

INDUSTRY WATCH

The tobacco industry and Eastern Europe: International Trade Fair and Symposium, Moscow, 21-24 September 1993

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In September 1993, the tobacco industry magazine *World Tobacco* and the tobacco manufacturer Tabakprom Russie jointly organised an international symposium and trade fair for Russia and Eastern Europe. Billed in advertisements as "the most important tobacco tradefair ever held in Eastern Europe" (see figure 1), the event brought together all the principal tobacco manufacturers, producers of machines, buyers and sellers of raw tobacco, and suppliers of production materials. In total, there were over 100 exhibitors, 2570 visitors to the trade fair, and 570 participants in the symposium. This type of exhibition/conference is organised quite regularly in Europe, the last ones having been held in Vienna in 1990 and in London in 1992.

This event was aimed at developing relations between Western and Eastern European tobacco companies, encouraging cooperation, and promoting the exchange of information. The report published by *World Tobacco* notes a number of success stories in this respect: the signing of contracts, new contacts, negotiations underway for the supply of materials, etc. The exhibitors at the fair seemed to be very satisfied and declared that they felt that their investment in an exhibit stand in Moscow had paid off.

The trade fair was a large showcase for tobacco producers and products of the West. The stands, especially those belonging to cigarette manufacturers, were designed to recreate the universe of success and prosperity so often associated with the tobacco industry. There was a sharp contrast between the bleakness of the Russian economic and political situation (the trade fair took place at the time of the siege of the Russian Parliament by President Yeltsin's opponents) and the animated and colourful exhibition halls.

The symposium, which took place over two and a half days, was centred around the theme "Focus on Eastern Europe". In attendance were most of the major figures of the tobacco industry in Eastern Europe and, of course, representatives of the big tobacco multinationals present in the East (ie, British American Tobacco (BAT), Philip Morris, RJ Reynolds, Rothmans, and Reemtsma). The presentations concentrated on the status of the tobacco industry in the principal East European tobacco-producing countries (Russia,

An historic tobacco industry event

World Tobacco Symposium & Tradefair Moscow - September 21-24, 1993

The Moscow Symposium and Tradefair will provide the international tobacco market with an opportunity made possible only by the enormous political changes which have taken place in Russia and Eastern Europe over the last few years.

The open door policy that now exists in this expanding region has made visiting such an international event much easier and cheaper for most East Europeans.

With over 112 exhibitors and an exciting three day Symposium programme, we expect a large number of exhibitors making this event the most important tobacco trade fair ever held in Eastern Europe.

An international Symposium & Tradefair organised by
World Tobacco in association with the Russian Tabakprom

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Figure 1

Ukraine, Bulgaria, Hungary, Poland, and Armenia) and on the production and marketing methods that the tobacco multinationals are proposing to export to the East (eg, "Towards lighter cigarettes" by RJ Reynolds, and "Can traditional East European brands survive?" by Reemtsma).

In general, the presentations on the state of the tobacco industry in Eastern Europe can be summarised in one word - HELP!

In all these countries the industry has been destabilised by the dissolution of the Eastern block, and is facing a difficult economic, political, and social situation. Only Hungary and Armenia seem to be in a satisfactory position with respect to the cultivation of raw tobacco and the production of tobacco products. It should be pointed out that the tobacco industry in Hungary has been completely privatised, and is now in the hands of BAT, Philip Morris, Reemtsma, and RJ Reynolds. In Armenia tobacco has a long history, and a total reorganisation of the industry was started in 1985.

