

## GERMANY

(June 1999)

Germany is the largest producer and consumer of cigarettes in the European Union. Globally, Germany is the 4<sup>th</sup> largest cigarette manufacturer, accounting for about 4% of world production.<sup>1</sup>

### Overview of the German Tobacco Industry

Philip Morris controls 42% of the German cigarette market. It sells an average of 51 billion cigarettes per year in Germany and exports an additional 22 billion.<sup>2</sup> BAT controls around 18% of the market, selling 25 billion cigarettes and exporting an additional 13.8 billion in 1998. Its German subsidiary is its largest in continental Europe.<sup>3</sup>

Germany is home to Reemtsma, which in 1996 was the 7<sup>th</sup> largest cigarette company in the world and one of the fastest growing. The company markets more than 100 brands in over 50 countries worldwide. In 1996 it sold 115 billion cigarettes, bringing in revenues of \$7.15 billion. Its best selling brands are West, Symphonia, R1 and Mars.<sup>4</sup> Established in 1910, Reemtsma was a family-run business until the 1960s, when it became a management-led enterprise, expanding operations into other countries in Western Europe. In Germany, the company lags behind Philip Morris, controlling some 23% of the cigarette market.<sup>5</sup> Reemtsma dominates the market in "roll-your own" tobacco, with a 41% market share in 1994.<sup>6</sup>

Since the collapse of the Soviet Union in 1989, Reemtsma's focus has been in Central and Eastern Europe. In the past 10 years, it has established operations in the Czech Republic, Hungary, Kazakhstan, Kyrgyzstan, Moldova, Poland, Russia, Slovakia, Slovenia and Ukraine.<sup>7</sup> In the process, it has tripled its sales and shifted its focus from the domestic to the foreign market. In 1989, 62% of Reemtsma's sales were in Germany, compared to only 2% in Central and Eastern Europe. By 1996, Germany accounted for just 27% of the company's sales, while Central and Eastern Europe accounted for 57%.<sup>8</sup> So far, Reemtsma has invested over \$350 million in the region, building new factories and rehabilitating old ones.<sup>9</sup> Recognizing that not many consumers in the region can afford expensive international brands, the company has set out to "improve" and "modernize" local brands. Company vice president Dieter Muller says that Reemtsma "encourage[s] people to be proud of their local products." This strategy also fits in with what Muller terms the "back to the roots' attitude" common in these countries.<sup>10</sup> Examples of Reemtsma's foreign operations include:

- Reemtsma has a 76% stake in the Polish tobacco company WWT SA, which controls over one-quarter of the Polish cigarette market.<sup>11</sup> Reemtsma's \$130 million investment makes it the second largest foreign investor in that country's tobacco sector.<sup>12</sup> According to Reemtsma Poland's Financial Affairs Manager, "Investments in the Polish market are very important. We have a chance here to become a production centre for the whole of Europe."<sup>13</sup>
- In Kyrgyzstan, Reemtsma is one of the country's largest foreign investors, having invested \$60 million reconstructing and modernizing the Kyrgyz tobacco industry. The company plans to serve the Kyrgyz market as well as pursue export opportunities in Central Asia.<sup>14</sup>
- During the early 1990s, Reemtsma experienced double-digit growth in Asia, with operations in China, Japan and Taiwan. In China, the company has a cooperation agreement with the state-owned tobacco company to provide technology and produce Reemtsma's international brands.<sup>15</sup>
- Reemtsma has also engaged in international lobbying to ensure that its plans for expansion are protected. In a February 1998 event at United Nations Headquarters, a representative from Reemtsma (as well as BAT) were present when the UN Secretary General and the International Chamber of Commerce issued a joint statement stressing "the UN's role in setting the regulatory framework for the global marketplace in order to facilitate cross-border trade and investment."<sup>16</sup>

Germany is not a major producer of tobacco. There are an estimated 3,000 tobacco growers in Germany, who farm about 10,000 acres and produce an average of around 9,000 metric tons per year. The country imports substantial amounts of unmanufactured tobacco for its cigarette factories and for re-export to Eastern Europe. In 1998 it imported 223,000 tons of tobacco.<sup>17</sup>

## Consumption

Including smuggled and legally imported cigarettes, Germans smoked some 138 billion cigarettes in 1998.<sup>18</sup> Philip Morris brands dominate the German market, with Marlboros and Marlboro Lights accounting for some 30% of all cigarettes consumed. Reemtsma's West Filter KS (6.8% market share) and British American Tobacco's (BAT) HB brand (6.3% market share) are Marlboro's closest competitors.<sup>19</sup> So-called "light" cigarettes make up 25% of the market. Claims Rainer Stubenvoll, Public Relations Manager for BAT Germany, "Smokers don't want to stop smoking, so they search for lighter cigarettes."<sup>20</sup>

## Finding Loopholes

The tobacco industry in Germany is constantly developing new products and packaging in an attempt to attract more smokers, increase profits and/or evade taxes. Light cigarillos, for example, which are popular with young people, are aggressively marketed and have helped tobacco companies make up for declines in traditional cigarette sales.<sup>21</sup> Smokeless tobacco is also increasingly popular, particularly among young people. One German company has introduced a smokeless tobacco flavored with vanilla called "Al Capone Powder", after the notorious American gangster.<sup>22</sup>

