



Tobacco Monitor

AN UPDATE ON THE MOST RECENT EVENTS AND FORECASTS

NOVEMBER 2022

CROP MONITOR

Tobacco sales from the 2022 marketing season in **Zimbabwe** raked in a total of USD 650 million, up from USD 589 million during 2021. In a statement announcing the closure of 2022 tobacco marketing season, the Tobacco Industry and Marketing Board (TIMB) expressed delight in the improved sales and deliveries to auction floors. The total amount of tobacco sold in 2022 was 212 711 370 kg, compared to the 211 100 219 kg in 2021. **Nevertheless, the local sector's target of becoming a USD 5 billion industry by 2025 remains difficult to achieve.**

One of the key tobacco growing regions in **India - Karnataka** will start auctioning its FCV tobacco crop in October 2022, according to the Tobacco Board of **India**. The board estimates around 64 million kg of good quality crop with a high share of bright grades. The Board urged leaf buyers to communicate their requirements well in advance. This year, the Board is promoting various sustainable tobacco production practices, including the promotion of integrated pest management, natural farming practices, NTRM-free tobacco production, fuel conservation measures and tree planting programs to ensure product integrity and compliance with buyer requirements.

The current tobacco crop in the **Philippines** is estimated at 46 million kg. Around 30,000 farmers depend on the crop proceeds in the market, with an expectation of a slight production increase going into the 2023 season. Heavy rains resulted in damage of nearly 4 million kg during the 2022 season.



European tobacco growers have voiced their concerns in relation to the future of the **EU** sector during the ITGA 2022 Annual General Meeting as production has gone down from over 400 million kg to well under 200 million kg in the span of a decade. The war in **Ukraine** is putting high pressure on input costs, in particular fertilizers. As of recently, the biggest markets in tobacco leaf production terms are **Italy, Poland, and Spain** – with outputs of less than 40 million kg each.



Tabacuba Business Group of **Cuba** is drawing up new strategies for tobacco output in the 2022–2023 harvest following the destruction of Hurricane Ian. Local experts believe that **Pinar del Rio** province will be decisive in future planning. All tobacco that was protected in natural curing houses and warehouses will be collected. 33,000 tons of the existing 41,000 tons are in this province, which reported 80% infrastructure destruction. Anywhere from 15,000 tons to 17,000 tons of tobacco will be taken to other provinces, and seedbed irrigation will be immediately resumed.

Following a law that was passed last year, a state agency in **Morocco** has issued ten permits for the use of cannabis in industry and medicine. The agency said that farmers, organised into cooperatives in the northern mountain areas of **Al Houceima, Taounat and Chefchaouen**, would gradually be able to grow cannabis to meet the needs of the legal market. The permits will also be used for export although they will not allow the recreational use of cannabis.

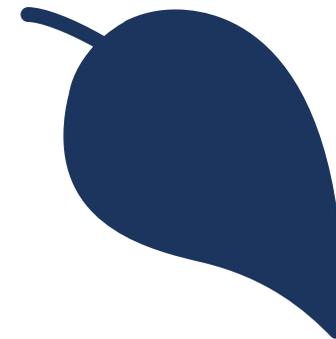


REGULA- TIONS

South Africa's laws on cigarettes and vaping products are one step closer to becoming much stricter, as a bill first tabled five years ago finally heads to Parliament. The bill proposes to outlaw smoking of traditional tobacco products and electronic nicotine delivery systems in all enclosed public places. The same goes for smoking too close to "an operable window or ventilation inlet of an entrance or exit" of "an enclosed public place, enclosed workplace, or in or on a public conveyance." **Part of the proposal is also introducing plain packaging and ban on advertising and product displaying. It remains unclear if and when the new regulations will be introduced.**

Philip Morris International (PMI) asked the **US** appeals court to overturn the import ban on IQOS heated tobacco devices. However, the **US** Court of Appeals for the Federal Circuit expressed some scepticism of PMI's argument that the **US** International Trade Commission should have consulted more with the **US** Food and Drug Administration (FDA) before handing down the ban. The case is part of a global patent dispute between RAI's parent company British American Tobacco (BAT) and tobacco giant Altria Group, which separated from PMI in 2008 and is the exclusive distributor of IQOS in the **US**.