In response to this call for help, the West continues to offer its services, as it has done for

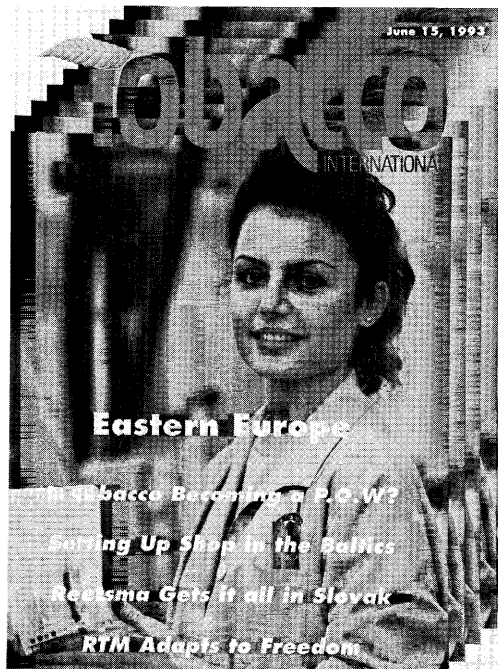


Figure 2 The 15 June 1993 issue of Tobacco International focused on Eastern Europe. The inside caption for the cover reads, "Scandinavian cigarette companies, like Svenska Tobaks, have found a new home in Eastern Europe". Articles featured in the issue include "Setting up shop in the Baltics" and "Reemtsma gets it all in Slovak".

some years now. The novelty is that now it is proudly presenting the results of the initial research and investments in the East. In Hungary, BAT has completely revamped its "Sopianae" range of cigarettes. A new pack has been designed, the range of products has been extended, and a new brand image has been created. BAT's competitors have done the same with the other traditional Hungarian brands such as Helikon and Symphonia. These brands represent 85% of the market in Hungary. The multinationals have not, however, neglected to introduce their own brands into the market, such as Marlboro, Lucky Strike, HB, and Camel, which already account for 5% of the market.

The investments made in the East European industry are enormous. In Hungary, for example, BAT invested US\$40 million in the complete renovation of production equipment. In St Petersburg, Russia, RPMI (a joint venture between Rothmans and Nevo Tabak) is planning to construct a completely new factory. RJR Petro (Reynolds) is presently the most productive factory, thanks to six new production lines, and other companies – Philip Morris and BAT in particular – are also planning to invest in this area and to finance new equipment.

The financing of the modernisation and reorganisation of the tobacco industry in the countries of Eastern Europe is, however, not solely due to the investment of the tobacco multinationals. Much investment is made through other sources such as the use of currency reserves, inter-state credits, leasing, or the conversion of profits into currency

(prior to the dissolution of the Eastern block the currencies of the COMECON countries were not convertible on the international market) in order to buy equipment. For example, the Kansk factory in Russia has used its currency reserves to negotiate with machine manufacturers and partially to re-equip itself in machines, thereby increasing its capacity to produce cigarettes.

In most countries of Eastern Europe it seems that, within the industrial sector, the progress achieved by the tobacco industry is amongst the most rapid. For example, in Ukraine, where legislative difficulties have slowed down the privatisation process, only 150 businesses of the 50 000 in the country had been privatised by 1 August 1993. Amongst these 150 businesses, six were in the tobacco sector. Of these six, four were amongst the biggest cigarette production factories bought by Reemtsma, BAT, and Reynolds, and the four by themselves cover 60% of the national market. The privatisation of the tobacco sector is therefore quite well advanced, and negotiations with foreign investors are presently underway to complete this process.

Future prospects are promising for the industry and justify these enormous investments as tobacco consumption in Eastern Europe is high and demand is likely to increase – especially because smoking rates amongst women are still low. In Russia, the demand for cigarettes was 248.9 billion pieces in 1990 and is projected to increase to 266.6 billion by the year 2000. Russia is not, however, the country with the highest consumption. Figures published in the *Tobacco Reporter* (October 1993) place the Polish and the Hungarians on top as the heaviest smokers with a per capita consumption of 2500 cigarettes in 1991. Russia comes in seventh place with a per capita consumption of 1700 cigarettes as compared to the average worldwide consumption of 1004 cigarettes per capita.*

