



Market Research Report

Organic Tobacco

- Market Overview
- Growth Forecast
- Key Market Trends
- Competitor Analysis



Executive Summary

Organic tobacco is processed and grown without using any chemicals or preservatives. These are surrounded with sunflower plants as trap crop for beneficial insects such as bugs. Organic tobacco products are available in various forms such as cigarette and organic flavored tobacco. The anti-tobacco activists claim that organic tobacco helps to quit smoking habit, as it does not contain ammonia, pesticides and bleach as that of tobacco is one of the key factor burgeoning growth of market. Organic tobacco products always possess United States Department of Agriculture (USDA) certification.

However, the high cost of organic tobacco is expected to hinder market growth. According to United States, Department of Agriculture (USDA), the average cost of conventional tobacco was US\$ 6.11 per kg and that of organic tobacco was US\$ 10.67 per kg in 2021, which is restraining the growth of the market. Furthermore, organic tobacco contains harmful substances such as carbon monoxide, heavy metal and tar leading to diseases such as chronic obstructive pulmonary disease (COPD), which may have negative impact on the growth of this market. According to Centers for Disease Control and Prevention (CDC), in America, nearly 17.7 million was diagnosed with COPD in 2019.

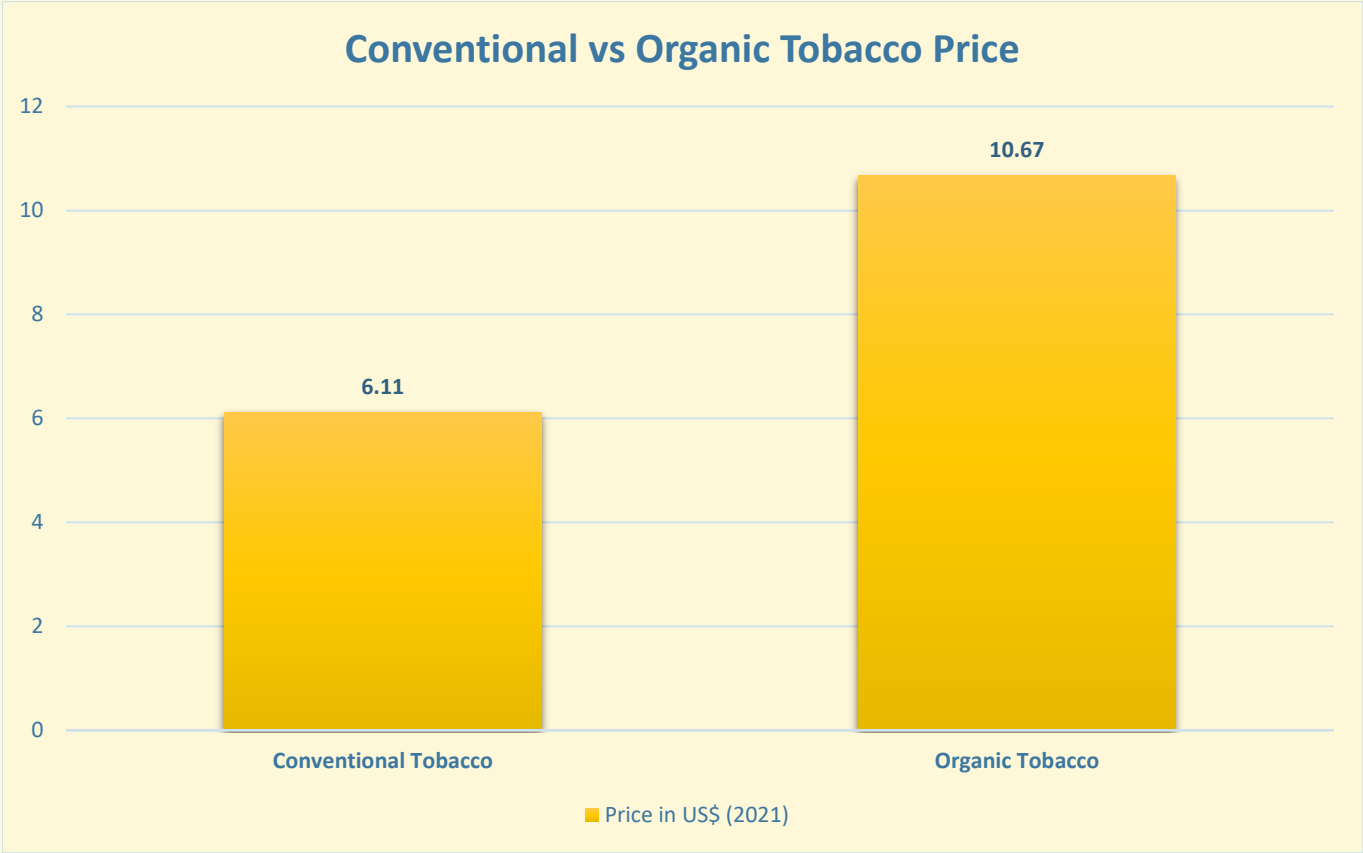
COVID-19 Impact

Beyond disruption to supply chains, analysts believe the short-term impact of COVID-19 on the tobacco industry will be relatively limited. It is likely that key cigarette volumes were only slightly lower than expected in 2020, in a number of markets globally. This impact on volumes is expected to be felt unequally across geographies, with resilience seen across more developed markets while developing markets experience potentially greater numbers of consumers turning to the illicit market. Production of the principal raw material – tobacco leaf – remains broadly diversified across a number of continents. The industry has proven adept at dealing with supply-side shocks.



Litigations and Regulations

Legal and regulatory court proceedings continue in a number of forums against the tobacco industry, and more recently the vaping industry, with the most common being third-party reimbursement cases, class actions and individual lawsuits. Special factors that led to product liability litigation in the US and Canada are not typically replicated in other countries, which is why large volume and high-value litigation has not generally spread to other parts of the globe. The industry has a proven track record of defending its rights and managing risks such as these.



