



Tobacco Monitor

AN UPDATE ON THE MOST RECENT EVENTS AND FORECASTS

OCTOBER 2022

CROP MONITOR

In early September, the **Brazilian** Tobacco Growers Association (Afubra) released the final figures for the 2021/2022 tobacco crop. **South-Brazilian** tobacco growers produced 560,181 tons, divided into 512,594 tons for FCV, 41,793 tons for Burley, and 5,794 tons for Comum. In terms of area, there was a reduction of 9.8%, from 273,317 ha in 2020/2021 to 246,590 ha in the current season. Production outcomes fell from 628,489 tons to 560,181 tons, a reduction of 10.9%. Alternatively, the average price paid to tobacco growers in southern **Brazil** grew by 61.5%. The average price in the previous crop was BRL 10.54 and in the 2021/2022 crop, BRL 17.02.

Industry representatives in **Zimbabwe** expect tobacco growers to plant a record hectareage of leaf in the incoming season as sales of seed have registered significant growth. According to the Tobacco Research Board, as of early September, at least 925 kg of tobacco seed with the capacity to cover 184,999 ha was sold.

According to the Tobacco Industry and Marketing Board (TIMB), planting of irrigated tobacco began on 1 September. The TIMB also stated that it has designed a monitoring system for contractors' compliance to help relieve farmers' anxiety over contract farming agreements.

The latest figures for the tobacco crop in **Bulgaria** are now available. During the 2022 season, a total of 5.7 million kg were produced, down from 6.9 million kg the year before. The total number of growers involved in production is relatively stable at around 3,300-3,500. Nevertheless, the 2023 season is forecast to bring another drop in both production volumes and area planted.

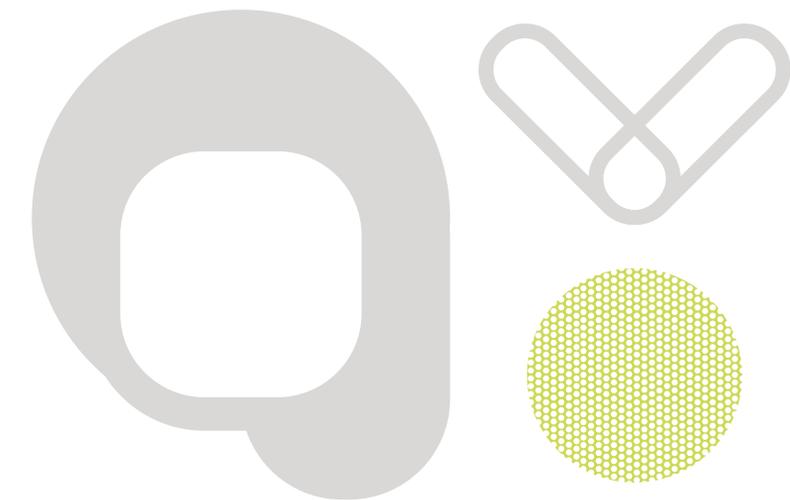
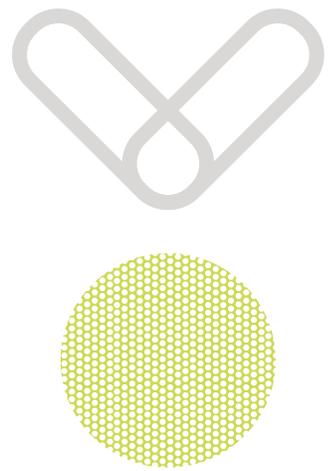


A significant fire broke out in **Tamboril**, the **Dominican Republic**, destroying the Tabacalera William Ventura and Intercigar S.A. factories. Tabacalera William Ventura has become well-known in recent years, producing its own line of cigars under the ADV & McKay and ADVentura names, as well as making cigars for Caldwell Cigar Co., Bellatto Premium Cigars, Freud Cigar Co., Room101, J. London Cigars and others. Intercigar S.A. is the home of the Vallejuelo line and number of other brands.

Meanwhile, the **Dominican Republic** exported USD 726 million worth of tobacco in the first half of 2022. The country's President praised the good performance of the local sector and expressed optimism for the rest of 2022.

In addition, the President of the Association of Cigar Producers of the **Dominican Republic** (Procigar), revealed that the country had reached the historic figure of USD 1.2 billion in tobacco and cigar exports. 30 years ago the country exported for about USD 80 million, a 15-fold increase.

Cuban officials reported that Hurricane Ian knocked out electricity to the entire island while devastating some of the country's most important tobacco farms when it hit its western tip. Ian's winds damaged one of **Cuba's** most prestigious tobacco farms, Finca Robaina, where photos showed wood-and-thatch roofs smashed to the ground, greenhouses in rubble and wagons overturned.