The **US** FDA issued marketing denial orders (MDOs) for several menthol-flavoured vaping products marketed by Logic Technology Development, part of Japan Tobacco International (JTI). The move seems in line with the regulatory agency's goal to ban menthol flavours from tobacco products. The FDA also isn't expected to approve any flavoured vaping product other than tobacco.



China's Ministry of Finance is imposing a consumption tax on e-cigarettes starting 1 November. Producers and importers of such products will incur a 36% levy, while wholesale distributors must pay an 11% tax. Vaping companies operated in a legal grey area until the State Tobacco Monopoly Administration (STMA) asserted its authority over the category in 2021.

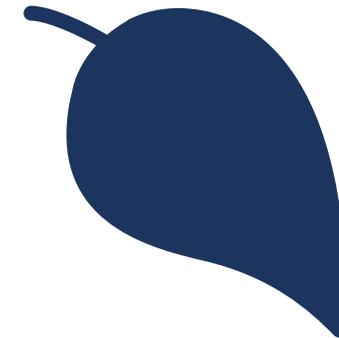
Hong Kong may reverse its ban on the re-export of e-cigarettes and other heated tobacco products by land and sea transport by the end of this year as part of efforts to ignite growth. Groups opposing this move have argued this would undermine the credibility of city authorities if they backtracked on their promise to curb tobacco use and weaken the promotion of public health.

The **Swiss** government is considering an introduction of an e-cigarette tax that could contribute up to CHF 13.8 million (USD 13.8 million) in tax revenue. The proposed tax rate for reusable e-cigarettes is CHF 0.20/ml of liquid containing nicotine. For single-use e-cigarettes, the government is aiming for CHF 1.00/ml of liquid, regardless of the nicotine content.

The Department of Trade and Industry in the **Philippines** will begin its public consultation for the crafting of the implementing rules and regulations of the Vaporized Nicotine Products Regulation Act or vape law. The Philippines' Vaporized Nicotine Products Regulation Act governs the importation, manufacture, sale, distribution and use of vape products. Among other measures, it calls for lowering the vaping age to 18 from 21.

The Health Ministry in **Malaysia** has taken proactive steps by categorising nicotine replacement products as non-poisons, allowing people to gain better access to them. Through this exemption, access to nicotine replacement products in the form of patches or gum is now easier through over-the-counter purchases, including at retail or convenience stores that carry the products.

Meanwhile, **Malaysia's** Health Minister decided not to table the "generational endgame" bill despite the bipartisan special parliamentary select committee making amendments and reaching consensus. This will give more time to local members of parliament to discuss the proposition.



INDUSTRY UPDATES

PMI announced its Q3 2022 results:

- Net Revenue is down 1.1% or up 6.9% on pro forma basis (excluding **Ukraine** and **Russia**).
- Operating Income is down 14.1% or up 4.4% on pro forma basis.
- Net revenues from smoke-free products account for 30.1% of the company Net Revenues, while the total shipment volume increased by 0.6%.

Pro forma revenue growth is driven by total shipment volume growth of 2.3%, the continued favourable mix shift from cigarettes to smoke-free products, and a favourable total pricing variance. Combustible product pro forma adjusted net revenues increased by 4.1% on an organic basis, driven by a favourable pricing variance of 4.9%.

PMI is not considering withdrawing its offer for Swedish Match despite the deteriorating global economic conditions. PMI in May offered to buy the company in a bet on the fast-growing market for cigarette alternatives. By **Swedish** law, 90% of Swedish Match shareholders need to approve the offer before 21 October, but some have come out against the deal. Swedish Match controls about half the world's market for snus. The company is also the global industry leader for nicotine pouches. Meanwhile, PMI has extended the acceptance deadline of its USD 16 billion offer for Swedish Match to 4 November, as it awaited merger control approval from the **European** Commission, which was subsequently granted. Later in the month, PMI increased its offer stating this is the best and final price.



