

Refugees impact tobacco markets

With 4.8 million Syrian refugees registered by the UN, and many more displaced without registration, their impact on consumer markets outside their home country has been significant. The tobacco sector has been no exception in affected countries such as Lebanon, Germany and Greece.



Photo: Freedom House

Syrian refugees board a train in Budapest

Even before the civil war, Syrians were keen smokers. 2004 research from the Syrian Centre for Tobacco Studies indicated that 56.9 per cent of men and 17 per cent of women smoked cigarettes; 20.2 per cent of men and 4.8 per cent of women smoked waterpipes; 29 per cent smoked daily – 51.4 per cent of men and 11.5 per cent of women. And while the stress of the conflict is unlikely to have encouraged many to quit, the impact of Syrian smokers on the foreign markets that they now call home has been mixed. There may be millions of additional smokers as a result, but they are not necessarily buying local licit products.

Lebanon

Lebanon hosts over one million Syrian refugees, yet its legal tobacco market has been negatively affected by the crisis, with the market value and volume of tobacco dropping year-on-year since conflict broke out in Syria in 2011.

Sales spiked in the first year of the conflict as Syrian refugees entered Lebanon, driving up demand, particularly for lower-priced cigarettes, with annual sales rising from 1.24 million cases in 2011 to 1.55 million cases in 2012. But sales then dropped in 2013 to 1.21 million cases and again in 2014 to 1.17 million cases, according to the government-owned Regie Libanaise des Tabacs et Tombacs (RLT). Total sales in 2014 were USD 698 million (EUR 631), with cigarettes accounting for 91 per cent of sales, and nargileh (hookah) tobacco for 7.6 per cent. In 2015, 821,765 cases were sold while sales dropped to USD 549 million, with cigarettes accounting for 84 per cent and nargileh tobacco 15 per cent.

Pierre Hedari, the RLT's head of import and export, attributes the overall drop to a rise in smuggling of cigarettes into the country, estimated at 20 per cent of the market, and to lower purchasing power by Lebanese and Syrian refugee consumers due to a weaker economy. "Mainly Syrians smoke Cedars [an RLT

brand], but the Lebanese have also changed their habits due to the price," said Hedari. Cedars sell for LBP 1,500 [EUR 0.8], while a premium brand such as Marlboro, sells for LBP 3,250.

To counter smuggling, RLT introduced a second brand, Maestro, in 2014, retailing at just LBP 750. However, sales have not been as expected, with the RLT blaming smuggling. But RLT's main brand, Cedars, has enjoyed rising sales since 2012, with the brand being repackaged, with a hard-pack and Cedars Silver (lights) added to the portfolio in 2015. In 2014, RLT sold 207,289 cases of locally produced cigarettes, of which 200,744 were Cedars and the remainder Maestro. In 2015, RLT production reached 216,780 cases, accounting for 26 per cent of the market.

Germany

The picture is perhaps more rosy for the tobacco sector in Germany, where some 300,000 Syrian refugees reside.

More people means more smokers, which means more tobacco sales, and this is borne out by anecdote and statistics. "The other day I helped Ranin to calculate her monthly outgoings for cigarettes," recalled Annette Eicker about Ranin Shiko, the Syrian girl refugee she invited to live with her family in the German town of Benrath. "Like the other refugees, Ranin gets about 330 Euros per month in monetary assistance from the German government," she explained. "When the girl realised that she was spending 90 Euros on cigarettes every month, she was shocked enough to stop smoking right away."

Many refugees have not quit tobacco consumption however, and so the refugee population may have triggered an additional demand for about 810 million

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cigarettes consumed annually in Germany, calculated by investment research firm, Morningstar Inc, last November. Based on that estimate, Morningstar senior equity analyst Philip Gorham calculated a rise in sales of about one per cent for Germany's EUR 30 billion (USD 33 billion) cigarette market.

