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## **Finland**

## **Tobacco**

## **Tobacco Annual Report**

## **1999**

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### **Report Highlights:**

**Imports of unmanufactured tobacco fell by 26% in 1998 (to 5,175 tons valued at \$30 million) and is expected to decrease further as manufacturing (mainly cigars and smoking & cut) moves abroad in the wake of industry consolidation. Imports of these products will consequently increase. Finnish tobacco consumption (retail value 1998 at \$618 million) is relatively stable with 20% of Finnish women and 30% of Finnish men smoking.**

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Includes PSD changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
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## **Executive Summary**

The Finnish economy reflected strong overall economic performance in 1998 with a GDP increase of 5.0 percent and an increase in industrial production. Forecasts for 1999 are that growth will continue, driven mainly by increased domestic consumption. GDP growth is expected to be 3.5 percent, somewhat slackened by the decrease in international demand. Unemployment is expected to fall slightly below the EU average at close to 10 percent (down from 12.4%). Expenditures on tobacco have grown in the past three years and currently total FIM 5.8 billion (\$1.1 billion) in 1998, out of which FIM 3.3 billion (57%) consists of tobacco excise taxes.

Finland is becoming an import market for tobacco products - at least for products other than cigarettes. There now remains only one major manufacturing tobacco company in Finland, Amer Tobacco Ltd, producing mainly cigarettes. There is also a very small up-market cigar company, Cigar Factory, J. Sundquist Oy, which was established in 1998. Raw tobacco imports will consequently decline as of 1999 to an annual level of roughly 3,000 tons. Total production of tobacco products decreased in 1998 by 11 percent according to official calculations and totaled 4,874 tons. Approximately one fourth of production was exported, reflecting a decrease in exports of 42 percent. Reynolds Finland has been sold to French Seita and is along with BAT Nordic represented only by marketing units.

According to official Finnish trade statistics, Finland's imports of unmanufactured tobacco fell by 26 percent in 1998 and totaled 5,175 tons (including 1,572 tons of tobacco refuse). Out of this 1,636 comes directly from the U.S. The U.S. trade is linked to consumption of Marlboro in Finland which is increasing slightly. Finland imported tobacco and tobacco products to a value of FIM 308 million (\$ 57.7 million) in 1998, unmanufactured tobacco accounting for FIM 159 million (\$29.8 million). The U.S. share of the imported volume was 32 percent in 1998.

Finnish smokers amount to 20 percent of the women and 30 percent of the men (over 15) and consume 5.3 billion legal cigarettes, 67 million cigars/cigarillos and just over 1,000 tons of roll-your-own tobacco. Retail sales of tobacco products in 1998 were valued at FIM 3.3 billion (\$ 618 million)- up 3 percent (whereas the cost of living increased by 1.4 percent) .

Rate of exchange used in this report are:

CY 1996: USD 1.00 equals FIM 4.5905

CY 1997: USD 1.00 equals FIM 5.1944

CY 1998: USD 1.00 equals FIM 5.3415

## Section I: Situation and Outlook : Tobacco Products

### Import Market

#### Unmanufactured tobacco

As no tobacco is grown in Finland, local manufacturers of tobacco products rely entirely on imports. With the closing of most of R.J. Reynolds Finland (former Rettig) in 1998, there remains only one major tobacco manufacturing company, Amer Tobacco. Reynolds continued production of smoking & cut until March 1999 but has now completely ceased production. In total Finland imported tobacco and tobacco products valued at FIM 308 million (\$ 57.7 million) in 1998, unmanufactured tobacco accounting for FIM 159 million (\$ 29.8 million). The U.S. share of the imported volume was 32 percent in 1998.

Although suffering from high EU customs duties that have been applied since 1995, it seems that U.S. tobacco has nonetheless maintained a strong position on the market based largely on the local production of Marlboro cigarettes. The present licence agreement is valid until 2001. Industry contacts have shown an interest in the U.S. domestic tobacco program, whose reform could improve the competitiveness of U.S. tobacco. Re-exportation of tobacco was exceptionally high in 1998 following the closure of Reynolds/Swedish Match operations and relocation of production.

