SWI

MONEY AND ETHICS

Swiss in no rush to relinquish tobacco cash

By Samuel Jaberg

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The Philipp Morris research centre in Neuchâtel where less toxic alternatives to traditional cigarettes are being developed

(neuchatelville.ch)

As sales of traditional cigarettes decline, the tobacco industry is looking to new “low risk” products to shore up profits. Entrenched in Switzerland, the industry enjoys significant political support, but even that may not be enough to save it.

At Serrières on the shores of Lake Neuchâtel, some 300 researchers for Philip Morris, the world's leading cigarette manufacturer (excluding China), are developing alternatives to the good old fashioned cigarette.

The company, which declined a request from swissinfo.ch to visit the research centre, has invested $2 billion (CHF1.87 billion) in testing and developing the 'iQOS', a product that is designed to avoid the most harmful effects of smoking by heating rather than burning the tobacco. The iQOS will be launched at the end of the year, with Philip Morris predicting that profits would be boosted by some $700 million when sales hit 30 billion units by the end of 2016.

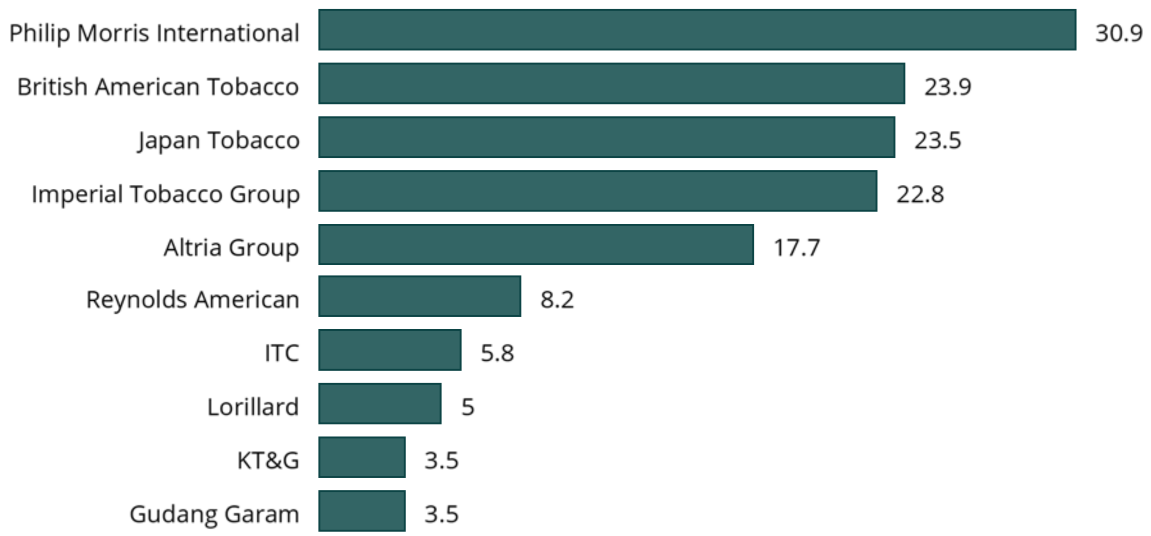
"We believe that the industry is at the early stages of a transformational process which we anticipated when we began working to develop products with the potential to reduce risk over a decade ago," says Philip Morris spokesman Iro Antoniadou.

But the maker of the famous Marlboro is not the only game in town. All industry players are on the quest for the Holy Grail – electronic cigarettes, tobacco heating products, nicotine inhalers or tobacco vaporisers – to try to find a way around increasingly tough legislation enacted by countries trying to beat smoking-related health problems.

Following the wave of mergers and acquisitions during the 1990s and 2000s, the international cigarette market is dominated by four multinationals: Philip Morris International, British American Tobacco, Japan Tobacco International and Imperial Tobacco. China National Tobacco Corporation, which holds a near-monopoly over tobacco sales in China, is the world's largest producer of cigarettes.

The 10 largest tobacco companies in 2014

In billions of dollars



Quelle: Statista, Forbes Daten

"They want to avoid what happened to Kodak at all costs, which died after missing the transition from analogue to digital photos. To do so they have no other choice than to look to new technologies, even if they overshadow their flagship brands," says Jean-François Etter, global health professor at the University of Geneva and editor of stop-tabac.ch.

The beginning of the end

World leader **Philip Morris International** (Marlboro, Chesterfield, Muratti) has more than 28 per cent of the international cigarette market, excluding China. The company employs around 3,000 people in Switzerland. Its global headquarters are located in Lausanne, and it operates a large research and manufacturing plant in Neuchâtel. Nearly 1,500 people work at the site which produced 24 billion cigarettes in 2012. More than 80 per cent of Swiss production is for export.

The outlook for the sector does not look great. Excluding China, the global volume of cigarettes sold in 2013 fell by four per cent, continuing a trend that began in 2010, according to research firm Euromonitor. This year, Philip Morris predicts a global decline in sales volumes of two to three per cent, while in Europe the decline could be as much as five per cent over the next three years.

Some experts even suggest that the industry could disappear altogether.

"The beginning of the end has already begun. Citigroup predicts it will disappear by 2045," says Pascal Diethelm, president of anti-smoking association OxyRomandie. "The multinationals have been making hybrid products for 50 years without results. The core of their work is traditional cigarettes."

Naturally, cigarette manufacturers disagree.

"The decline of the tobacco industry has been announced several times throughout history and – other than the now receding economic crisis, which is a temporary phenomenon already experienced before – we see no reason to be alarmed. The evolution of the world's demography is going up, not down, and there is still room for a solid business to grow," says Guy Côté, spokesman for Geneva-based Japan Tobacco International.

