



# *Tobacco Monitor*

AN UPDATE ON THE MOST RECENT EVENTS AND FORECASTS

SEPTEMBER 2022

# CROP MONITOR

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

- Year to date sold quantity: 206.4 million kg
- Average price: USD 3.06 per kg
- Year to date proceeds: USD 631.6 million

2022 total proceeds are already well above the ones in 2021, primarily due to pricing. However, the average cost of production is also significantly higher, or up 25%.

The 2022 tobacco season in **Malawi** is over:

- Burley: 69.3 million kg sold leading to proceeds of USD 140.7 million. Average price is USD 2.03 per kg.
- FCV: 13.2 million kg sold leading to proceeds of USD 36.4 million. Average price is USD 2.75 per kg.
- Dark Fired: 2.6 million kg sold leading to proceeds of USD 4.9 million. Average price is USD 1.93 per kg.

A total of 85.1 million kg sold leading to proceeds of USD 182.0 million. Average price is USD 2.14 per kg. Total earnings and volumes sold from all tobacco types in **Malawi** have consistently declined in the 2022 season. During the previous season, a total of 123.7 million kg were sold, leading to proceeds of USD 197.1 million, representing a drop of 31.3% and 7.7% respectively. Pricing in the 2022 season was higher for all tobacco types. In comparison the average price in 2021 was USD 1.59 per kg.

**Zambia** tobacco growers have produced 32.7 million kg of green leaf in the 2022 season. The majority of the crop was FCV, or around 90%. The total volume is lower compared to last year due to poor rainfall distribution and high growth of production costs.

Prices for the 2022 crop are higher compared to the previous year – FCV average rate is USD 2.71 per kg, against USD 2.53 per kg, burley average rate is USD 1.92 per kg, against USD 1.69 per kg.



The Tobacco Board in **India** started the barn license renewal and registration process for the next tobacco growing season in mid-August. In order to maintain a tobacco barn, local farmers must obtain a license from the Tobacco Board. Growers have until 27 September to complete the process. After that, they will be charged with a late fee up until 24 October - the final date of the application and renewal procedure.

Tobacco growers in **Pakistan** urged the government to abolish the PKR 380 (USD 1.76) advance tax on tobacco leaf. Currently, tobacco is getting sold for PKR 256, below the mentioned tax rate, making the business unsustainable. 15,000 labourers and 20,000 families could lose their livelihoods if the situation does not improve. Meanwhile, tobacco exports in **Pakistan** for July registered a 415% increase against the same period last season, or USD 4.9 million. In volume terms, the growth is 229%, or 1.5 million kg.

**Cambodia** exported 4.8 million kg of green leaf in the first six months of 2022, double the amount that was realized during the same period last year. According to the Ministry of Agriculture, **Vietnam** was the top destination market, accounting for 98% of the total volumes. In 2016, **Cambodia** and **Vietnam** signed an agreement that provides preferential tariff treatment for agricultural products at the common border.

The volume of tobacco produced in the **Dominican Republic** in the 2022 season increased to around 13 million kg, up from 12.6 million kg in the 2021 season. Notably, costs of production per hectare have increased by more than 35%, while average prices have increased by around 25% to USD 3.30 per kg.



# REGULA- TIONS

The **EU** Commission decided to register a **European** Citizens' Initiative (ECI) entitled 'Call to achieve a tobacco-free environment and the first European tobacco-free generation by 2030'. The ECI suggests ending the sale of tobacco and nicotine products to citizens born since 2010, creation of a **European** Net of tobacco-free and butts-free beaches, extension of outdoor smoke and vapor free spaces, elimination of tobacco advertising and presence in audio-visual productions, social media, specially addressing covert advertising through influencers and product placement. If a ECI receives one million statements of support within one year, from at least seven different Member States, the Commission will have to react.