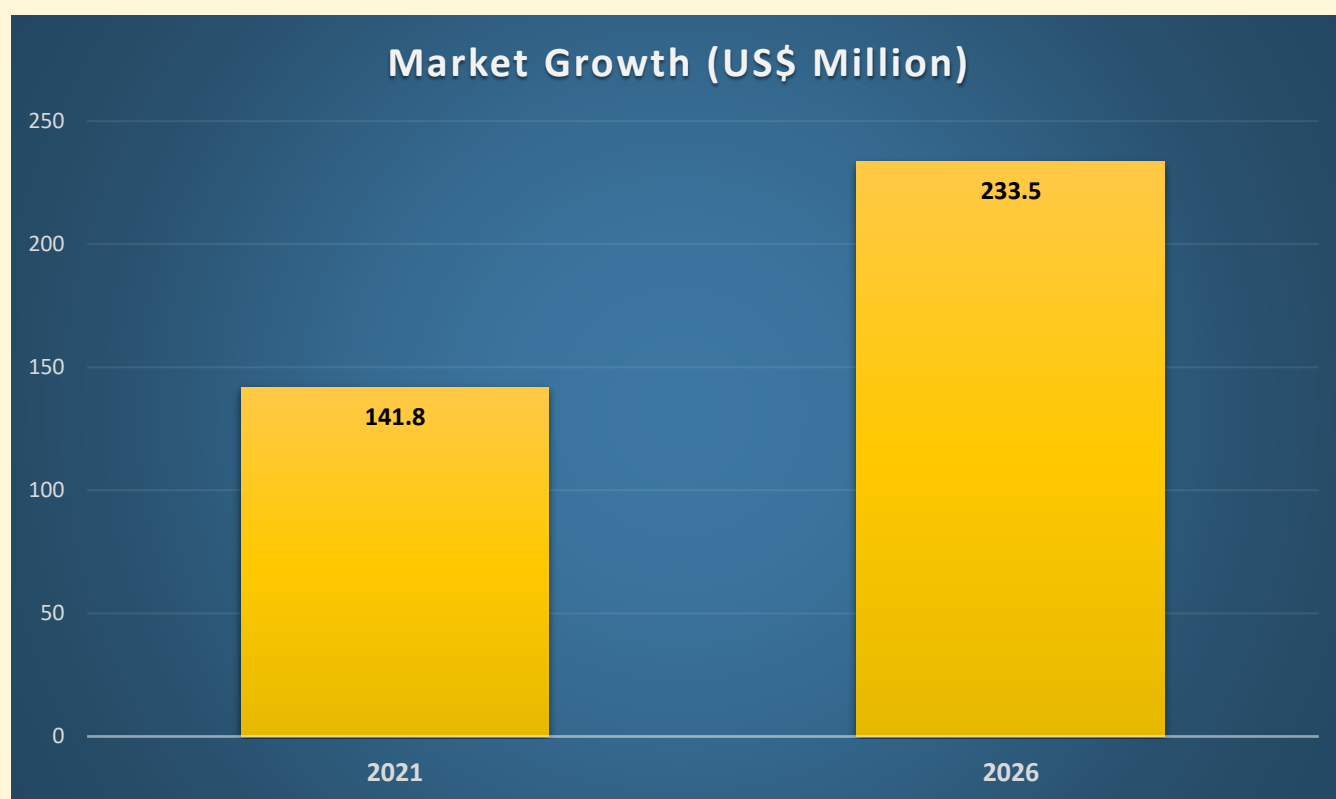


Introduction



Introduction

Organic tobacco does not contain any harmful chemicals and pesticides and has fewer side-effects as compared to the conventional one. They are available in different forms such as semi processed, chewing, snuff, homogenized, and tobacco extracts. The global organic tobacco market is estimated to account for US\$ 141.8 million in 2021 and likely to reach a valuation of US\$ 233.5 million by the end of 2026, progressing at a CAGR of 7.4% over the forecasted period.



The term organic is often used for products that are natural and has not been treated or exposed to any chemical substances or not naturally formed. However, organic matter refers to plants or other



cultivated consumables. Crops grown in soils treated only with federally approved pesticides and non-synthetic fertilizers. Organic tobacco is grown and processed without the use of preservatives or chemicals. These are surrounded by sunflower plants for useful insects like insects. Organic tobacco products are often available in multiple forms. People who smoke say that organic cigarettes help to quit smoking because they do not contain chlorine, ammonia, and pesticides like regular cigarettes.

This is one of the important reasons to strengthen the organic tobacco industry. Organic tobacco products are officially certified by the United States Department of Agriculture (USDA). Organic tobacco's popularity stems from the belief that it is less harmful than regular tobacco products. The concept recently picked up steam in developed countries, thanks to aggressive advertising from tobacco manufacturers. In the United States in particular, numerous brands have focused on the natural appeal of organic cigarettes and the additive; proposition, offering smokers the option of not significantly stopping nicotine addiction.

Recent Developments

- ▶ In October 2017, Japan Tobacco Inc. is marketing the new tobacco product approved by the United States Department of Agriculture (USDA) under the brand name `Natural American Spirit Organic Leaf`, without additives.
- ▶ Japan Tobacco Inc. was established in 2015 by Reynolds American Inc. (RAI) has acquired the Natural American Spirit brand, including nine subsidiaries.