#### Cigarettes

In 1998, cigarettes valued at FIM 110 million (\$ 20.6 million) were imported to the Finnish market taking roughly 27 percent (in volume) of the market. Only a very small share (1.2%) was sourced directly from the U.S. as can be seen in the trade matrix. Amer Tobacco, with domestic production, has a 75 percent market share - up another percent on 1997. The strongest brand family is still Marlboro with 31.2 percent, followed by L&M with 30.2 percent and Belmont with 12.8 percent. The full flavored cigarettes are still the strongest brands. The proportion of low price cigarette sales continued to grow and reached 38 percent in 1998.

#### Cigars, Cheroots and Cigarillos

In 1998, cigars valued at FIM 30.6 million (\$ 5.7 million) were imported taking 72 percent the market. Import trade in cigars will increase following the closure of Swedish Match/Reynolds' factory in 1998 which put an end to Finnish mass production of cigars. Swedish Match held a 70 percent market share (including Ritmeister) and BAT has grown from 20 percent in 1994 to 25 percent. Amer has only 5 percent of the market with Schimmelpennick cigars. The two strongest brands are Hofnar Lilliput and Cafe Creme with 25 percent of the market each. Swedish Match (Reynolds) cigar production figures are not yet available for 1998 and the entry in the PSD is under the assumption of full historical production through September.

#### Smoking and Cut

Imports supplied 10 percent of the market up until 1998. Smoking & cut tobacco valued at FIM 7.7 million (\$ 1.4 million), mainly for roll your own cigarettes, was imported in 1998, none of which was sourced directly in the U.S. Imports will increase drastically as Amer, with local production, only has 11 percent of the market. Amer will likely try to increase their market share and have in March 1999 launched a new RYO brand "Bulldog".

### Domestic Industry and Production

Although there are three large actors on the Finnish tobacco market, Amer Tobacco Ltd is the only major

manufacturer of tobacco products in Finland and the market leader for cigarettes. Reynolds Finland has been sold to French Seita and is, along with BAT Nordic, represented only by marketing units. Amer continued to strengthen its dominant market position reaching 75 percent of the cigarette market in 1998 (up another percent). Amer Tobacco is continuing to produce, under licensing agreements, Philip Morris products. The license covers the production of Philip Morris products for the Finnish market, as well as certain brands for the Swedish market until the end of 2001. At present, Marlboro cigarettes for the Swedish market are manufactured in the Netherlands and all other Philip Morris brands in Finland. In addition to production under licence, Amer produces its own cigarette brands and roll-your-own tobacco. Amer's exports of their own cigarette brands to Estonia grew during 1997 and official cigarette exports to Estonia in 1998 grew another 25 percent. Amer's subsidiary in Estonia is growing on the Estonian market. Amer's own cigarette brands are also manufactured in St Petersburg for the Russian market, under licensing agreement.

## Consumption

Consumption of domestic taxed tobacco products is relatively stable, although there has been a reduction in both cigarette and smoking & cut sales of just over 1 percent. The consumption of tobacco products (tobacco products delivered for taxable sales) amounted to 4,276 tons in 1998, up 1.4 percent. The proportion of daily smokers is according to Statistics Finland the same as in 1997 at 30 percent of the population of men and 20 percent of the women. The younger age groups are showing growth - up 2 percent units and especially young female smokers are increasing. In the group of 14-18 year-Olds, 24 percent of both girls and boys smoke.

In 1995, 1.8 percent of the household's disposable income was used on tobacco products, since then the disposable income has grown by 14 percent while tobacco's share of expenditure remains at 1.7 percent in 1998 (up 7% from 1995). Expenditure has thus grown in the past three years totaling FIM 5.8 billion (\$ 1.1 million) in 1998, out of which FIM 3.3 billion (57%) consists of tobacco excise tax. The margin for trade and industry is thus quite small - best for cigars and worst for cigarettes, as can be seen in the tariff & tax table.

Wholesale deliveries of cigarettes increased in 1998 by 1.8 percent and reached 4.8 billion pieces. Statistics Finland emphasize, based on a survey of travelers, that in addition to the 4.8 billion, 500 million tax free cigarettes are consumed. They also report that the amount of confiscated cigarettes has increased threefold in 1998 to 14.3 million piece. As industry contacts say they think smuggling has decreased somewhat, one can assume the boarder control has improved substantially.

