.3 million. Average price is USD 2.13 per kg.



SAVE THE DATE

24th and 25th AUGUST 2022

ITGA AFRICA REGIONAL MEETING
Lusaka, Zambia

ITGA
International Tobacco Growers' Association

TAZ
Tobacco Association of Zambia Host

The poster features a red background with a white speech bubble containing the event details. On the left, there is a vertical decorative border with various agricultural icons. At the bottom, there are logos for ITGA and TAZ, along with small circular icons representing different countries.

Market price dynamics in the 17 week of sales in **Malawi** were positive leading to better prices for FCV and burley tobacco. Nevertheless, the realized quantities remain well below the 2021 level. As a comparison, the total sold quantities for the equivalent period last year was:

118.6 million kg, which raked USD 191.5 million, with an average price of USD 1.62 per kg.

It is worth noting that we are now past the yearly sales peaks which were registered during the weeks 11 to 13.



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

- Year to date sold quantity:
184.7 million kg
- Average price:
USD 3.04 per kg
- Year to date proceeds:
USD 561.5 million

2022 total proceeds are already well above the ones in 2021, mainly due to pricing. However, production costs are also increasing.

TIMB has suspended the Boka Tobacco Sales Floor from purchasing tobacco from farmers with immediate effect. This was caused by growers' reports that they have spent more than a month without receiving payment. TIMB has suspended all tobacco purchases by Boka until they have cleared all outstanding payments and provided proof of adequate financial resources.

TIMB has also announced that five tobacco exporters lost USD 57 million due to side marketing in 2021. This is a form of contract default whereby contracted tobacco growers sell their tobacco to third parties in breach of a contractual agreement which states that tobacco shall only be sold to or bought by the contractor who provided inputs to the grower. TIMB is committed to fighting the problem with an accelerated drive.

The latest leaf prices in **Andhra Pradesh, India** are now available. Low-grade varieties trade at around USD 1.90 per kg. On average, pricing is at USD 2.18 per kg with 73.7 million kg traded. This is attributed to increased demand from overseas, including the US. The Tobacco Board of **India** has increased the crop size for **Andhra Pradesh** from 130 million kg to 142 million kg for the 2022–2023 season.

The US Tobacco Cooperative, based in **North Carolina, US**, announced it successfully exited bankruptcy on 14 July. The Cooperative originally filed for bankruptcy protection in July 2021 in order to meet contractual obligations to its member growers while the company addressed uncertainty presented by the ongoing class action lawsuit. Company officials said that the event marks the end of more than 17 years of class action lawsuits following the termination of the federal price support program that ran from 1946 to 2005. The Cooperative is now focusing on the future.

REGULA- TIONS

A federal court ruled that the **US** Food and Drug Administration's (FDA) regulation of premium cigars is arbitrary and capricious. The litigation focuses on the 2016 Deeming Rule, in which the agency identified a wide range of tobacco products, including premium cigars, to be subject to its regulatory authority along with cigarettes. The main argument is that, unlike cigarettes and e-cigarettes, premium cigars do not appeal to young people and are not associated with addiction. The Judge requested the FDA and the industry groups to submit briefs on whether he should vacate the FDA's decision or simply remand the matter back to the agency.

According to experts, the **US** Supreme Court decision to block the Environmental Protection Agency from curbing power-plant emissions threatens the FDA attempts to limit nicotine and ban menthol in cigarettes. The justices' 6-3 precedent-setting ruling endorsed a legal approach called the major questions doctrine, which states that agencies need precise Congressional authorization to address issues of major financial or political importance in novel ways. As a result, the Department of Health and Human Services will have a much more narrow scope to work within. Although the FDA has the advantage of the Tobacco Control Act, in which Congress explicitly gave the agency the authority to adopt product standards through notice and comment rulemaking, some argue that the decision provides a roadmap for the industry to attack such proposals.

The **US** FDA issued its first two warning letters to manufacturers for unlawfully marketing non-tobacco nicotine e-liquid products without the required authorization in the **US**. In addition, FDA announced that it has issued 107 warning letters to retailers for illegally selling non-tobacco nicotine products, including certain e-cigarette or e-liquid products, to underage purchasers. The law makes it clear that tobacco products, including non-tobacco derived nicotine products, cannot be sold legally to customers under age 21 following passage of the new law.

Michigan, US has raised the age to purchase tobacco and other products containing nicotine from 18 to 21.



The **US** FDA has put on hold its ban on sales of Juul Labs Inc's e-cigarettes, with the health agency noting that it would do an additional review of the company's marketing application. Juul, which is partly owned by Altria Group, is confident its products meet the statutory standard of being appropriate for the protection of public health. **We will continue following the development of the story as it is vital for the future of vaping across the world.**

The **Malaysian** Cabinet approved the Tobacco and Smoking Control Bill that could lead to a ban on the sale of cigarettes, tobacco and vapor products to people born after 2005. This approach mirrors legislation in **New Zealand**, where tobacco regulations are among the toughest in the **world**.