The implementation date for the introduction of graphic health warnings in the **US** was pushed back once again for three extra months, to October 2023. This was a result of a **Texas** judge call. The initial launch date of the rule was set for June 2021. **Additional postponements are likely to happen in the immediate future.**

**Ukraine** changed the definition of tobacco products to include heated tobacco in the regulations guiding the industry. As a result, restrictions that relate to cigarettes, including smoking in public places, are now applicable to such products. **Ukraine** already imposed health warnings for e-cigarettes and e-liquids to cover 30% of packaging. Advertising and promotion of e-cigarettes, e-liquids and heated tobacco products and devices will be prohibited from July 2023. Flavoured variants will also be banned.

**Saudi Arabia** banned the sale of tobacco products to those under the age of 18. In addition, the local authorities set new conditions for stores selling tobacco. Among the rules, shops are required to sell cigarettes in a closed pack, with the maximum number of sticks not exceeding 20 cigarettes. It is prohibited to sell or display products containing raw tobacco, processed tobacco or products made from them in any means of public transport such as vehicles, buses, trains, ships, boats and planes.



**Indonesia** intends to tighten its tobacco control laws to reduce underage smoking. Under a new proposal, the Health Ministry is looking to control the promotion and packaging of e-cigarettes, which have remained unregulated since their legalization in 2018. The Ministry is also seeking to increase the size of graphic health warnings on tobacco packaging from 40% to 90%, ban the advertising, sponsorship and promotion of tobacco products and prohibit the sales of single-sticks. Excise rates are also likely to rise. **Indonesia is the second biggest cigarette market after China, in terms of volume sales.**

The Public Health Minister of **Thailand** stressed the need to continue banning e-cigarette imports to protect youths from vaping health risks. The local government affirmed its stance against vaping, saying e-cigarettes are affecting the health of vapers of whom more than half are considered youths. A survey conducted by the National Statistical Office of **Thailand** last year found more than half of the about 80,000 e-cigarette smokers in **Thailand** were people aged 15 to 24. Crackdowns on e-cigarettes smuggled into the country will also continue to limit access to the products on the black market.

The **South African** Revenue Service took over the assets of Gold Leaf Tobacco Corporation. The action was a result of a tax evasion investigation. Regulators believe the company evaded tax payments in the range of ZAR 3 billion (USD 178 million).

According to the Ministry of Health and Welfare in **South Korea**, cigarette manufacturers will be required to strengthen health warnings on cigarette packaging starting in December 2022 under a new government regulation. The Ministry already distributed the updated manual for labelling health warnings on cigarette packaging. The manual requires companies to have more graphic warnings on cigarette products. E-cigarettes will be required to have covered over 50% of their packaging by health warnings as well.



# INDUSTRY UPDATES

British American Tobacco (BAT) published its half-year (HY) 2022 report:

- Revenue is up 5.7% to GBP 12,869 million.
- Revenue from New Categories is up 45.4% to GBP 1,283 million.
- Profit is down 25.0% to GBP 3,678 million.

The decline in profit is attributed to an impairment charge related to the transfer of BAT's **Russian** business. The company estimated the growth on consumers of its non-combustible products to be 2.1 million people, or a total of 20.4 million. BAT cigarette volume sales were down 4.0% versus HY 2021, to 303.4 billion sticks. BAT heated tobacco volume sales were up 30.4%, versus HY 2021, to 11 billion sticks.

Japan Tobacco International (JTI) published its Q2 and year-to-date results:

- Revenue is up 10.7% to JPY 1,266.8 billion.
- Operating profit is up 18.9% to JPY 383.0.

Financial performance is driven by solid pricing generated across all clusters, continued market share gains and favourable currency movements. Total volume dropped by 0.4%, due to declines in **Asia** and **Western Europe**. In **Japan**, reduced-risk products, a category estimated at 33.4% of the total tobacco industry size, volume sales increased by 34% and JTI share grew to 12%. Within the **Japanese** heated tobacco segment, Ploom X volume and share grew in the first two quarters, reaching a 7.4% share. JTI continues to evaluate options for its **Russia** business, including potentially transferring its ownership.

Altria published its Q2 and first-half year results:

- Revenue is down 4.1% to USD 12,435.

This was primarily driven by the sale of its wine business in October 2021 and lower net revenues in the smokeable and oral tobacco products segments. Altria's total cigarettes volume sales were down 8.9% against the same period in 2021. The share of Marlboro remained relatively stable at 42.6%.