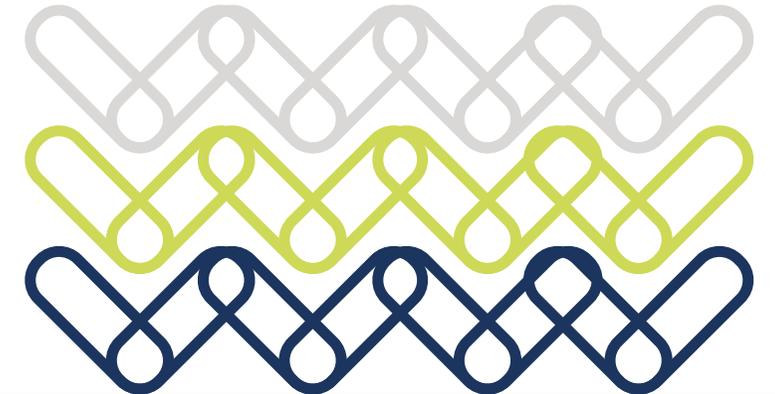
PMI announced an agreement with Altria to end the companies' commercial relationship covering IQOS in the **US** as of 30 April 2024. Thereafter, PMI will have the full rights to commercialize IQOS in the **US**. As part of the agreement, PMI will pay a total cash consideration of USD 2.7 billion, of which USD 1.0 billion was paid at the inception of the agreement using available cash. The company views IQOS as a very substantial growth opportunity in the **US** smoke-free market, whose retail value represents around 60% of that for the rest of the world, excluding **China**. PMI is already well advanced in its plans for the commercialization of IQOS in the **US**, as it prepares for domestic manufacturing, important regulatory submissions, including Pre-market Tobacco Applications (PMTAs) for ILUMA in the second half of 2023, as well as the development of **US** sales, distribution, retail, consumer engagement and support capabilities over the next 18 months.

Altria has reached a decision to compete with Juul Labs, distancing itself from the vaping company in which it invested nearly USD 13 billion, for a 35% stake, and which now faces a potential ban of its e-cigarettes in the **US**. By doing this, Altria is losing the right to the board designation and significantly reducing its voting power. However, ending its noncompete obligations allows Altria to go it alone or pursue other vapor companies, such as Njoy, which has received FDA marketing authorization for several of its products.

Later on, JTI announced it has entered into a joint venture with Altria, to market and commercialize heated tobacco sticks products in the **US** with Ploom branded devices and Marlboro branded consumables. JTI will have a 25% economic interest in Horizon, the name of the new entity, to reflect its product contribution.

Imperial Brands announced a buyback programme and affirmed trading is in line with expectations. The company's CEO announced: "We intend initially to repurchase up to GBP 1 billion of shares in the period from 7 October 2022 to the end of September 2023. This would represent approximately 5.5% of the issued share capital of Imperial Brands. Over time, we intend to deliver a material reduction in the capital base, providing an ongoing source of shareholder returns in addition to our progressive dividend policy." Also, Imperial shared it continues to make good progress in implementing the previously announced refreshed NGP strategy. Share gains have been made with Pulze and iD, Imperial's heated tobacco offering, in **Greece** and the **Czech Republic**, and in the past month the product was launched in **Italy**. The consumer trial of blu 2.0, a new pod-based vapour device, in selected cities in **France** has been well received by consumers.

The new edition of the Foundation of Smoke Free World – the Tobacco Transformation Index is now live. Among the Index key findings are: The tobacco industry has not phased out High-Risk Products (HRPs) or transitioned smokers to Reduced-Risk Products (RRPs) quickly enough to achieve the goal of ending smoking in this generation; Index Companies continued to focus most of their RRP efforts on high and middle income countries; the majority of Index Companies have not made any commitment to tobacco harm reduction; several Index Companies regressed or made no progress over the 2019-2021 review period; over the 2019-2021 review period, a few Index Companies indicated a potential future shift in their position on RRP; there is currently limited transparency in terms of Marketing policies and Lobbying practices.