Etter says the multinationals have their eye on rapid growth in Africa, as well as Asia, where the youth imitate western lifestyles.

Swiss haven

In order to continue to generate maximum profits – The Guardian newspaper estimates the annual profits of the six largest tobacco companies at $35 billion – and to pay ever rising dividends to shareholders, the industry doesn't have much of a choice other than to increase the cost of a smoke for average consumers.

"But that strategy is not sustainable. Sooner or later the manufacturers will be looking at declines in both volumes and profits. When that happens, the financial markets will stand aside while the industry falls," predicts Diethelm.

It's a theory that must send a shiver down the spines of many Swiss politicians. Switzerland, with its favourable tax regime and liberal regulations, is home to three of the largest cigarette manufacturers – Philip Morris, British American Tobacco and Japan Tobacco International all have their manufacturing, research and management operations here (see sidebar).

The Philip Morris example reveals the importance of the enterprise to the local economy. The company has invested almost CHF700 million since 2008, creating 3,000 well-paid jobs and filling the local coffers of canton Neuchâtel alone to the tune of CHF60 million – almost half the total business tax take collected by the canton, according to L'Express.

"The departure of Philip Morris would have dramatic consequences for our canton, which is already experiencing financial difficulties," says Radical Party senator Raphaël Comte.

The world's second largest cigarette company, **British American Tobacco** (Pall Mall, Dunhill, Lucky Strike), this year celebrated its bicentenary at Boncourt, in canton Jura. Currently, the company employs 500 people in Switzerland, including 320 who work at the Jura plant. The factory produces around ten billion cigarettes a year, of which almost 70 per cent are exported. The group's headquarters are in London. The company launched an electronic cigarette, the VYPE, via its subsidiary Nicoventures, in the UK in September 2013.

5,000 jobs at stake

Japan Tobacco International (Camel, Winston, Mild Seven), the third largest cigarette company in the world, has about 11 per cent of the global market. It employs around 1,000 people in Geneva, where it has its international headquarters, and another 300 people in its factory at Dagmersellen in canton Lucerne. Almost 90 per cent of its Swiss production is exported. In 2013, the company launched an electronic cigarette, Ploom, which generates vapour by heating tobacco, before it acquired Zandera, producer of the electronic cigarette E-lites, in June 2014.

To make sure they stay happy in Switzerland, the tobacco giants here receive special attention. In 2012, Neuchâtel politician Laurent Favre successfully persuaded parliament to continue to allow Swiss exports to Asia and the Middle East of cigarettes that contain more than 10mg tar, 1mg of nicotine and 10mg of carbon monoxide.

The stakes are high: these “strong” cigarettes represent more than 80 per cent of the Swiss production. A potential delocalisation of the tobacco industry would result in the loss of some 5,000 jobs and tens of millions less in tax revenue for the cantons and towns concerned. Too bad if these products do not conform to the regulations of the European Union, with which Switzerland is currently negotiating a public health agreement.

‘Morally indefensible’

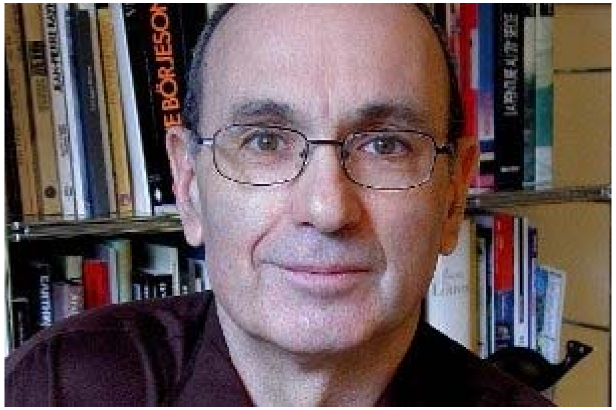
Comte has no problem justifying the situation: “It’s not up to the EU to dictate to us what we can and cannot export to another country. If Philip Morris doesn’t produce its cigarettes in Switzerland, it will do it in another country. For my part, I prefer to keep the production and these qualified jobs at home.”

Parliamentarian Raphaël Comte is well aware of the importance of Philipp Morris to his canton's coffers

(Keystone)

Diethelm is particularly critical of Switzerland’s political class, pointing out that Switzerland is the only European country, alongside Andorra and Monaco, not to have ratified the World Health Organization Framework Convention on Tobacco Control.

“It’s morally indefensible. All countries are coming together against this scourge which causes six million deaths every year and is considered the number one cause of non-transmissible illnesses in the world. Switzerland not only is not participating in the fight, but on the contrary is profiting from it," says Diethelm.



Pascal Diethelm believes Switzerland's stance is morally indefensible

(Gidaz)

Parliamentarians and lobbyists

In 2013, Comte launched a parliamentary enquiry – co-signed by Social Democrat Didier Berberat – calling for special treatment for so-called "low risk" tobacco products in the new law governing tobacco products.

Asked if he's at all worried about being seen as an unofficial spokesman for Philip Morris, Comte responds: "No, I remain completely independent. There are public health questions hanging in the balance which is why I am in favour of the new law passed by the parliament on passive smoking. But it is better to know before voting what are the implications for the industry. That is why we regularly meet with the company."

For Diethelm, the situation is typically Swiss.

"Since policy decisions are highly decentralised, the multinationals wield enormous power at the local level. It is very difficult for the authorities to resist such an important employer and taxpayer. The tobacco industry doesn't need lobbyists, it's the politicians themselves that play that role," says Diethelm.

SMOKE SIGNALS

Swiss tobacco fields

Swiss tobacco production is on the decline; only about 200 farmers still grow this labour-intensive crop.

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By Samuel Jaberg, swissinfo.ch
(Translated from French by Sophie Douez)