Cigar consumption has been relatively stable for the past 5 years fluctuating in the range of 59-67 million pieces according to Statistics Finland. In 1998, 67 million pieces of cigars were consumed. Consumption which is a residual in the PS&D- as production and import/exports are given for 1997 - does not correspond to this official figure giving a higher domestic consumption in the PS&D. It seems there are 26 million cigars unaccounted for in 1997 which most likely has been delivered for tax-free sales. In 1998, production was not available and is therefor derived - which may mean that production is lower than it should be. The likely reason for this is that products supplied for tax free trade on the ferries between Sweden and Finland and Finland and the Baltics, are not included in export figures.

Consumption of smoking & cut tobacco is stable at roughly 1,000 tons (929-1062 tons over the past 5 years). The same problem of unaccounted volumes appears also here, but in much smaller amounts.

Total domestic consumption in the PSD is source from Statistic Finland's preliminary figure for total production 1998 (calculated by estimating cigarettes to 0.65 g and cigars to 2 and 4 g) with 5 percent added for losses.

## Stocks

The stocks for unmanufactured tobacco will be increased somewhat in 1999 in anticipation of Y2K problems in trade. Wholesale and retail may also increase stocks towards the year-end, however, this has not been anticipated in the PSD. Historical stock takings may include discrepancies as not all industries have supplied information.

## Policy

Finland was one of the first countries to regulate tar, nicotine and carbon monoxide in cigarettes in the 1970's. Policies to regulate the tobacco trade have been strict and have indeed resulted in that Finland now boasts the lowest levels of smoking and related diseases in Europe among adults over 25. A recent parliament decision regarding the anti smoking policies has given top priority to the efforts to prevent smoking among children and youths.

The new Tobacco Act, the main objective of which was to protect people from involuntary exposure to tobacco smoke at work and in public places entered into force on March 1, 1995. An important provision in the law is the prohibition to sell cigarettes to children under 18 years of age. The Act was strengthened further in 1999 in order to improve the working environment in restaurants. As of July 1, 2000 environment tobacco smoke will be officially classified as carcinogenic and it should therefore be possible, by law, for employees to protect themselves against it. Smoking at the bar or in gambling sections will not be permitted other than if there is sufficient ventilation. All restaurants over 50 square meters should then have smoke-free zones. Smaller restaurants will need sufficient ventilation.

Finland is currently implementing EU rules for trade including duties for imports from third countries. Customs duties vary between 12.1 and 19.9 percent (min. 24 ecu/100 kg and max. 61 ecu/100 kg), depending on type. Developing countries are to some extent favored with special agreements.

## Marketing

The GATT agreement stipulates tariff reductions for unmanufactured and manufactured tobacco from third countries (not under special agreements) of 25 per cent from 1994 to year 2000, which will likely improve market possibilities for manufactured tobacco.

The EU has finally agreed on a harmonized ban on advertizing beginning on October 1, 2006. Direct tobacco advertising and sales promotion have been banned in Finland since 1978. The new tobacco law (in force since March 1, 1995) explicitly bans indirect advertising also. Sales promotion aimed at those selling tobacco is also prohibited but some product information is still allowed. The domestic industry claims that this favors international brands over Finnish brands as these are internationally more visible (magazines and television), however this will likely decline in years to come with the EU agreement on a harmonized ban. The only marketing tool available in Finland is placement management systems at retail level.

## Section II: Statistical Tables

### PS&D Tables

#### Unmanufactured total

Country	Finland					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	Revised	1997	Preliminary	1998	Forecast	1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Area Planted	0	0	0	0	0	0
Beginning Stocks	2216	2216	2796	2796	543	937
Farm Sales Weight Prod	0	0	0	0	0	0
Dry Weight Production	0	0	0	0	0	0
U.S. Leaf Imports	2433	2433	1400	1636	0	1700
Other Foreign Imports	4523	4523	3600	3539	0	1400
TOTAL Imports	6956	6956	5000	5175	0	3100
TOTAL SUPPLY	9172	9172	7796	7971	543	4037
Exports	623	623	1503	1916	0	207
Dom. Leaf Consumption	0	0	0	0	0	0
U.S. Leaf Dom. Consum.	2000	2000	2250	2000	0	1500
Other Foreign Consump.	3753	3753	3500	3118	0	1500
TOTAL Dom. Consumption	5753	5753	5750	5118	0	3000
TOTAL Disappearance	6376	6376	7253	7034	0	3207
Ending Stocks	2796	2796	543	937	0	830
TOTAL DISTRIBUTION	9172	9172	7796	7971	0	4037