Brazil's national health surveillance agency, Anvisa, decided to maintain its ban on the import, advertising and sale of electronic cigarettes in **Brazil**. According to the agency, the approved technical report indicates the need to maintain the ban on electronic devices for smoking, which includes all types of electronic cigarettes, and the adoption of additional measures to curb the irregular trade of these products, such as increasing inspection actions and educational campaigns.

A survey carried out in the first quarter of 2022 by the Vital Strategies organization and the Federal University of Pelotas, revealed that 19.7% of **Brazilians** aged between 18 and 24 have tried electronic cigarettes.

The President of **Panama** approved a regulation banning the sale of all vapor products in the market. This act prohibits the sales and importation of all vaping and heated tobacco products, regardless of their nicotine content. The new law does not criminalize use but prohibits consumption of such products in any place where smoking is not allowed. Online sales are also now prohibited. It is worth noting that **Panama** banned e-cigarette sales back in 2014. The country is set to host the 10th FCTC Conference of the Parties (COP10) in 2023, when vaping laws and regulations are likely to be discussed.

Romania is increasing excise duties on tobacco starting 1 August 2022. This is the first hike since 2015 and is part of a larger 'sin tax' bill that includes alcohol and gambling.



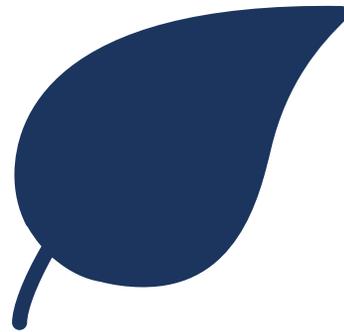
INDUSTRY UPDATES

Cigarette sales in **India** are expected to exceed 93 billion sticks, helped by the established tax regime and increased mobility. During the COVID-19 lockdown times, volumes dropped to 77 billion sticks, while volumes the year before stood at 90 billion sticks. Local cigarette makers largely use locally-grown FCV tobacco, prices of which have been volatile. FCV prices have risen 15% year-on-year as cultivation was impacted by rainfalls in December and January, the main harvesting months.

Due to a new regulation for shisha in **Germany**, the industry believes there will be such a shortage of supply that many consumers might not be able to get a refill. This is attributed to changes in regulations that banned larger packaging.

The **UK** launched a new Track and Trace system for tobacco products. It provides the government with digital, data-driven traceability functionality across the entire tobacco supply chain. The system forms an important pillar of the country's anti-illicit trade strategy, supporting Her Majesty's Revenue and Customs (HMRC) to fight illicit trade. All businesses engaged in the manufacture, importation, exportation, storage, distribution and sale of tobacco products into and through the **UK** supply chain must use the new Track and Trace system. Its requirements have existed in the **UK** since May 2019 and currently apply to cigarettes and roll-your-own tobacco. All other tobacco products will have to comply from 20 May 2024.

The Federal Board of Revenue (FBR) in **Pakistan** has bound all cigarette manufacturers to implement the Track and Trace System with effect from 1 July 2022 with an aim to bust a massive tax evasion in the sector. Only three tobacco manufacturers - Pakistan Tobacco Company, Philip Morris International (PMI), and Khyber Tobacco, have installed the Track and Trace System and made it operational. Some companies who earlier filed a case against the FBR have again filed a writ petition in the **Peshawar** High Court seeking relaxation from the system. Big players argue that it will only succeed if everyone implements it. In the meantime, anti-tobacco groups are questioning the decision to award the system to the National Radio and Telecommunications Corp, a technology company which procures its track and trace technology from Inexto. Inexto's staff includes 16 former PMI employees, including those involved in the development of the tobacco industry's own track and trace system, Codentify.



PMI released its Q2 2022 results:

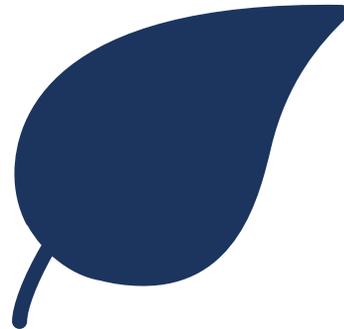
- Revenue is up 3.1% to USD 7.8 billion.
- Operating income is down 2.3% to USD 3.1 billion.

The company's total cigarette sales were 157.7 billion sticks, up 1% against Q2 2021, while heated tobacco sales were 24.8 billion units up 1.9% against the same period last year. The war in **Ukraine** has a serious effect on PMI's performance, so the company started reporting on a pro-forma basis as well. Nevertheless, PMI's results are exceeding internal expectations, partly as a result of IQOS momentum.

British American Tobacco (BAT) unveiled glo hyper X2 in **Tokyo, Japan**, the latest innovation from glo, BAT's fast-growing global heated tobacco brand. Hyper X2 works with existing consumables from the glo hyper series. The **international** roll out of the product will happen within the coming months.

Vapresso, a subsidiary of Smoore, has obtained a production license from **China's** State Tobacco Monopoly Administration (STMA), the country's top regulator of tobacco products, which gives its products lawful status in the country. Smoore is among the first companies to comply with **China's** tightened rules for e-cigarettes, which were not regulated as a traditional tobacco product until recently.