Altria recorded a non-cash pre-tax unrealized loss of USD 1.2 billion as a result of a decrease in the estimated fair value of the investment in JUUL. The company still believes the arrangement is beneficial. Altria paid USD 12.8 billion for Juul in 2018, but its stake is currently valued at just USD 450 million.

KT&G released its Q2 results:

- Sales are up 1.6% to KRW 966.3 billion.
- Operating profit is down 4.2% to KRW 312.8 billion.

Sales performance is mainly driven by strong growth in combustibles and heated tobacco, while profit is mainly due to high base effect of the **Suwon** development project. In Q2 2022, KT&G sold a total of 12.8 billion cigarette sticks.

ITC released its financial results for the quarter ending 30th June:

- Cigarettes segment revenue is up 29.0%.

This is reportedly due to effective countermeasures to tackle illicit trade and continued support for the company's portfolio. ITC launched multiple new cigarette variants.

Universal Leaf released its quarterly results for the period ending 30 June:

- Tobacco sales are up 18% to USD 348.1 million.
- Tobacco operating income is down 9% to 8.1 million.

Although tobacco sales volumes were up, the Tobacco Operations segment results were down largely on unfavourable foreign currency comparisons due to the strong US dollar comparison against last year. Carryover crop shipments were higher in **Brazil** in the quarter ended 30 June 2022, compared to the same quarter in the prior fiscal year, largely due to increased shipping availability. In **Africa**, carryover shipments were down on smaller crops grown in fiscal year 2022.

Pyxus International released its results for the quarter ending 30 June:

- Sales are up 3.2% to USD 343.9 million.
- Gross profit is down 3.1% to 40.8 million.

Revenue is impacted by increased demand and normalized timing of shipments from **Asia**. Profit was affected by delayed shipments from **Africa** and **South America**. Company officials revealed that crop sizes in certain markets in **Africa**, **Asia**, and **South America** are below expectations due to the adverse impacts of prevailing La Nina weather patterns during the growing season, which has exacerbated supply shortages.

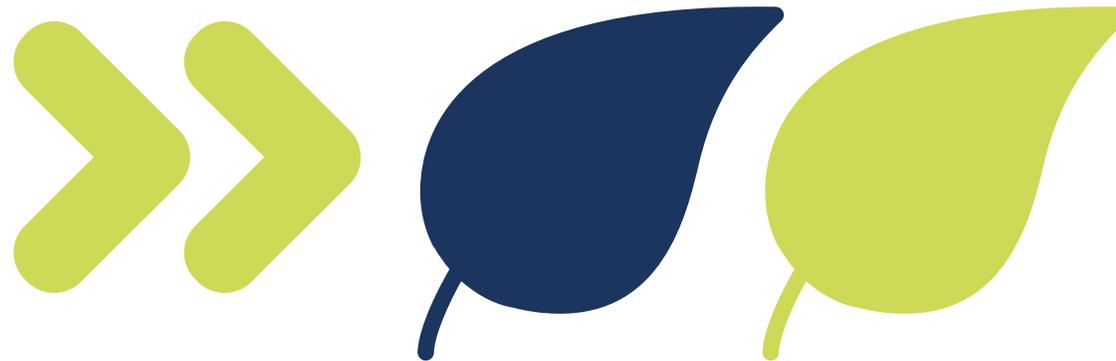
# SUSTAIN- ABILITY

In August 2022, ITGA organized two regional meetings in the **Dominican Republic** and **Zambia** for the **Americas** and **Africa** areas. These were the first in-person gatherings since 2019, when the COVID-19 pandemic started.

Among the key topics discussed by member associations, partners and industry stakeholders were the growing costs of production, regulatory pressures and other factors affecting growers' viability. Some of the main discussion points will be carried over to the ITGA 2022 AGM in **Castelo Branco, Portugal**, where the sector will get together to debate further actions to protect tobacco growers' interests. The meeting will take place between 26 and 29 October.

