Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Voluntary Report - public distribution

Date: 7/25/2001

GAIN Report #AU1021

Austria

Tobacco and Products

Austrian Tobacco Company Sold to British Concern Gallaher

2001

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Report Highlights:
Recently, the last tranche of state owned shares of the Austrian tobacco products company Austria Tabak was sold to the British concern Gallaher. With this acquisition, Gallaher has increased its leadership in European markets and at the same time improved its marketing opportunities in central European countries.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Vienna[AU1], AU

Austrian Tobacco Company Sold to British Concern Gallaher

Summary
After periodic sales of state owned shares of the Austrian tobacco company Austria Tabak (AT), the last tranche of shares was recently sold to the British concern Gallaher. Out of probably seven interested companies, Gallaher was the best bidder. For 41.1% shares, it payed euro 770 million. It is expected that Gallaher will also buy the rest of the shares from small share holders. With this acquisition, Gallaher expanded its market leadership to Austria, Sweden, and Estonia and increased its marketing opportunities in central Europe. End summary.

AT is a quasi monopoly whose majority shares were previously owned by the Austrian Government**.**

As part of a broader policy of privatizing state property, for the last several years shares of the Austria Tobacco (AT) were periodically sold by the national holding company Austrian Industry AG through the stock exchange. Until recently, 41.1% of AT shares were still in government hands. There was speculation that the government may keep a share volume of 25% and the rest would be sold through the stock exchange or to a foreign company.

Obviously negotiations have been going on for some time about the share transaction between AT and Austria Industry AG on one side and various potential buyers. According to rumors, seven firms were interested; the French-Spanish tobacco company Altadis was favored by AT. The Italian company Ente Tabacchi Italiani SpA (ETI) is said to have tried hard to acquire AT. Both companies would have matched very well because there is no overlapping market presence. In addition, both have Philip Morris licenses. Thus, a merging of both partners would reduce problems. For Reynolds, it is said, AT would be the ideal acquisition since Reynolds has at present no production in Europe. AT has a large turnover with license cigarette brands from Philip Morris, BAT, Reemtsma, and Reynolds and AT would have probably also matched well with one of these companies.

Finally, on June 21, 2001, the transaction contract was concluded with Gallaher, the highest bidder. However, the contract has still to be approved by the shareholders and by EU competition authorities.

Gallaher acquired 41.1% of available shares for euro 770 million or euro 85/share and intends to buy the rest of AT shares from small holders also for euro 85/share which will result in a total price of euro 1.9 billion. The British company committed to maintain the brand name Austria Tabak up to the end of 2004, to keep the head quarter of AT in Austria, and to maintain a similar number of employees. In addition, no production will be moved out of Austria. However, as already intended for some time, one out of AT’s five cigarette factories will be closed. It will either be the factory in Hainburg, close to Vienna or the one in Malmo, Sweden.

AT’s annual turnover, including daughter companies abroad, is around euro 3.7 billion. The labor force is 3,600 and cigarette output is 30 billion pieces. The company has production plants in

Austria and Sweden and is market leader in Austria, Sweden, and Estonia.

Gallaher has an annual turnover of euro 7.3 billion, 4,500 employees, and cigarette production is about 90 billion pieces. The company produces tobacco products in Great Britain, Ireland, Russia, where it is the market leader. There is also a production facility in Kazakhstan.

The new tobacco giant Gallaher will range fourth in Europe (after Philip Morris, BAT, and Altadis) and sixth worldwide. There is no overlapping of AT's and Gallaher's existing business. AT is strong in central Europe and Gallaher in west Europe. AT produces primarily American blends whereas Gallaher produces mainly Virginia blends. With the daughter company Tobaccoland, AT brings in a wholesale business, which Gallaher did not have before.

According to Gallaher, the acquisition of AT will improve Gallaher's opportunities to expand in eastern markets. Through AT, Gallaher will expand its market leadership to Austria, Sweden, and Estonia.

Impact on Tobacco Shops

The sale of AT by the Government has probably no direct impact on tobacco shops. The most important Gallaher brands such as Benson & Hedges or Silk Cut are already offered. However, tobacco shops fear that after the total privatization of AT, they may loose their distribution monopoly, which limits the sale of tobacco products to tobacco shops, restaurants, and some gas stations. As around 50% of the profit of tobacco shops comes from tobacco products (and 50% from stamps, lottery, magazines, etc.), the sales permission for tobacco products in supermarkets may ultimately ruin the 3,000 tobacco shops currently in operation.