Market Drivers

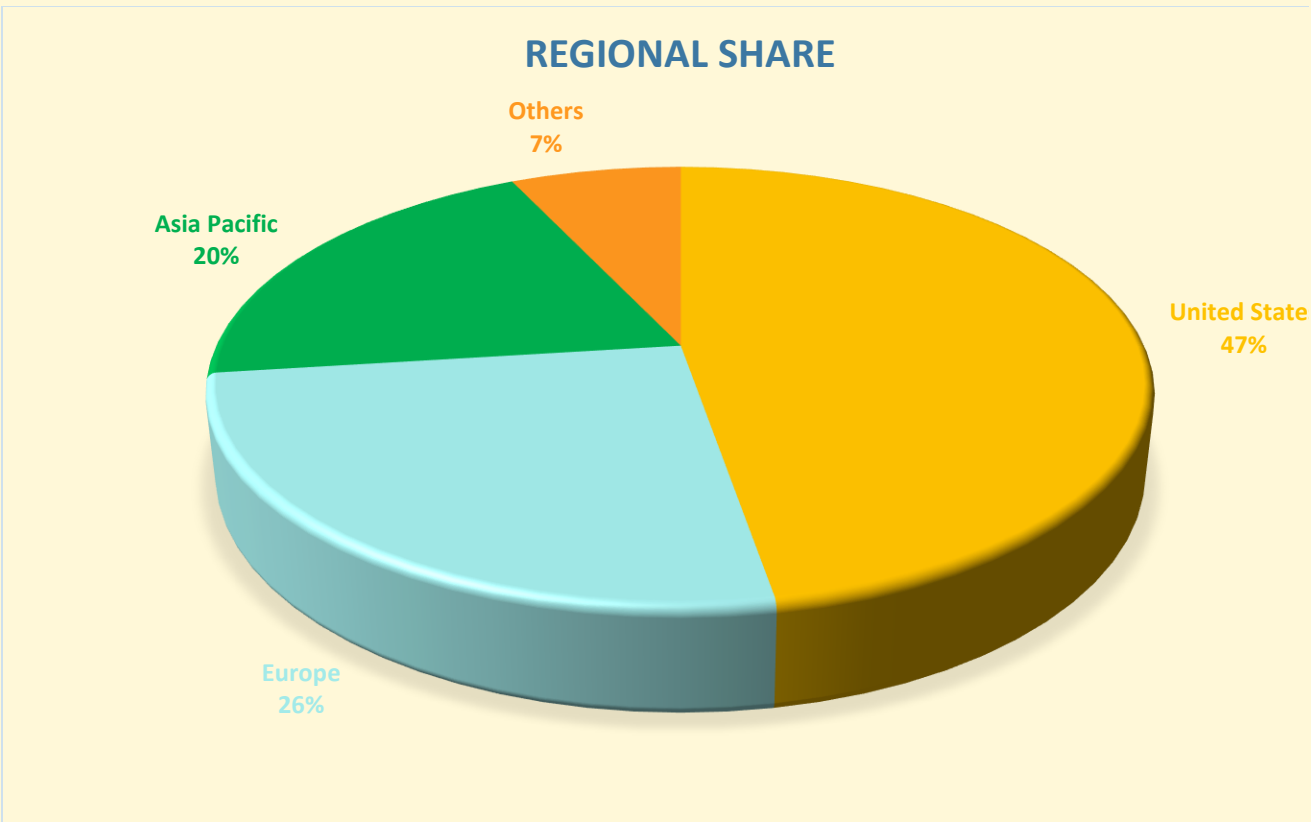


Growth Drivers

An increasing number of smokers around the globe is predominantly propelling the market growth of organic tobacco. According to the U.S. Department of Health & Human Services, in 2018, nearly 14 of every 100 U.S. adults aged 18 years or older (13.7%) smoked cigarettes. Therefore, a growing number of smokers is a major factor augmenting the market growth of organic tobacco over the forecast period.

Rising health-conscious consumers is raising demand for organically farmed tobacco. Moreover, rising awareness regarding organic products due to its various health benefits is projected to augment the market growth of organic tobacco. Organically grown tobacco contains fewer chemicals and harmful products such as fertilizers and pesticides. Thus, rising health-conscious consumers is augment the market growth of organic tobacco.

North America region dominated the global organic tobacco market in 2021, accounting for 47.3% share in terms of value, followed by Europe and Asia Pacific, respectively.



Restraints

High cost and low yield of organic tobacco as compared to conventional tobacco are projected to hinder the market growth. Organic tobacco is twice the rate as compared to conventional tobacco and around 20-30% less yield is obtained from organic tobacco. Thus, the high cost of tobacco is expected to hinder the market growth of organic tobacco.

Adverse effects associated with carbon monoxide, heavy metal, and tar released by organic tobacco as they lead to various chronic disease is expected to limit the market growth of organic tobacco.

Opportunities

Increasing use of hookah around the globe is projected to serve major growth opportunities to the market of organic tobacco. It is widely used in the hookah and rising consumption of hookah is expected to foster market growth. Increasing income level of the consumer coupled with the changing lifestyle of the consumer is further expected to propel the market growth of the organic tobacco over the forecast period.

The growing adoption of organic farming among farmers due to growing concern over health due to the use of pesticide residue is projected to provide enormous opportunities. According to the Organic Without Boundaries, in 2017, a total of 69.8 million hectares of land were organically farmed which shows twenty percent growth from 2016 numbers. Thus, growing adoption of organic farming practices is anticipated to foster market growth.

Growth

Restraints & Challenges



<p>An increasing number of smokers around the globe</p> <p>Rising health-conscious consumers is raising demand for organically farmed tobacco</p>	<p>High cost and low yield of organic tobacco as compared to conventional tobacco</p> <p>Adverse effects associated with carbon monoxide, heavy metal, and tar released by organic tobacco as they lead to various chronic disease</p>
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MARKET SEGMENTATION

Market Segmentation

By Application

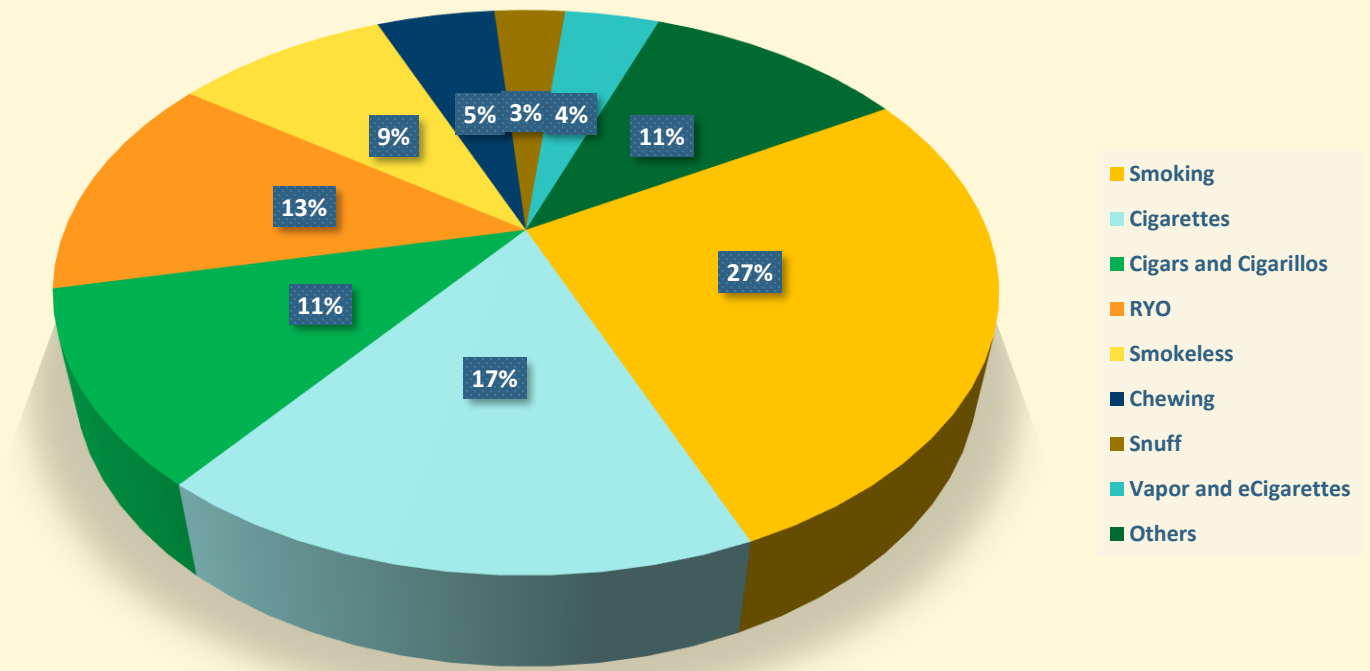
Among the application segments, the smoking segment is the most lucrative segment in terms of revenue share contribution to the global organic tobacco market. This segment is projected to maintain its dominance over the forecast period. The trend of 'roll-your-own smoke' has been re-gaining popularity, and many consumers, of varying age groups, are driven or motivated by the perceived romantic impression, or old-fashioned, but macho image rolling cigarettes carries along with it.