According to a recent poll conducted in the **US**, the use of cannabis is at an all-time high, with more **Americans** smoking marijuana than tobacco – 16% against 11%. In addition, **Americans** are evenly split in their views about marijuana's effect on society, with 49% considering it positive and 50% negative. They are slightly more positive about the drug's effect on people who use it, with 53% saying it's positive and 45% negative. Americans' ambivalence about the effects of marijuana contrasts with their widespread support for legalization. According to Gallup's latest measure, 68% of **US** adults think marijuana should be legal.

The tobacco industry has become a significant sector in **Hungary**, in part due to the **Hungarian** family-owned Continental Tobacco Zrt. Tobacco processing has begun in the new preparation hall of the company's tobacco factory in **Sátoraljaújhely**, marking another milestone in the company's nearly HUF 10 billion (EUR 24 million) investment. Continental Tobacco employs over 700 people and generates over EUR 130 million per year. Company officials have shared that the number of **Hungarian** tobacco growers has fallen from 5,000 to around 600 since 2004. This is due to ageing farming population and breakage of passing down the tradition to the next generation. Notably, **Hungary** provides assistance to the tobacco sector from the national budget.

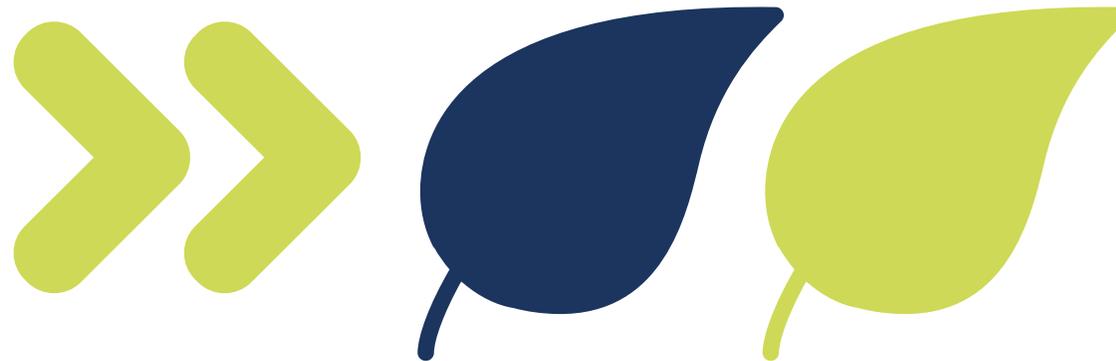


BAT has appointed Mike Nightingale as its first Chief Sustainability Officer to lead the company's sustainability and environmental, social, and governance (ESG) agenda. Nightingale was the Group's Head of Investor Relations for the past 10 years. Prior to that, he held senior leadership positions in sustainability, regulation and marketing.

BAT reported that it opened a EUR 80 million line for tobacco products in its **Kanfanar** factory in **Croatia**. This will create 70 new jobs. BAT's operations in Croatia serve as a logistics hub for the entire **Central** and **Eastern Europe** region. Local company facilities are in advanced stages of achieving various sustainability targets related to pollution, waste and water management.

KT&G plans to build a new eco-friendly tobacco packaging factory in the central administrative hub of **Sejong City**. Under the KRW 180 billion (USD 133.5 million) project, the factory will be constructed at Sejong Mirae Industrial Estate, a government-developed area for local manufacturing companies, by 2025. The facility will produce packaging, such as tobacco papers and boxes, through state-of-the-art automation systems and digital printing. The company aims to receive Leadership in Energy and Environmental Design, an eco-friendly certification, by using renewable energy, including solar energy and upgrading infrastructure for air (pollution) and wasted water.

PMI and Imperial Brands subsidiaries in **Ukraine** have agreed on cooperation, within the framework of which PMI will start producing cigarettes under the trademarks Bond Street, L&M, Marlboro, Parliament and Philip Morris at the Imperial Tobacco factory in **Kyiv**. Such a move will meet the needs of consumers of PMI products amid a halt in its production at the factory in **Kharkiv** region. According to company officials, the agreement will save jobs, improve the supply of products to the **Ukrainian** market and guarantee the payment of taxes to the state budget.



# SOURCES



PHILIP MORRIS  
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Altria





International Tobacco Growers' Association

Thank you!