



Tobacco Monitor

AN UPDATE ON THE MOST RECENT EVENTS AND FORECASTS

DECEMBER 2022

CROP MONITOR

As of early November, 133,724 farmers have registered to grow tobacco in **Zimbabwe**, up from 111,063 the year before. Dryland tobacco planted so far amounts to 2,107 ha, while irrigated tobacco – 10,483 ha. The increased interest in the crop could signal a higher production level for the next season. Notably, tobacco is ranked among the most important non-food crops in the country, improving the livelihoods of many people.

According to sources in **Zimbabwe**, at least 400 ha of irrigated tobacco have been damaged after farmers applied counterfeit chemicals to the crop. The Tobacco Industry and Marketing Board (TIMB) added that, following reports of abnormally growing tobacco plants in October, plant health service officers determined that some farmers had used chlorpyrifos, a hazardous pesticide that is banned for use on tobacco and many other crops. Often case the reason for such use is the lower price.

In the meantime, **Zimbabwe's** TIMB has banned the company Voedsel Tobacco International from contracting farmers this season after failing to pay farmers for two years. With buying facilities in tobacco-growing regions, including **Rusape, Marondera** and **Karoi**, Voedsel was among the major financiers of tobacco contract schemes.



The initial estimate for the 2022/2023 harvest in **Brazil** is 604.7 million kg. This represents around 8% increase compared to the 2021/2022 crop, which totalled 560.2 million kg. In **Rio Grande do Sul**, the production estimate points to 256.7 million kg. In **Santa Catarina**, the projection is 191.6 million kg. In **Paraná**, production should reach 156.5 million kg.

Price negotiations in **Brazil** should start in December. Last season was particularly profitable for growers, which, in part, supports the expected production growth for the incoming season.

Current and former tobacco growers who wish to claim funds from the **US** Tobacco Stabilization lawsuit settlement should complete a proof of claim form by 12 December 2022. The settlement stems from a lawsuit against the Flue-Cured Tobacco Cooperative over withheld funds, which are now being returned to qualifying grower members. Tobacco growers who were a member of the cooperative at some point between 1946 and 2004 are eligible for payment considerations.

Tobacco exports in **Pakistan** registered a 75% year-on-year value increase for the July-September 2023 period. The total value worth of this amount is USD 13.8 million. In volume terms, growth was higher – 93.4%, from 3.1 million kg to 6.0 million kg.



REGULA- TIONS

The introduction of pictorial health warnings in the US was postponed once again to 6 November 2023. This is the tenth delay of the regulation.

Citizens of **California, US**, upheld a state law ending the sale of most flavoured tobacco products, including flavoured e-cigarettes, menthol cigarettes and flavoured cigars in a referendum held in November. The margin of the vote was 63%:37%. Opponents of the ban collected more than 1 million signatures and forced the state to hold a referendum on the ban. Immediately after the ban, tobacco companies filed a lawsuit against **California** in federal court.

The **EU** is to propose a vaping levy as part of a shake-up of taxation on the tobacco industry that would also double excise duties in member states with low cigarette taxes. The changes to legislation will increase the EU's minimum excise duty on cigarettes from EUR 1.80 to EUR 3.60 per pack, which would raise prices in **Eastern European** countries where packs can sell for under EUR 3.00. Steps will be also taken to bring into line the taxes of vapes and heated tobacco with cigarettes.

In November, the EU published a directive officially banning flavours in heated tobacco products throughout the region. The ban, which covers all flavours except tobacco, officially takes effect on 23 November. EU member states have until 23 July 2023, to transpose the rule into national legislation. Some members, including **Bulgaria, Cyprus, Greece** and **Italy**, raised concerns over whether the commission was empowered to introduce a definition of a new category of tobacco products in a Delegated Act.

According to judges in the **Netherlands**, there are 'strong indications' that filter cigarettes on sale in the country may break official **EU** limits on tar, nicotine and carbon monoxide. The court case follows tests carried out by public health institute in 2018 which showed the amount of tar in a cigarette can be up to 26 times the official norm and that nicotine and carbon monoxide levels are also far too high in most brands. As a result, anti-smoking activists have demanded the removal of all cigarettes from stores.

The government in the **Netherlands** plans to restrict sales of cigarettes to tobacconists within 10 years. Supermarkets will have to stop selling tobacco products in 2024 while gas stations and convenience stores may continue selling them until 2030. Over the following two years, all non-tobacconist stores will have to phase out tobacco sales.



More than 80% of people aged 18+ in **Japan** find tobacco smoke unpleasant, according to a recent survey, highlighting widespread negative sentiment among the public toward second-hand smoke. Although in April 2020 the government imposed a general ban on smoking in indoor spaces, nearly half of respondents answered they want stricter measures to stop second-hand smoking. Regarding steps the government should take on the issue, 48% of respondents wanted strengthened measures. Of those, approximately 60% asked that outdoor smoking locations on the streets and parks, among other areas, be reduced.