The smoking segment is estimated to gain more than 100 BPS between 2016 and 2026 in Latin America and is expected to increase at a CAGR of 7.6% over the forecast period. Smoking is an attractive segment in terms of market share and CAGR and is expected to retain its dominance throughout the forecast period. The roll-your-own tobacco sub-segment of the smoking segment is anticipated to grow 2.5x by the end of the projected period in Latin America. In Eastern Europe, the smoking segment is projected to hold 90% of the market share by the end of 2026, owing to the ban on chewing and snuff tobacco in Europe. This segment is expected to increase at a CAGR of 6.6% over the forecast period.

- Smoking
- Cigarettes
- Cigars and Cigarillos
- RYO
- Smokeless
- Chewing
- Snuff
- Vapor and eCigarettes
- Others



By Application



By Product Type

The curing of tobacco plays a major role in the final leaf quality, and it must be carefully controlled in order to bring out the characteristic taste of each tobacco type. Different types of curing are used for different types of tobacco.

Virginia tobacco is 'flue-cured.' The tobacco leaves are hung in curing barns, where heated air is generated to dry the leaves. As the leaves lose moisture, they develop their distinct aroma, texture, and color. The farmer must carefully guide this process, which takes up to a week, during which time the temperature of the heated air must be constantly monitored and gradually increased. Too much or too little heat at any stage of the process will have a negative impact on the quality of the tobacco.

Burley and oriental tobaccos are cured differently. Burley is 'air-cured' in barns where the heat and humidity come from natural ventilation. The curing process takes up to two months. Oriental tobacco is



'sun-cured' by hanging the leaves outdoors in the sun for about two weeks.

- Flue-cured
- Air-Cured
- Sun Cured
- Fire Cured

By Region

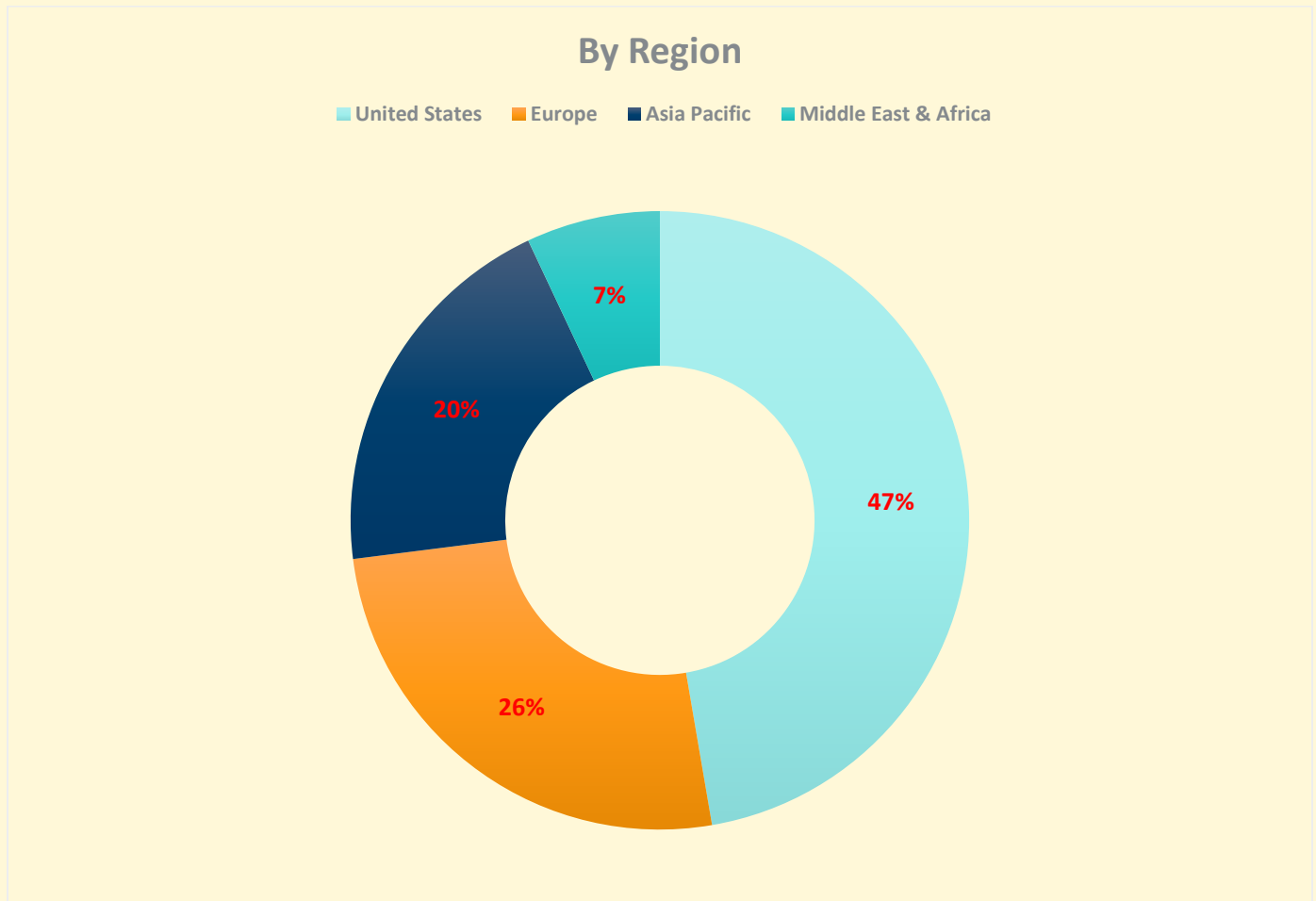
The market in North America is expected to maintain its dominances, accounting for more than 35% of global revenues in 2019. Spending has been increasing on production and introduction of organic products with less harmful effects to consumers. In the past decade, there have been numerous developments in the tobacco products market, especially with regard to smoking products. Better quality skins or papers, filters, and production equipment has been introduced and is currently in use. An increasing number of companies are focusing on optimizing the natural and organic product trend and shift in preference for more natural products in the market. Companies are focusing on mergers, strategic agreements, and collaborations with players operating in other regions and countries to maximize on the current demand. In October 2017, Japan Tobacco Inc. launched a new tobacco product –approved by the United States Department of Agriculture (USDA) – under brand name ‘Natural American Spirit Organic Leaf’, which the company is marketing as additive-free.