REGULA- TIONS

The e-cigarette manufacturer Juul Labs has agreed to pay around USD 440 million to settle a two-year investigation by 33 **US** states into the marketing of its vaping products, which have long been blamed for sparking a national surge in teen vaping. Additionally, Juul faces hundreds of personal lawsuits brought on behalf of teenagers and others who say they became addicted to the company's products. The settlement total amounts to about 25% of Juul's **US** sales of USD 1.9 billion last year.

The company currently makes up around one third of the **US** retail vaping market, down from 75% several years ago. In September, BAT's Vuse, the category leader, holds 39.7% of the market.

The **US** Food and Drug Administration (FDA) has sent more than 44 warning letters to manufacturers and over 300 warning letters to retailers for violations related to nontobacco nicotine products (NTN). Additionally, the FDA has issued new warning letters to 102 retailers for illegally selling such products to underage purchasers. In total, the FDA has accepted over 350 applications for NTN products, with the vast majority being for e-cigarette or e-liquid products.

China's ban on flavoured vaping products entered into force on 1 October, along with other standards imposed by the government over the last year. In **China**, vapers are reportedly scrambling to buy flavoured vape products in advance of the ban. It's unclear if a large black market will develop in **China**, a country with harsh treatment of illicit sellers.

The **Brazilian** Ministry of Justice ordered 32 businesses to suspend e-cigarette sales or face fines. Such products have been banned in the country since 2009, but e-cigarettes are freely available in retail and online. One of the warned businesses is the supermarket giant Carrefour, which owns over 1,000 stores in Brazil. A recent poll showed that e-cigarette prevalence in the country for young people is at 20%. Alternatively, the overall smoking prevalence is currently at 12%.



The government of **Malaysia** plans to table its 'generational endgame' bill in October after making amendments to address concerns by certain lawmakers. Announced in February, the bill would make it illegal for people born after 2007 to buy, possess or use tobacco-related products, including e-cigarettes. Representatives of the trade and hospitality sectors in **Malaysia** have voiced their worries regarding the measures, while the government has send a delegation to **New Zealand** to study the country's smoke-free ambitions. **New Zealand is at the forefront of restrictive tobacco measures globally.**

Anti-tobacco groups expressed outrage related to a new regulation in **Uruguay** that allows cigarette manufacturers to print information on cigarette sticks and include inserts in tobacco packs. Notably, in 2019, **Uruguay** became the first country in **Latin America** to require plain packaging for tobacco products. The new rule is seen as taking a step back in the country's overall tobacco regulation approach. Prior to the decision on plain packaging, the government reversed a decree that had banned the sale of tobacco-heating products like IQOS by Philip Morris International (PMI) and glo by British American Tobacco (BAT).

Kathmandu, Nepal, has banned the consumption of tobacco products in public places. The ban will cover cigarettes, bidis and cigars as well as smokeless products such as chewing tobacco and gutka. The city defines public places as government offices, educational institutions, libraries, health posts, airports, old age homes, orphanages, public toilets, cinema halls, theatres, restaurants and factories.



INDUSTRY UPDATES

PMI is considering lowering the acceptance threshold on its USD 16 billion takeover bid for the smokeless tobacco company Swedish Match AB. PMI is studying the potential move as it seeks ways to increase the likelihood the acquisition will go through amid opposition from a variety of shareholders. The bid by PMI was originally conditional on it getting more than a 90% stake in Swedish Match, a level that would normally allow it to take the company private. According to experts, the idea of lowering the acceptance threshold raises the prospect that PMI could end up with a majority stake in Swedish Match and keep it publicly traded, at least temporarily.

PMI in **Egypt** announced a modification to the manufacturer's name printed on its product portfolio to be "Made in **Egypt** by UTC", after the United Tobacco Company (UTC) was awarded with the licence to produce conventional and e-cigarettes in the market. PMI stated that it is proud of the strategic partnership with Eastern Tobacco Company, which lasted for nearly half a century, and is looking forward to sustaining this partnership through its shareholding in UTC.

A jury in **North Carolina, US** has ruled that R.J. Reynolds Vapor must pay Altria Group more than USD 95 million for violating patents. Altria had accused Reynolds of violating patents related to vaping devices with pods for storing and heating liquid nicotine. The jury concurred with the accusations and found that Reynold's Vuse e-cigarettes infringed three Altria patents.

The Federal Trade Commission in the **US** published its second e-cigarettes report covering 2019 and 2020. The key findings are the following: Sales increased from USD 304.2 million in 2015 to USD 2.7 billion in 2019 before going down to USD 2.2 billion in 2020; The data show a significant reduction in the sales of "other" flavoured cartridges popular with youth; Price discounting is the largest category of advertising expenditures reported by the recipient companies; The spending on sampling and the distribution of free and deeply discounted e-cigarette products more than doubled in two years to USD 140.1 million. Another finding of the report is the significant growth in sales of disposables.



RLX Technology, a leading e-vapor company in **China**, announced its financial results for Q2 2022:

- Net revenues were RMB 2,233.9 million (USD 333.5 million), compared with RMB 2,541.4 million in the same period of 2021.
- US GAAP net income was RMB 441.6 million (USD 65.9 million), compared with RMB 824.3 million in the same period of 2021.