The companies have also gone to great lengths to avoid tobacco taxes, which in 1996 accounted for over 70% of the cost of a pack of cigarettes. Prior to 1993, for example, the tax on roll-your own tobacco was about half that of manufactured cigarettes. So, the industry sold tobacco "rolls," which were pre-rolled cigarettes. Sales of these rolls skyrocketed from 1 billion pieces in 1990 to 9.7 billion in 1993 before the government closed the loophole.<sup>23</sup> In 1994, R.J. Reynolds launched Wy Chester Rolls – sticks of tobacco sold with a separate filter that could be attached, thus avoiding the tax on filter-tip cigarettes.<sup>24</sup> Currently, the European Union taxes this product at a lower rate than regular cigarettes.<sup>25</sup> Reemtsma, meanwhile, has test-marketed West "Longies," eight-inch lengths of rolled tobacco that smokers can cut up and insert into cigarette-paper tubes sold separately.<sup>26</sup> The industry has also sought to lessen the impact of per-pack taxes by marketing "Big Packs" containing 24 or 25 cigarettes.<sup>27</sup>

## Prevalence & Health Impact

Although cigarette consumption in Germany declined somewhat during the 1970s and 1980s, it has been rising in recent years. In the former East Germany, smoking among women and young people rose after reunification, partly due to the introduction of advertising which had been strictly prohibited under the Communist government.<sup>28</sup> Between 1990 and 1995, cigarette sales in Germany increased by 10.7%.<sup>29</sup> An estimated 33% of adults smoke,<sup>30</sup> with around 7.5 million Germans smoking at least a pack a day.<sup>31</sup> According to a 1992 survey, the highest prevalence for both sexes exists in the 25-39 age group, with 48% of men and 36% of women smoking.<sup>32</sup> A 1997 survey in the state of Bavaria showed that 28% of 15-17 year olds regularly smoke cigarettes. Fifty per cent of these smokers say that cigarette advertisements are one of the reasons they started smoking.<sup>33</sup>

The unregulated purchase of cigarettes by young people in Germany is relatively easy, with cigarette vending machines accounting for over 30% of total sales.<sup>34</sup> The vast majority of vending machines are in the former West Germany, although they are increasingly used in the East.<sup>35</sup> Reemtsma recently invested in the development and production of a new cigarette vending machine that accepts credit cards and can be adjusted to accept the new Euro currency.<sup>36</sup>

In Germany, 110,000 people die every year as a result of tobacco-related illness.<sup>37</sup> Just under 90,000 men die each year, representing about 22% of all male deaths and one-third of all deaths among middle-

aged men. Among women, the number of deaths due to smoking is rising. Between the mid-1980s and the mid-1990s, the number of women dying each year from smoking almost doubled, to 20,000. It is estimated that between 1950 and the year 2000, tobacco will have caused almost 5 million deaths in Germany (4.3 million men, 0.5 million women).<sup>38</sup>

## **Tobacco Control**

All cigarette packs must carry the warning "Smoking is endangering to your health" and must list tar and nicotine levels. Warning labels must cover at least 10% of the package. Product sampling is banned,<sup>39</sup> although there is no law regulating sales of cigarettes to minors.<sup>40</sup> In 1997, the German Federal Constitutional Court ruled that, in addition to the general health warning that smoking is a health hazard, manufacturers must print additional warnings of the risks of cancer or heart-circulatory disease on cigarette packs. The cigarette companies unsuccessfully fought the mandatory warnings arguing that they infringed on their freedom of opinion and misled consumers. The judges disagreed, stating that scientific evidence shows that smoking is the leading single cause of cancer.<sup>41</sup>

In terms of tobacco control legislation, Germany lags behind other European countries. In 1998, the German parliament defeated a bill that would have placed strict limits on smoking in public places and the workplace.<sup>42</sup> Ernst Bruckner, head of the tobacco industry association that lobbied heavily against the legislation, conceded that it was "mild by international standards" but that "we feared for psychological repercussions. It would have set a precedent for further restrictions."<sup>43</sup> Aside from smoking bans on public transport and voluntary restrictions in restaurants and the workplace, there are few protections for non-smokers.<sup>44</sup> According to a survey conducted by a German health insurance company, 48% of German non-smokers are exposed to passive smoking in public buildings and restaurants and 40% are concerned about the health effects of passive smoking.<sup>45</sup> In 1996, a German court ruled against an airline stewardess who argued that environmental tobacco smoke in planes could harm her health and therefore should not be permitted. The court ruled that non-smoking employees do not have the right to demand a smoke-free work environment if it would harm their employer's business.<sup>46</sup> A year later, the courts ruled against a passenger who had sued because she was placed in the smoking section despite having made a non-smoking seat reservation. The court found that airlines are not legally required to provide non-smoking seating.<sup>47</sup>