The market in Asia Pacific is expected to remain among the top consumers of tobacco products over the forecast period. Demand and consumption continue to remain significantly high in countries including China, India, and Japan. Consumption is projected to increase owing to increasing population, per-capita income and spending, high visibility and availability of products and a range of options to choose from.

- North America
- Europe



- Asia Pacific
- Latin America
- Middle East & Africa



By Form

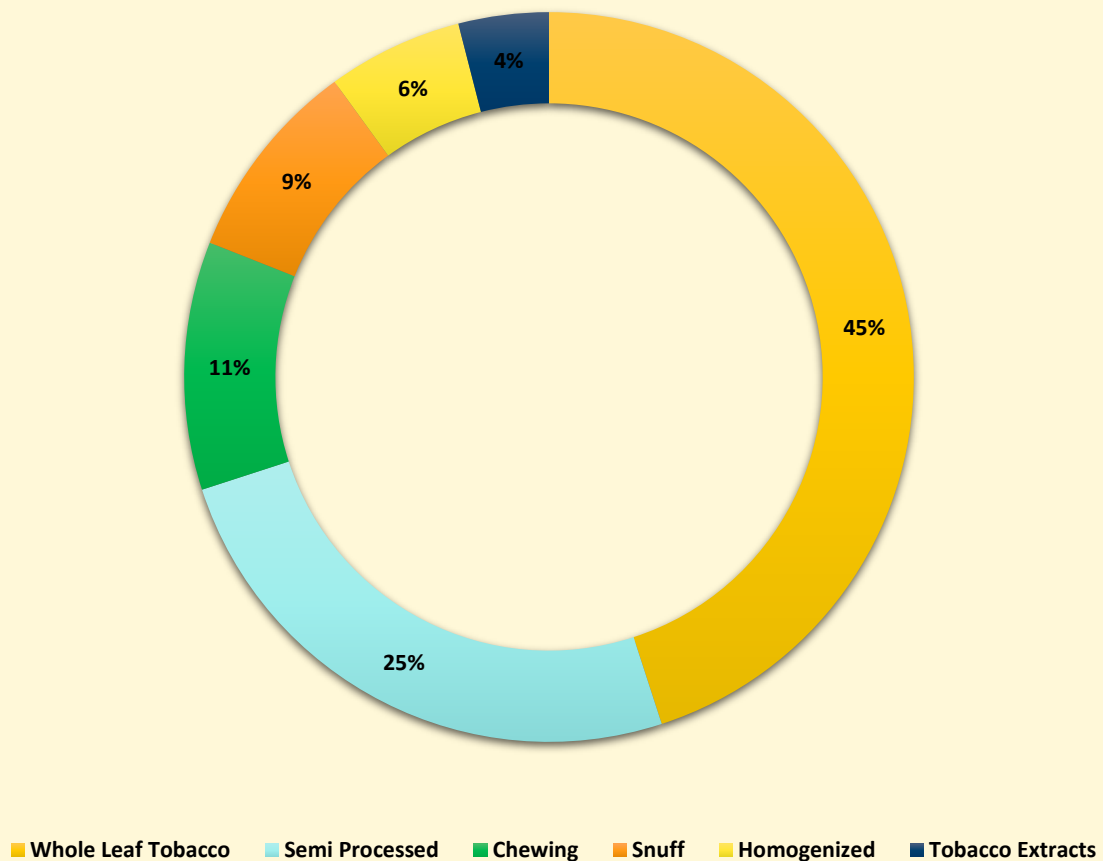
Raw tobacco leaves market or whole leaf tobacco market is expected to register a CAGR of 1.46% to reach US\$ 130 million by 2026. Raw organic tobacco leaves, also known as unmanufactured tobacco, are leaves that are sourced directly from the farms and require further processing by the manufacturing companies.

- Whole Leaf Tobacco
- Semi Processed



- Chewing
- Snuff
- Homogenized
- Tobacco Extracts

By Form



By Distribution

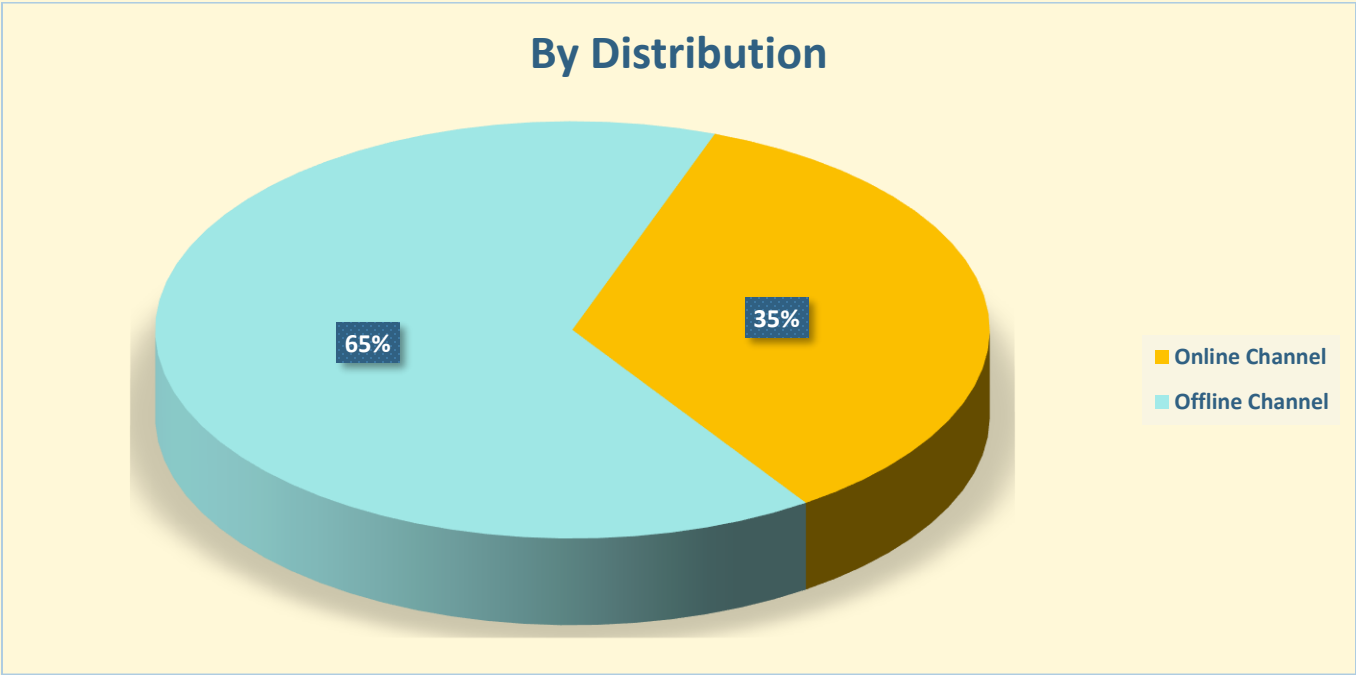
Based on distribution channel, the global organic tobacco market has been segmented on the basis on online distribution channel and offline distribution channel.