The **Chinese** STMA has also given a license to RLX Technology to manufacture vaping products in **China**. The approved manufacturing capacity is 15,050,000 units of e-vapor rechargeable devices per year, 328,700,000 units of cartridge products per year, and 6,100,000 units of disposable e-vapor products per year.



One of the leading c-cigarette companies in the **US** - NJOY Holdings hired bankers for a possible sale of the company, which could be valued at USD 5 billion, although there is no certainty a deal will take place. NJOY is also exploring a new fundraising round and aims to raise between USD 300 and USD 500 million.

A recent post by the Foundation of Smoke-Free World revealed details about the emerging nicotine pouch market. Currently, nicotine pouches are a rapidly growing but relatively small category, representing 0.3% of the **world** tobacco market by value terms in 2021. The top three biggest global players are Swedish Match, BAT and Altria. The biggest markets for such products are the **US** and **Sweden**, but sales extend to countries including **Indonesia** and **Pakistan**. The evolving regulatory framework is a key determinant for the category's future.

SUSTAIN- ABILITY

Cigarette manufacturers in **India** have shifted from regular plastic wrapping to environment-friendly biodegradable wrapping for cigarette packs, well ahead of the single-use plastic ban, according to the Tobacco Institute of **India** (TII). TII represents cigarette makers such as ITC, Godfrey Phillips India, VST Industries along with farmers, exporters and ancillaries of the cigarette segment. The ban on single-use plastics, approved last year, entered into force in July.

Greenbutts, a biodegradable filter technology company, was granted a patent by the **Canadian** Intellectual Property Office for its application titled 'Biodegradable Cigarette Filter Tow and Method of Manufacture'. The patent adds to Greenbutts' proprietary technology stack, offering an all-natural, biodegradable and water dispersing cigarette filter. The company already acquired patents in the **UK** and the **US**. **Cigarette butts and sustainable packaging solutions will be increasingly important for the industry in the immediate future.**

With the theme focused on 'Child labor: care, welcome and protection' the Growing Up Right Institute in **Brazil** promoted the fifth edition of the comprehensive integration and reflection seminar for partners of the Rural Professional Learning Program. With the validation by the Ministry of Labor, the Program has already benefited 596 young people from the rural setting in **Rio Grande do Sul**, since 2016. The participants are hired as young apprentices by the tobacco companies associated with the Growing Up Right Institute, and receive a salary proportional to 20 hours a week, but instead of working for the companies, they attend a rural management and entrepreneurship course in the shift opposite to their regular school hours, consisting in theoretical and practical activities.

US Senate leaders are introducing legislation meant to lift federal prohibitions on marijuana more than 50 years after Congress made the drug illegal. Senate Majority Leader's Cannabis Administration and Opportunity Act would decriminalize weed on the federal level and allow states to set their own marijuana laws. The bill has been a long time coming but its odds of passing in this Senate are slim. Nevertheless, the legislation will shape the conversation around cannabis legalization going forward and portions of it are likely to find their way into other bills that could pass before the end of the year. 19 states now allow anyone at least 21 years old to possess and use the drug, and 37 states have established medical marijuana programs. National polls have consistently shown that roughly two-thirds of Americans back marijuana legalization.



SMOORE, the **world's** largest vape manufacturer, announced it has launched the **world's** first real-time monitoring research project on nicotine addiction. In partnership with the **Shenzhen** Institute of Advanced Technology, SMOORE's new research project aims to explore how best to minimize the nicotine strength in vaping products and ultimately to bring it to below the levels which cause addiction. The project is supported by Southwest University in **Chongqing, China** and is expected to release a stage report in the second half of 2022 on the different effects on brains of nicotine in e-cigarettes and combustible tobacco. This joint study into nicotine dependence aims to bring to an end global nicotine dependence. Moving forward, the company aims to provide products that don't result in nicotine dependence by reducing the nicotine levels to as close to zero as possible, without scarifying the satisfaction level.

In addition, SMOORE announced that it has opened **China's** first non-clinical full-scale testing laboratory for Premarket Tobacco Product Applications (PMTA). A PMTA is an application that must be reviewed and approved by the FDA before a new nicotine product can be legally marketed in the **US**. It must also provide scientific data that demonstrates a product is appropriate for the protection of public health. This is the first PMTA testing laboratory to open in **China**, and will allow SMOORE and its flagship brand FEELM, the world's leading closed vape system solution provider, to further improve the safety of their products, and help the brands they work with to successfully pass PMTA certification.

The saga related to PMI's backed COVID-19 vaccine in **Canada** continues. The federal government isn't considering putting up money to help buy shares in the only domestic manufacturer of COVID-19 vaccines, but it is 'working on a solution' with Medicigo's parent company. The vaccine has been rejected by the WHO because PMI is a minority shareholder, and the UN agency has a strict policy about engagement with the tobacco industry. The Covifenz vaccine was licensed by Health **Canada** in February for adults aged 18 to 64, and the federal government has signed a contract to buy up to 76 million doses with plans to donate vaccines to low-income countries. However, the donations are not allowed without WHO approval.



SOURCES





International Tobacco Growers' Association

Thank you!