**Cigarettes**

Country	Finland					
Commodity	Tobacco, Mfg., Cigarettes				(MIL PCS)	
	Revised	1997	Preliminary	1998	Forecast	1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		10/1998		01/1999
Filter Production	6743	6743	7000	5510	0	4000
Non-Filter Production	0	0	0	0	0	0
TOTAL Production	6743	6743	7000	5510	0	4000
Imports	1277	1277	1300	1291	0	1700
TOTAL SUPPLY	8020	8020	8300	6801	0	5700
Exports	2797	2797	3000	1563	0	400
Domestic Consumption	5223	5223	5300	5238	0	5300
TOTAL DISTRIBUTION	8020	8020	8300	6801	0	5700

**Cigars etc**

Country	Finland					
Commodity	Mfg., Cigar, Cheroot, Cigarell				(1000 PCS)	
	Revised	1997	Preliminary	1998	Forecast	1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Production	53000	53000	52000	28205	0	0
Imports	43746	43746	40000	47631	0	70000
TOTAL SUPPLY	96746	96746	92000	75836	0	70000
Exports	7895	7895	8000	8836	0	0
Domestic Consumption	88851	88851	84000	67000	0	70000
TOTAL DISTRIBUTION	96746	96746	92000	75836	0	70000

**Smoking & cut tobacco**

Country	Finland					
Commodity	Mfg., Smoking and Cut				(MT)	
	Revised	1997	Preliminary	1998	Forecast	1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Pipe Production	8000	8	8000	6	0	0
Cigarette Production	982000	982	982000	994	0	350
TOTAL Production	990000	990	990000	1000	0	350
Imports	122407	122	125000	108	0	730
TOTAL SUPPLY	1112407	1112	1115000	1108	0	1080
Exports	64000	64	65000	70	0	60
Domestic Consumption	1048407	1048	1050000	1038	0	1020
TOTAL DISTRIBUTION	1112407	1112	1115000	1108	0	1080

**Trade Matrices****Unmanufactured tobacco**

Country	Finland		
Commodity	Tobacco, Unmfg., Total		
Time period	CY	Units:	metric tons
Imports for:	1997		1998
U.S.	2433	U.S.	1636
Others		Others	
Brazil	878	Zimbabwe	794
Zimbabwe	797	Thailand	403
Thailand	547	Malawi	284
Germany	449	Italy	241
Greece	295	Germany	214
Spain	217	Poland	210
Malawi	217	France	208
Italy	170	Turkey	189
India	170	Greece	181
Turkey	161	Brazil	172
Total for Others	3901		2896
Others not Listed	622		643
Grand Total	6956		5175

Country	Finland		
Commodity	Tobacco, Unmfg., Total		
Time period	CY	Units:	metric tons
Exports for:	1997		1998
U.S.		U.S.	
Others		Others	
Russia	525	Russia	1028
Ukraine	65	Ukraine	425
Germany	32	Germany	421
		Belgium, Lux	27
		France	15
Total for Others	622		1916
Others not Listed	1		
Grand Total	623		1916

### Cigarettes

Country	Finland		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	CY	Units:	million pieces
Imports for:	1997		1998
U.S.	12	U.S.	15
Others		Others	
Belgium, Lux	1045	Belgium, Lux	912
Netherlands	118	Germany	143
Germany	45	Netherlands	125
Denmark	37	Denmark	52
Sweden	17	United Kingdom	22
United Kingdom	2	Sweden	16
		Russia	5
Total for Others	1264		1275
Others not Listed	1		1
Grand Total	1277		1291