The online distribution channel segment is forecast to showcase fastest growth rate over 2021-2028 on account of increasing popularity of online shopping portals among the young population. The



growth in app-based sellers and delivery services apart from online tobacco products sales will also boost segmental growth during the forecast period.

The offline distribution channel segment accounted for majority of the global tobacco market share in 2020. The offline segment includes convenience stores, supermarkets, liquor stores, newsstands, pharmacies, and others. Increasing emphasis of tobacco companies to extensively use retail environment to reach their customers with the help of promotional and advertising strategies will boost segmental growth through 2028. Moreover, presence of fine-cut loose tobacco retailers in heavily populated areas with a huge medium and low-income population consumer base will also favor roll-your-own tobacco product market trends over the analysis period.





Strategic Analysis

Strengths

- According to IBISWorld, the organic tobacco market long-established position in the market brings four important strengths. First, it has enormous logistical capacity in production, distribution, and marketing.
- The organic tobacco market's second strength is its customer base that is a vital asset when 'business strategy is driven by consumer needs
- The organic tobacco market's third strength is its extensive technical knowledge about all things nicotine related. Organic tobacco market is better positioned to deliver on the science, to deliver on a product that meets the needs of consumers' as it has 'got folks that have done nothing but study tobacco their entire careers
- Finally, given the continuing profitability of combustibles, the industry has financial resources needed to innovate and adapt. Protecting the cigarette market is, therefore, 'a near term necessity', as 'the stock price and investor interest' comes from maintaining 'traditional products ... combustible cigarette products, for as long as possible'

Weaknesses

- Transitions will be slow in 'lower and middle-income countries', which 'are home to 80% of the global smoking population'. Emerging markets will be a solid combustible cigarette consuming base for many, many years to come.
- The other weakness is reputation for ruthless business practice. Several independents noted that 'nobody trusts the tobacco industry'. The lethal characteristics of cigarettes combined with past duplicity have made it a pariah.
- The organic tobacco market's established position brings two significant further weaknesses,



according to independents and TI representatives. First, like many large businesses, tobacco companies had become bureaucratic and set in their ways.

Opportunities

- Turning to the external environment, Alternative Nicotine Delivery Systems (ANDS) present the organic tobacco markets with opportunities in five areas. First, they enable diversification. For 150 years, the industry has been dependent on one increasingly embattled offering: combustible tobacco.
- Differentiated products' with 'brand strength' are part of the 'commercial attractiveness' of next-generation productions. It has 'developed a portfolio of products spanning three categories: tobacco heated products, e-cigarettes and licensed medicinal products'
- This future profitability will be strongly influenced by taxation policy, with heavy tax on combustibles making ANDS more commercially attractive.
- ANDS also offer the organic tobacco market an opportunity to own safety and science. The ANDS market has had quality control problems. It can impose 'quality standards' and 'tighten up' design to eliminate problems such as 'exploding batteries'
- ANDS offer the opportunity to rebuild corporate reputations and guard against litigation. Openness, particularly about risks and addiction, with both stakeholders and the public, is now a key strategy.

Threats

- ANDS offer the opportunity to rebuild corporate reputations and guard against litigation. Openness, particularly about risks and addiction, with both stakeholders and the public, is now a key strategy.



- The threat from the independents, however, is novel and relates to product characteristics. As one independent explained, for the tobacco companies, the cig-a-like ‘in many respects is the perfect product’ because it is easily mass produced, has ‘low inventory next to no shelving cost’, and is ‘very, very high on margin’
- Independents explained that users prefer the more flexible option of buying one ‘bit of hardware’ or tank which they can refill with ‘somebody else’s liquid that you fancy – and there are thousands’. While some companies are happy to operate on this small-scale bespoke basis, for a big player, ‘there’s no long-term big commercial market in e-liquids. It’s a commodity product’





Market Overview



Tobacco Industry

The tobacco industry spends tens of billions of dollars annually to promote its product, which in turn kills up to half of its users. The industry depends on promotion to maintain its current customer base and to recruit “replacement smokers,” that is, to replace the minority of smokers who successfully quit and the masses who die of tobacco-related diseases.

The tobacco industry is substantially a global industry, with brands recognized across the world, and companies operating as multi-national corporations. The increased globalization of commerce (the erosion of national borders, and the relative decline of the power of national governments relative to commercial organizations) appears to have facilitated an increase in the size of tobacco companies (UNCTAD Secretariat, 1978). The growth of international business treaties also appears to offer opportunities for the industry to resist regulation, by enabling companies to litigate directly with countries over such regulation.