SUSTAIN- ABILITY

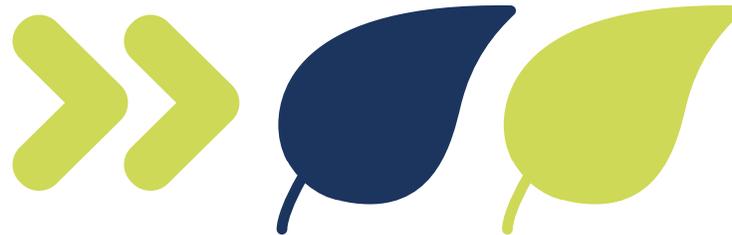
ITGA held its 2022 Annual General Meeting (AGM) in **Castelo Branco, Portugal**. The event gathered tobacco growers' representatives from five continents. During the Open Session there were presentations related to the current market and legislative landscape as well as regional blocks for Africa, Americas and Europe, with key local stakeholders taking the stage. During the Closed Session, members shared additional details regarding the key challenges in their respective markets. At the end of the session, Jose Javier Aranda from **Argentina** was named the new ITGA President, while **Zambia** took over the Vice President position. To close this remarkable occasion, participants to the ITGA AGM celebrated together the World Tobacco Growers' Day and shared celebrations held in their countries.

The **US** President took steps to overhaul **US** policy on marijuana, pardoning thousands with federal offenses for simple marijuana possession and initiating a review of the drug's classification. Nearly 40 **US** states have legalized some form of marijuana use, but it remains completely illegal in some states and at the federal level. Reclassification would be a first step toward wider legalization.

Germany's Minister of Health has unveiled plans to decriminalise the possession of up to 30 grams of cannabis and allow the sale to adults for recreational purposes. It is still unclear whether the plan approved by the Cabinet can be implemented, as the government first wants to make sure that it is compatible with **European Union** law.

JTI vowed to continue investing in the **Philippines**, including a substantial capital expenditure for next year, hiring of additional workers for its Global Business Service Centre, and potential production of its heated tobacco products at its manufacturing hub in **Batangas**. JTI's cigarette factory in **Malvar, Batangas**, exports more than 50% of its production to 16 countries in the **Asia Pacific**. The factory employs 800 people with marketing team of over 4,000 personnel nationwide.

The tobacco company Cut Rag Processors (CRP) plans to build a USD 80 million cigarette factory in **Harare, Zimbabwe**. CRP is one of the leading exporters of cut rag in the market and manufacturer of the Remington Gold cigarette brands. Reportedly, 60,000 square metres of land in **Lochinvar** industrial have been cleaned to make space for the plant. This goes in line with the governments plan to significantly increase the tobacco capacity of the market.

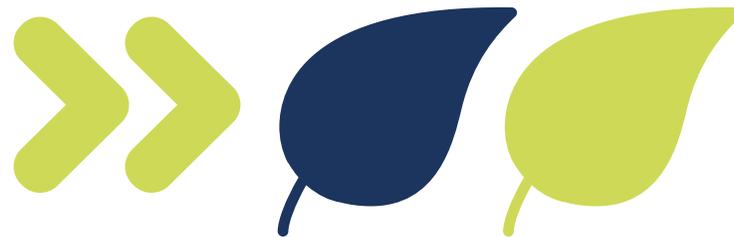


BAT has published its Low-Carbon Transition Plan, detailing the actions it will take to reach its climate targets. This includes halving absolute emissions across its value chain by 2030, from a 2020 baseline, and to be net zero across its value chain by 2050 at the latest.

BAT identified collaborating with tobacco leaf farmers through carbon-smart farming and curing efficiency projects as part of its plan. In addition, to achieve its Net Positive goal, BAT's leaf operations educate farmers in forest and biodiversity management, distribute tree saplings and help farmers switch to locally available alternative fuels.

RLX Technology, the **Chinese** e-cigarette maker, released its annual CSR report, Envisaging a Better Future, highlighting its effort in market responsibility, R&D investment, environment protection, employees' career and corporate governance. According to the report, RLX has further enhanced on its investment in product quality and vaping science. Since its inception, RLX has invested RMB 800 million (USD 110 million) in R&D. RLX's laboratory matrix consists of eight labs for different purposes and develops a science research chain covering product quality, physiochemical research, toxicology research, long-term impact assessment and clinical research.

A study by **Chinese** scientists and their **US** counterparts has identified a type of bacteria in our gut that can effectively degrade nicotine, a harmful ingredient in tobacco that causes addiction and a slew of health risks including fatty liver disease. The study findings suggest a possible strategy to reduce tobacco smoking-exacerbated non-alcoholic fatty liver disease progression, by employing bacteria that are naturally present in human gut and that have been used safely in food production.



SOURCES





International Tobacco Growers' Association

Thank you!