Tobacco advertising on radio and television is prohibited, as is advertising that targets youth or creates the impression that cigarettes are harmless to health or improve physical performance or well-being.<sup>48</sup> In addition, a voluntary agreement between the government and the industry restricts some advertising in print, on billboards and in the cinema.<sup>49</sup> Germany's cigarette industry association, Verband der Cigaretten-Industrie, has a self-imposed ban on advertising at sports events, but it has been known to overlook the ban around the time of special events, such as the Grand Prix.<sup>50</sup> Nevertheless, advertising expenditures on tobacco products in Germany are higher than in any other European country.<sup>51</sup>

In June 1998, the European Union approved a European-wide ban on tobacco advertising. Under the terms of the ban, members of the EU will have three years to remove tobacco advertising from billboards and movie theaters. Newspapers and magazines must remove tobacco advertisements within four years. Within five years, tobacco company sponsorships of sporting and cultural events will be banned, except for Formula One car races. One of the more advanced elements of the new regulations is that the companies can no longer use their cigarette packaging colors and logos on clothing. By 2006, the regulations will restrict tobacco advertising to tobacco trade journals, and tobacco shops. Germany and Austria were the only two countries to vote against the ban, with Spain and Denmark abstaining.<sup>52</sup> The German government is challenging the ban in the European Court.<sup>53</sup> Helmut Kohl has described the ban as "incomprehensible" while former Health Minister Seehofer, said it was "unacceptable".<sup>54</sup>

## **Advertising**

The tobacco companies take advantage of every possible opening to advertise their products. Philip Morris has run a promotion targeted at young people called the "Hip Hop BBQ" featuring a music group

called "Invisibl Skratch Piklz" and an American entertainer called "DJ Rob-Ski."<sup>55</sup> Reemstma has teamed up with the Japanese motorbike company Yamaha on a joint advertising campaign for "R1" which is both a cigarette brand and a motorcycle. In the ad campaign, the so-called "light" cigarette is compared to the new lightweight motorbike. Both are promoted as "sensationally light, extremely powerful, super-modern, and future-oriented."<sup>56</sup>

In recent years, the companies have increased their use of the internet to advertise and promote their cigarettes. Cigarette brand logos for Camel, Lucky Strike and West (among others) have appeared as sponsorships on the web. R.J. Reynolds (owner of the Camel brand) is sponsoring electronic pages of "techno" music, while BAT promotes the sales of t-shirts, toasters and other products carrying its "Lucky Strike Originals" logo. And Reemtsma has web pages where you can have a "virtual visit" with Russian cosmonauts, see concerts or participate in on-line debates. Their pages show a pack of West cigarettes with the slogan "Taste it!" All of the pages include things deemed "cool" by teenagers. Critics have sought to get legislation passed with stricter restrictions on internet advertising, but the industry has argued that current advertising restrictions are sufficient.<sup>57</sup>

In the capital, Bonn, city officials sought to ban an advertising campaign by the industry that used the slogan "Cool kids can wait". The city argued that the ads, placed near schools and youth centers, were promoting smoking. The courts ruled that the city did not have the power to ban the ads.<sup>58</sup>

Reemtsma's aggressive advertising campaigns are not confined to Germany. In 1998, the company ran a "West in Space" promotion in Poland in which contestants vied to win a trip to a special "space camp" in Russia. Reemtsma placed ads and entry forms in *Cosmopolitan*, *Playboy* and other magazines and advertised on some 2,000 billboards across the country. According to a local marketing magazine, the company also "organized a training for promoters, who then dressed in spaceman uniforms and handed out 30,000 participation forms in Poland's 14 largest cities. Reemtsma also offered a web site hyping the promotion."<sup>59</sup> Reemtsma's global marketing strategy also includes sponsorship of Formula One racing. The company's West brand sponsors the "West McLaren Mercedes" racing team. According to the promotional materials on the web, all three companies "have a vision for the future: competitiveness, excellence and focus. Individually and together all three partners are moving forward to cross new frontiers and challenge for the Formula One Championships."<sup>60</sup>

## Resources:

*Addicted to Profit: Big Tobacco's Expanding Global Reach* (Essential Action/San Francisco Tobacco Free Project, 1998): <http://www.essential.org/action/addicted/addicted.html>

Lucky Strikes Originals Shop: <http://www.lucky-strike-originals.de/>

Reemtsma's West Cigarette: <http://www.west.de/>

San Francisco Tobacco Free Project: <http://www.globalink.org/gtm/SFTFC/>

Tobacco BBS (newspaper and wire stories on domestic and international tobacco issues, as well as comprehensive resource guides): <http://www.tobacco.org>

*Washington Post* (excellent 1996 series on global tobacco issues): <http://www.washingtonpost.com/wp-srv/inatl/daily/nov/18/series.htm>

West McLaren Mercedes Promotion: <http://www.mclaren.co.uk/mclaren/presslaunch/teamvision.htm>

WHO Country Case Study on Germany: <http://www.cdc.gov/nccdphp/osh/who/germany.htm>

World Health Organization's Tobacco Free Initiative: <http://www.who.int/toh/>

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## EndNotes

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