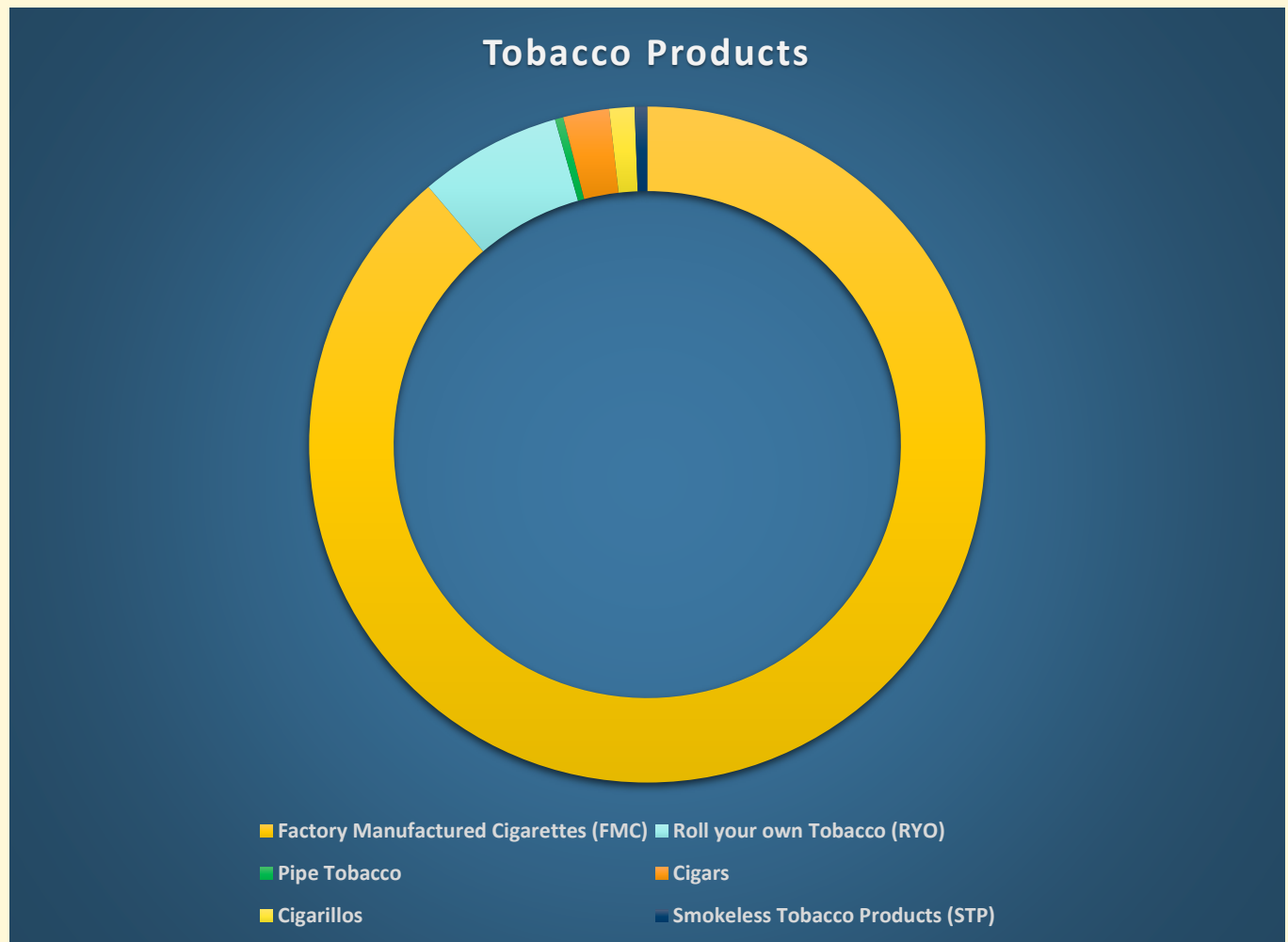
Commercial tobacco farming takes place across 125 countries, primarily in Brazil, India and China. The global assessment of tobacco production reveals a massive imbalance. Tobacco companies have resultantly shifted 90% of their cultivation and production to lower income countries, in order to cut costs and circumvent regulation. To save money, tobacco plants are grown in monocultures – the practice of growing large amounts of one crop on an area of land. To combat the problems that arise from monocropping, the tobacco industry uses large quantities of chemicals and pesticides which pose hazardous risk to both the farmer and towards the environment. Every year between 1 and 5 million pesticide poisonings are reported which result in the deaths of an estimated 11,000 agricultural workers worldwide. For tobacco farming, irrigation and fertiliser use together drive more than 70% of the environmental damage across most impact categories.



Tobacco Products

The total value of the Global Organic Tobacco Market is estimated to account for US\$ 141.8 million in 2021 and likely to reach a valuation of US\$ 233.5 million by the end of 2026, progressing at a CAGR of 7.4% over the forecasted period. The market consists of the five main tobacco products categories:

- Factory Manufactured Cigarettes (FMC)
- Roll your own Tobacco (RYO)
- Pipe Tobacco
- Cigars and Cigarillos
- Smokeless Tobacco Products (STP): oral, chewing and nasal tobacco



Smoking Tobacco

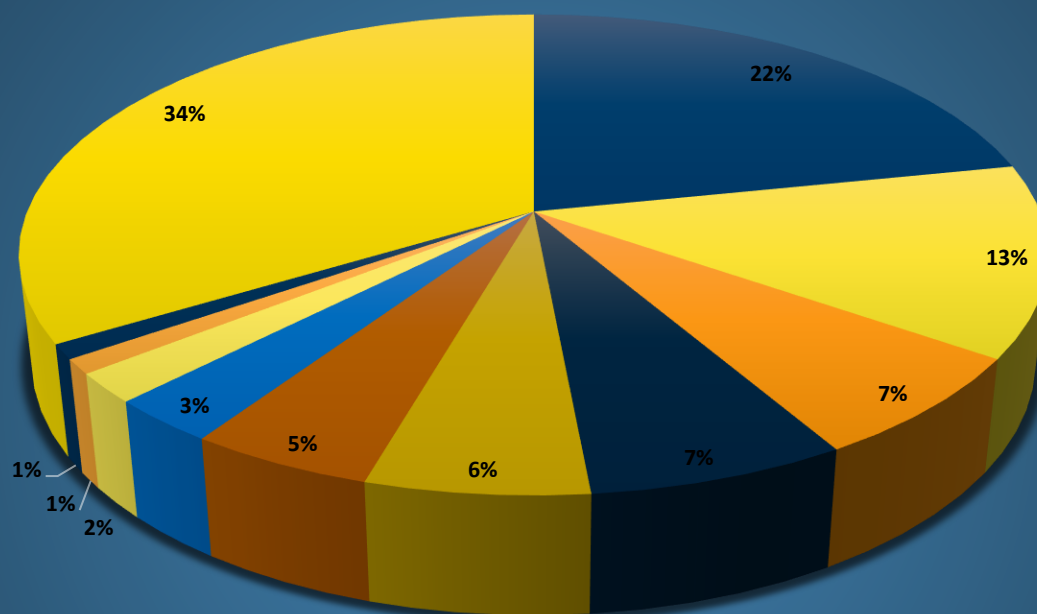
The top ten producers of smoking tobacco, as shown in figure below, generated approximately 66% of category retail volume globally in 2021. For the purpose of this report, the smoking tobacco category consists of fine-cut tobacco and pipe tobacco. Fine-cut tobacco includes roll-your-own (RYO), volume tobacco, and make-your-own/tubing tobacco. Pipe tobacco encompasses cut tobacco sold in packaged format for smoking in pipes and water pipe tobacco of the type consumed in the Middle East, known as shisha. Fine-cut tobacco represents 81% of the category retail sales and 46% of the volume, while pipe tobacco represents 19% of the category retail sales and 54% of the volume.

As of 2021, smoking tobacco comprised about 3.6% of the retail nicotine ecosystem by retail sales, at approximately \$28.0 billion. The largest producers of smoking tobacco were among the largest cigarette producers: Japan Tobacco, Imperial Brands, British American Tobacco, Philip Morris International, as well as Eastern Company SAE. Scandinavian Tobacco Group is a manufacturer of cigars and pipe tobacco. Private label branding accounts for about 2.5% of global share. According to Euromonitor, as of 2021, smoking tobacco product volume was about 207 million kilograms.