Despite all this, the tobacco industry has its worries. Anti-tobacco legislation is being adopted and smoking prevention campaigns are being developed. The first presentation of the symposium, by Ulrich Herter, Managing Director of BAT, on the theme "The tobacco industry in the 1990s: world perspective", immediately set the tone by underlining the two main problems faced by the tobacco industry: tobacco advertising restrictions and the question of passive smoking. The industry barely hides the fact that it is putting pressure on governments and parliaments to defend its interests, unfortunately with some success. In the Czech Republic, the Parliament and the

* These figures are per capita cigarette consumption for the entire population. Per capita consumption is often calculated for adults (eg, those ≥ 15 years of age) by dividing total consumption by the adult population (see *Tobacco Control* 1992;1:281-4). Country rankings for adult per capita consumption will differ from rankings for per capita consumption using the total population as the denominator because demographic profiles vary from country to country. – ED

Government retreated from a decision to ban tobacco advertising as a result of pressure from the industry.

In Bulgaria, the industry lobbied against the adoption by the Parliament of a law banning tobacco advertising by stressing the importance of revenue generated by this source. For example, the maintenance and operating costs of local buses and tramways were almost completely covered by revenue from tobacco advertising, and the national television channels also received much of their revenue from this source. The industry did not win this time and the law was adopted by the Parliament at the end of 1993. One would hope that it will be respected. In Moscow, the advertising of tobacco products is, in principle, banned but is nevertheless omnipresent.* The industry does not hesitate to violate or

“bend” the law when it is not enforced by administrative authorities.

In conclusion, the tobacco industry is continuing to develop at a rapid pace in Eastern Europe. The “Westernisation” of these markets (omnipresence of tobacco advertising, promotional campaigns, increasing market share of blond cigarettes, etc) is progressing even faster, enhanced by the fascination of East Europeans for the lifestyle and products of the West. For the moment, the health lobby has been somewhat left behind, and it must mobilise all its forces, at both the national and international levels, in order to counteract the enormous investments being made by the tobacco industry.

* See pages 145–7 and figure 3 below. – ED

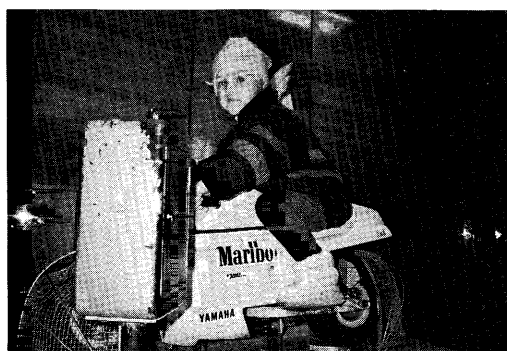
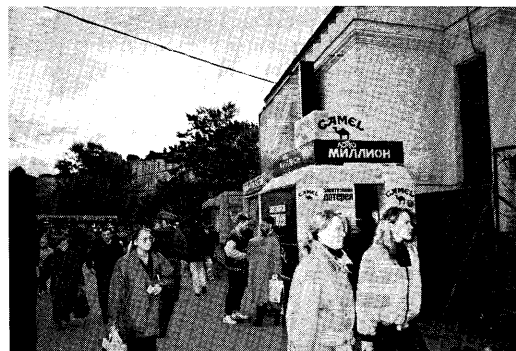
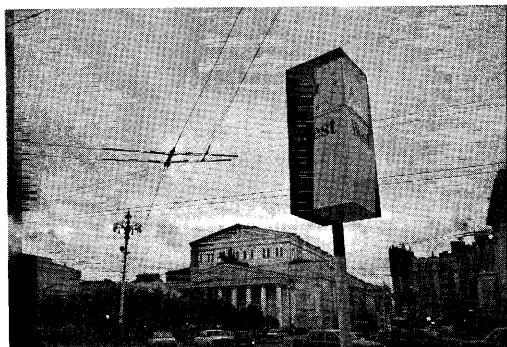


Figure 3 Scenes from Russia. The photo of the child on the motor bike was taken in Vladivostock, the others in Moscow.