Residents of **Hong Kong** born in 2009 or after should be banned from buying cigarettes by 2027, government advisers have proposed, as they recommended a basket of measures to further shrink the smoking population. The Minister of Health also supports the measure. Other measures proposed include doubling the current tobacco tax by 2023–2024, which means a pack of cigarettes currently priced at HKD 60 (USD 7.64) would rise to around HKD 100. The council said the tax should be further raised in the following two years, so a pack of cigarettes would cost HKD 200 by 2025–2026. Some have opposed the measure due to the limitation of freedom of choice.

Meanwhile, the **Hong Kong** government wants to resume shipment of alternative smoking products through the city to boost the air cargo industry. Domestic sales would remain illegal under the proposal.

The President of **Indonesia** approved a policy to increase tobacco excise rates by 10% in 2023 and 2024. The measure will extend to cigarettes classified under SKM, which refers to machine-made kretek cigarettes, machined white cigarettes (SPM), among others. Local sources suggest that cigarettes are the second largest household expense in the country after rice.

The Health Ministry in **Vietnam** has proposed a ban on next generation tobacco products. At the moment, 3.6% of the local population uses e-cigarettes.

The National Authority on Tobacco and Alcohol in **Sri Lanka** proposed new cigarette price increases. In addition, the agency is putting forward a motion to ban single stick sales.

Morocco reportedly approved a new round of taxes for shisha MAD 675 (USD 63) per kg. The measure aims to preserve the health of consumers.



INDUSTRY UPDATES

Swedish Match released its Q3 2022 results:

- Sales increased by 21% to MSEK 5,782 (USD 556 million).
- Profit increased by 15% to MSEK 1,778.

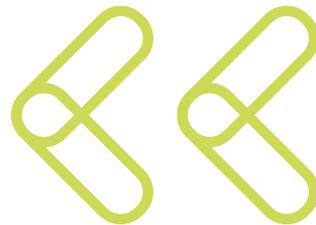
This performance is driven by the company's US smokefree business, currency tailwind and continued category growth for smokefree products in **Scandinavia** driven by rising demand for nicotine pouches.

Meanwhile, Philip Morris International (PMI) finally won the support of a major shareholder in Swedish Match. The company now owns more than 90% of the Swedish Match's shares and is planning to delist it from the stock exchange. This marks the end of a process that will see the addition of Swedish Match oral tobacco portfolio into PMI's smoke free products.

Altria released its Q3 2022 results:

- Net revenues are down 3.5% to USD 6,550 million.
- Operating income is up 5.5% to USD 3,112 million.

The revenue result was driven by the sale of Altria's former Ste. Michelle wine business in October 2021 and lower net revenues in the smokeable products segment, partially offset by higher net revenues in the oral tobacco products segment. In smokeables, net revenues decreased 1.6%, primarily driven by lower shipment volume and higher promotional investments, partially offset by higher pricing. In addition, smokeables reported domestic cigarette shipment volume decreased 9.2%, driven by the industry's decline rate, retail share losses and other factors, partially offset by trade inventory movements.



Japan Tobacco International (JTI) released its Q3 2022 results:

- Revenue in the core tobacco business is up 21.5% to JPY 655.4 billion (USD 4.7 billion).
- Adjusted operating profit in the core tobacco business is up 20.1% to JPY 228.3 billion.

Robust pricing was the primary reason for the posted growth. Total JTI volume was resilient, down only by 0.6%, with market share gains and continued growth in the EMA cluster, mainly in Global Travel Retail, Iran, **Poland** and **Russia**. These increases almost offset declines in the **Asia** and **Western Europe** clusters. In the reduced risk category, volume grew by 3.5% driven by the ongoing heated tobacco segment increase and Ploom X share gains in Japan, while combustibles volume slightly declined by 0.7%, mainly due to industry volume contraction in the key markets of **Italy**, **Japan**, the **Philippines**, and the UK.



KT&G released its Q3 2022 results:

- The tobacco division sales are up 4.4% to KRW 970.4 billion (USD 731.4 million).
- Net income is up 36.5% to KRW 406.1 billion.

Sales are aided by the strong growth of domestic and overseas heated tobacco business, while income is pushed up due to gain on foreign currency translation led by the favourable exchange rate. In cigarettes, KT&G sold 11.1 billion sticks in **South Korea** and 12.2 billion sticks overseas, a significant year-on-year improvement.

Meanwhile, the company will release a new heated tobacco product in **South Korea** – lil ABLE. This is a step in the company's efforts to increase sales in the non-cigarette business division.

Universal released its HY 2022 results:

- Tobacco operations sales are up 33% to USD 918.1 million.
- Tobacco operations operating income is up 17% to 41.9 million.