In some markets, the availability of fine-cut tobacco products introduces the concept of pricing arbitrage with factory-made or boxed cigarettes. Excise taxes are a direct method for governments to increase the price of tobacco products to encourage quitting or reducing consumption. However, some tobacco users may seek sources of lower-priced tobacco products, such as rolled cigarettes, in response to a tax-related price increase on cigarettes instead of quitting tobacco use or reducing its consumption.



Retail Volume Share (Smoking Tobacco)



Japan Tobacco Inc. Imperial Brands Plc British American Tobacco Plc
 Philip Morris International Inc Al Fakher Tobacco Trading LLC Eastern Co SAE
 Poschl Tabak GmbH & Co KG Al Zawrae Industrial Co Scandinavian Tobacco Group
 Landewyck Group Sarl Others

Smokeless Tobacco

We estimate that the top ten producers of smokeless tobacco, as shown in graph, generated approximately 71% of category retail volume globally in 2021. For the purpose of this report, the smokeless tobacco category consists of moist snuff and chewing tobacco. Moist snuff represents 90% of category retail sales and 58% of volume; chewing tobacco represents 10% of category retail sales and 42% of volume.

Historically, the smokeless tobacco category has been dominated by the U.S., Sweden, and India, although bans in India have resulted in shrinking retail volumes in recent years. As of 2021, smokeless



tobacco comprised about 1.6% of the retail nicotine ecosystem, at approximately \$12.8 billion.

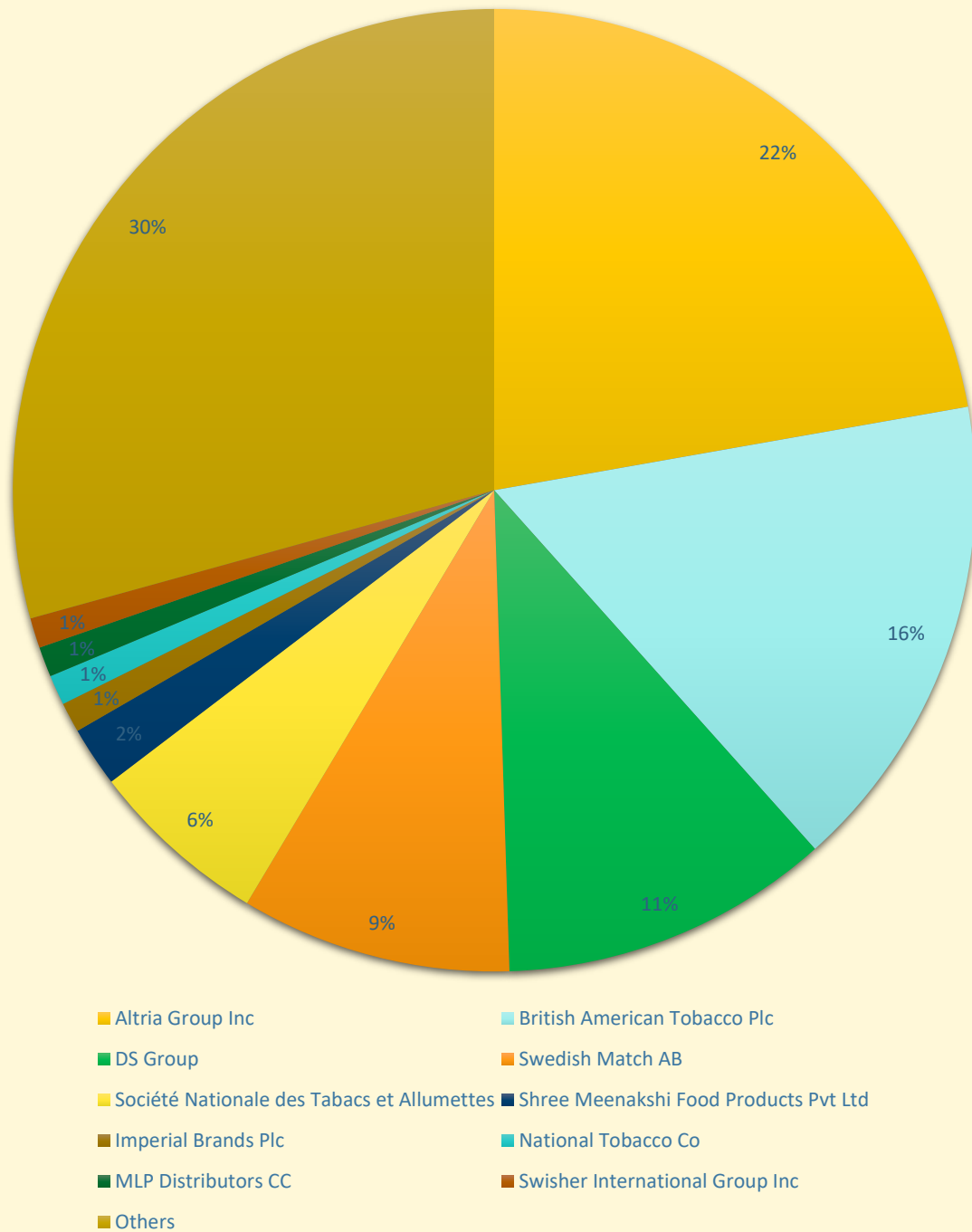
Smokeless tobacco product volume is approximately 134 million kilograms as of 2021.

- The two largest producers of smokeless tobacco are among the largest cigarette producers: Altria Group and British American Tobacco (through its acquisition of Reynolds American in 2017). Imperial Brands is also a large cigarette producer. Swisher International Group is the largest producer of cigars and cigarillos
- DS Group is an Indian conglomerate with presence in several industry sectors, including food and beverage, hospitality, tobacco, packaging, and agroforestry.
- Swedish Match is a Swedish company that manufactures snus, moist snuff, and other tobacco products. Snus and moist snuff represent more than one-third of total company sales and more than one-half of the operating profit.

The four largest markets for smokeless tobacco by retail sales value are the U.S., Sweden, Norway, and India.



Retail Volume Share (Smokeless Tobacco)



Largest revenue share in organic tobacco market is held by smokeless tobacco. The market of smokeless tobacco is expected to raise by 17% in the year 2027 from 12% in 2021 compared to market of smoking tobacco that is likely to raise to 7% in 2027 from 6% in 2021.



ORGANIC TOBACCO MARKET REVENUE SHARE (%)