The decreases were primarily due to the suspension of store expansions and new product launches during the transition period to comply with regulatory requirements. Notably, local authorities have recently moved the vapor business under the regulatory framework for tobacco products.

Germany's tobacco industry expects to sell significantly fewer cigarettes in 2022 compared to 2021. The assumption is driven by the fact that during the first seven months of 2022, companies obtained 12% fewer tax stamps than in the same period last year. Falling demand, high inflation and illicit trade are among the key drivers for this trend.

Illicit cigarettes prevalence in **Belgium** is currently 22%. This generates a tax gap of around EUR 700 million for the local budget. Most of the untaxed cigarettes in the country arrive from markets with lower excise burdens – **Bulgaria, Poland, Turkey** and **Romania**. One of the reasons for the growth in illicit trade is a tax increase that was introduced in **Belgium** in April.

Meanwhile, **Hong Kong** customs officers have confiscated HKD 1.23 billion (USD 157 million) worth of black-market cigarettes so far this year, making it the largest annual haul of the contraband over the past two decades. As of September 2022, customs officials had seized about 440 million untaxed cigarettes.



SUSTAIN- ABILITY

ESG's agenda on tobacco farming was discussed during a tobacco supply chain event in **Brazil**, where ITGA member associations took part. Afubra highlighted its objectives especially regarding hailstorms. "Afubra made strides in parallel with the tobacco growing activity, and since that time we have been engaged in themes related to crop diversification. All tobacco farmers produce two or three agricultural crops a year: tobacco, the winter grain crop, followed by a cover crop for the purpose of direct planting".

BAT, via a wholly owned subsidiary, has acquired a minority stake in one of **Germany's** leading cannabis companies, Sanity Group GmbH. This investment is complementary to other recent investments made by BAT, most notably the strategic R&D collaboration established with Canada's Organigram Holdings Inc, announced in March last year. The stake in Sanity Group adds a European dimension to BAT's explorations beyond nicotine. Sanity Group has a well-established product portfolio of CBD consumer and medical cannabis brands.

BAT has also called for greater collaboration between the industry, governments and intergovernmental organizations to accelerate tobacco harm reduction becoming the tobacco control policy of choice. Company officials have argued that in order to bring change, a "whole of society" approach is needed.

A handful of countries registered dynamics in their stance towards cannabis. In **Germany**, the Federal Finance Minister expects legalisation to come by the end of 2023. In **Australia**, the Greens have announced that new legal advice means that cannabis legalisation could be implemented by 2023. In **Japan**, a health ministry's panel of experts recommended that the government rethink laws to allow the import and production of medicines using cannabis components, but it proposed tightening the laws regarding recreational use of the drug which is a crime. Finally, in **Thailand**, a bill to regulate the wider use of cannabis has been sent back to the drafting committee for further revision.



PMI has published a new white paper called “Rethinking Disruption: Innovating for Better in an Era of Division”. The company believes that a clear framework agreed to by political, regulatory, and public health stakeholders and supported by civil society and businesses offers the best prospect for ending smoking and its related harms. PMI also advocates for a new approach to disruption - EPPIC: Efficient, Purposeful, Pro-social, Inclusive, and Constructive, arguing that to create positive change at scale and at pace, we must all be prepared to disrupt our old ways and establish common ground on which progress can be built.

PMI also announced its plans to invest an additional USD 150 million in its **Philippine** affiliate to add manufacturing lines that will produce heated tobacco sticks for its smoke-free products.

A new report about recycling programs for e-cigarettes and heated tobacco revealed that every year 44.7 million tonnes of e-waste is generated around the **world** - containing up to USD 65 billion worth of raw materials like gold, silver and platinum sent to landfill. The amount of **global** e-waste is expected to increase by almost 17% to 52.2 million tonnes in 2021, or around 8% every year. Vape products are e-waste since they contain lithium-ion batteries and a heating element. Disposing of e-waste is a considerable challenge due to the different types of chemicals and materials in these products. There are no direct regulations for recycling of e-cigarettes, heated tobacco products, vaporizers and cellulose acetate filters as product items in the **EU**, the **US**, **China** and **Japan**.

The **Israeli** food-tech start-up Biobetter Ltd has harnessed the inherent advantages of tobacco plants as bioreactors for creating the growth factors necessary for the cellular development of cultivated meat. BioBetter's unique protein manufacturing platform for producing growth factors uses tobacco plants (*Nicotiana tabacum*) as natural, self-sustaining, animal-free bioreactors. The field-grown tobacco plants offer a new, sustainable, efficient and flexible response to the market need for more competitively priced growth factors, specifically insulin, transferrin and FGF2. These compounds are necessary to make cultivated meat commercially viable.



SOURCES



PHILIP MORRIS INTERNATIONAL



Altria



Kohltrade





International Tobacco Growers' Association

Thank you!