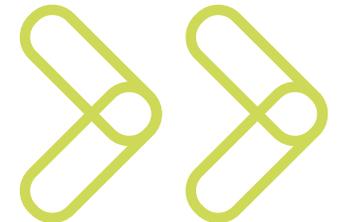
The tobacco operations segment improved due to substantial shipments of both carryover and current crop tobacco. Carryover and current crop tobacco shipments from **Brazil** were up significantly in the six months ended September 30, 2022, compared to the six months ended September 30, 2021. In **Africa**, carryover and current crop shipments from **Mozambique** and **Malawi** were lower due to smaller crop sizes as well as some logistical delays. In **North America**, sales volumes were down, in part due to shipment timing, and the sales mix included some lower margin tobacco. Trading business was up in **Asia**.

Pyxus International released its Q2 2022 results:

- Leaf sales and other operating revenues are up 33% to USD 475.6 million.
- Product revenue gross profit is up 36.9% to USD 63.1 million.
- Kilos sold are up 17.5% to 101.4 million kg.

The increase in leaf volume was driven by increased demand and more normalized timing of shipments from **Africa**, **Asia**, and **South America** and was partially offset by the timing of shipments from **North America**.

PMI launched its new heated tobacco system Bonds by IQOS, with the consumable sticks, Blends, in a pilot market in the **Philippines**. Further launches are expected in the remainder of 2022 and next year.



SUSTAIN- ABILITY

The **Iranian** Tobacco Co wants to invest in **Zimbabwe** to reduce the cost associated with buying tobacco through middlemen. The company reportedly targets areas such as irrigation, curing and mechanization. On the table are also contracts with farmers and setting up factories in **Zimbabwe**. Notably, the investment is reported to prioritize creating jobs for women and youths. High level governmental talks also discussed areas such as fertilizers, power and others.

Phillip Morris Korea (PMK) has begun full-scale production of Terea, a tobacco stick for the company's new heat-not-burn IQOS Iluma devices, at its plant in **Yangsan, South Gyeongsang Province, South Korea**. The facility produces for the domestic market and export. Unlike the previous Heets tobacco stick products, the tip of a Terea stick is sealed so it leaves no residue in the device after smoking. Thus, users don't need to go through the inconvenience of cleaning the e-cigarette device every time they use it with Terea. Currently, about 600 people are employed at the production facility, and PMK has invested more than KRW 300 billion (USD 225.83 million) since 2017 in building production facilities for non-combustible products such as Heets.

PMI has decided to expand the production capacity of its factory in **Klaipeda, Lithuania** after suspending operations in **Ukraine**. When implementing the project, a new section of the production building will be constructed, connected to the existing storage facilities. The cost of the project is EUR 3.5 million, and work is scheduled for completion toward the end of 2023. The factory in **Klaipeda** will produce products intended for **Ukraine**.



British American Tobacco (BAT) announced an investment in Charlotte's Web Holdings, Inc. Based in **Colorado, US**, Charlotte's Web is the #1 US brand in innovative hemp extract wellness products. Their product formats include tinctures, capsules, chews and topicals. The investment amount is GBP 48.2 million (USD 59.3 million). BAT officials noted that "...investment in Charlotte's Web represents another step for BAT in our exploration beyond tobacco and nicotine."

JTI has invested heavily in its operations in **Santa Cruz do Sul, Brazil** in order to increase its current tobacco processing capacity by 15%, translating to 50,000 tonnes per year, by the end of 2023. The investment is part of a plan announced last year, which included investing BRL 123 million (USD 23 million) in JTI's operations.

GVB Biopharma, a 22nd Century Group company, announced it has opened a new, strategically-located distribution facility in the **Netherlands** to support its growing business in **Europe**, the **Middle East**, and **Africa**. The new distribution facility will increase existing and new customer access to GVB's quality hemp/ cannabis products, speed up transaction flow, and optimize cross border tax and customs treatment. According to 22nd Century Group, GVB is widely regarded as a best-in-class operator with a leading position in the hemp-derived active ingredients market, with around 15% market share and growing.



The city of **Baltimore, US** is suing several major tobacco companies to provide as much as USD 5 million per annum for the clean up of cigarette butt litter. The lawsuit alleges that the tobacco companies have refused to place warnings on their boxes explaining how to properly dispose of filters and that they have chosen not to make filters biodegradable. The companies have 1 month to respond in court.



SOURCES



REUTERS



FINANCIAL TIMES



South China Morning Post



TobaccoIntelligence
Regulatory & market intelligence for alternative tobacco & nicotine products



MOROCCO
WORLD NEWS



PHILIP MORRIS
INTERNATIONAL



Altria



22nd Century Limited, LLC



The Sunday Mail



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Kyodo News+

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International Tobacco Growers' Association

Thank you!