Gorham's estimate was too conservative, as it turns out. According to the Federal Statistical Office of Germany, last year 81.3 billion fully-taxed cigarettes were sold in the country; 1.7 billion units more than in 2014, representing a rise in sales of 2.2 per cent. That number is significant, given that between 2005 and 2015 the sale of official tax labels for packaged cigarettes in Germany had shrunk by 44 per cent. Doris Kessler, a researcher for the German lobby group Deutscher Zigarettenverband (DZV), however, said her organisation had no clear indication that the rise in the number of taxed cigarettes sold was attributable to refugees who smoked. According to DZV, it is possible that in 2015 more tax labels have been sold in preparation for the revised EU Tobacco Products Directive which would be regulating pack size and implementing larger warnings – smokers may have been stocking up.

The question of whether the tobacco companies react to the new target group with special marketing, direct sales, shifts of distribution or a change in manufacturing, remains a tricky one. British American Tobacco Germany, which as a prominent supplier of less expensive, roll-your-own tobacco and lower-end factory cigarettes, should profit from an influx of low-income smokers into the market, told TJI it had

“no relevant information” to share.

US-based tobacco giant Philip Morris International (PMI), whose premium Marlboro label represents the leading cigarette brand in Germany, pointed to their earnings statement for 2016's first quarter. “The estimated total cigarette market in the EU of 114.9 billion units increased by 0.6 per cent, primarily reflecting improved macroeconomics, a lower prevalence of illicit trade and e-vapour products and, in certain geographies, the estimated favourable impact of immigration.”

Carsten Zenner, managing director for the tobacco wholesalers' association Bundesverband Deutscher Tabakwaren-Großhändler und Automatenaufsteller (BDTA), said European law restricted the ability to target refugees with marketing.

Nevertheless, the tobacco industry profits from another aspect of the trail of refugees into Germany: stricter border controls. According to Project SUN, an annual KPMG study estimating the scale of the illicit cigarette market, commissioned jointly by the four major tobacco manufacturers – British American Tobacco, Imperial Tobacco Limited, JT International and PMI – the sales of cigarettes smuggled into Germany sank from 8.15 billion units in 2014 to 5.7 billion units in the past year – a reduction of about 30 per cent.

Greece

This situation has not been mirrored in Greece, however, the main conduit of entry for Syrian refugees into Europe. With porous borders, including its hard-

to-police Aegean islands, Greece had the second highest rate of counterfeit and contraband tobacco products consumption in the European Union in 2015, according to the Project SUN report, with 20 per cent of total consumption, despite an overall drop in the volume of such products due to increased enforcement activity.

The country has seen a huge influx of refugees and illegal immigrants making the crossing from Turkey to the Greek islands. In the first five months of 2016 alone, the Hellenic Police have arrested nearly 170,000 illegal immigrants. Around 54,000 recognised refugees, mainly from Syria, remain in Greece.

Theodoros Mallios, president of the Association of Professional Tobacco Sellers and Kiosks of the broader Athens area, told TJI that while tobacco and cigarette smuggling in Greece is not directly related to the migrants, given the poverty of refugees when they arrive in Greece, it would be no surprise if smokers among them used cheaper illicit tobacco.

According to market research firm Euro-monitor International, contraband cigarettes mostly arrive in Greece from the Balkans or Turkey and are sold in outdoor markets and backstreets by illegal vendors in central Athens. These vendors, professional vendors told TJI, are mainly migrants from Albania, Russia and Pakistan unrelated to the recent refugee crisis.

Mallios noted that the narrow profit margins do not allow for refugees to be targeted as a consumer group by tobacco companies. Industry sources explained that there is only anecdotal evidence of individual low-level promotional activities by tobacco sellers in some areas with refugees, such as offering a free bottle of water with a pack of cigarettes.

However, the KPMG report shows Gold Mount and Royal brands topping the list of smuggled cigarettes in Greece, originating from United Arab Emirates free trade zones. The number of counterfeit products also increased from 0.03 per cent to 0.41 per cent of total cigars and cigarettes sold in Greece, consisting mainly of fake Assos and Marlboro brands.

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Syrian refugees in Greece are mostly waiting for further passage