Country	Finland		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	CY	Units:	million pieces
Exports for:	1997		1998
U.S.		U.S.	
Others		Others	
United Kingdom	1892	United Kingdom	539
Arab Emirates	217	Sweden	186
Sweden	210	Estonia	186
Estonia	149	Latvia	168
Russia	81	Arab Emirates	122
Denmark	64	Lithuania	92
Norway	50	Russia	92
Belgium, Lux	45	Norway	55
Ireland	22	Denmark	48
Germany	21	Germany	35
Total for Others	2751		1523
Others not Listed	46		40
Grand Total	2797		1563

**Cigars etc**

Country	Finland		
Commodity	Mfg., Cigar, Cheroot, Cigarell		
Time period	CY	Units:	1000 pieces
Imports for:	1997		1998
U.S.		U.S.	
Others		Others	
Netherlands	37785	Netherlands	39187
Germany	2368	Sweden	3431
Belgium, Lux	2000	Belgium, Lux	2625
Sweden	830	Germany	1738
Dominican Rep.	351	Dominican Rep.	341
		Denmark	261
		Spain	40
Total for Others	43334		47623
Others not Listed	412		8
Grand Total	43746		47631

Country	Finland		
Commodity	Mfg.,Cigar,Cheroot,Cigarell		
Time period	CY	Units:	1000 pieces
Exports for:	1997		1998
U.S.		U.S.	
Others		Others	
Belgium, Lux	2320	Sweden	5851
Sweden	1974	Belgium, Lux	1190
Denmark	1352	Denmark	943
NORway	1114	Norway	374
Estonia	452	Russia	320
United Kingdom	300	Estonia	96
Russia	257	Ntherlands	26
Netherlands	78	Germany	24
Iceland	48		
Total for Others	7895		8824
Others not Listed			12
Grand Total	7895		8836

### Smoking & cut

Country	Finland		
Commodity	Mfg., Smoking and Cut		
Time period	CY	Units:	Metric tons
Imports for:	1997		1998
U.S.		U.S.	
Others		Others	
Belgium, Lux	70	Denmark	57
Sweden	20	Germany	18
Germany	18	Sweden	16
Denmark	8	Belgium, Lux	11
Netherlands	5	Netherlands	5
Total for Others	121		107
Others not Listed	1		1
Grand Total	122		108

Country	Finland		
Commodity	Mfg., Smoking and Cut		
Time period	CY	Units:	Metric tons
Exports for:	1997		1998
U.S.		U.S.	
Others		Others	
Russia	38	Russia	35
Sweden	17	Sweden	19
Germany	7	Germany	9
Estonia	1	Estonia	5
Norway	1	Norway	1
Total for Others	64		69
Others not Listed			1
Grand Total	64		70

## Other tables

### The U.S. share of total unmanufactured tobacco imports

Year	U.S. share, % of volume
1993	50
1994	47
1995	32
1996	26
1997	35
1998	32

### Market shares of domestic sales for tobacco products

	Cigarettes			Cigars (million pieces)			Smoking & cut		
Year	1996	1997	1998	1996	1997	1998	1996	1997	1998
Amer Tobacco	66.9%	73.8%	74.7%	3.5 %	4.6%	4.6 %	13.0%	11.1%	10.9%
Reynolds/Swedish Match	12.7%	9.1 %	9.0 %	74.7%	71.3%	70.2%	79.4%	80.8%	81.5%
BAT	20.4%	17.1%	16.3%	21.8%	24.1%	24.3%	7.6 %	8.0 %	7.7 %
Total sales	4,537	4,728	4,813	64.5	62.8	66.7	1,081	1,016	1,012

<b>Average Retail Price of tobacco products in Finland, FIM</b>			
Year	Cigarettes	Cigars	Smoking&cut
	20 pcs	10pcs	40 grams
1994	18.90	21.00	17.80
1995	19.90	21.00	19.30
1996	21.00	26.00	19.60
1997	21.50	28.00	20.20
1998	22.00	28.00	32.80

## Tariff Tables

Product	Import Tariff	Excise tax	VAT
Unmanufactured tobacco	12.1 or 19.9% (24-61 euro/100 kg)		
Cigarettes	36.7 or 68.4%	57%	22%
Cigars	34.7%	22%	22%
Smoking & cut	88.9%	48% for pipe 50% + FIM 12/kg for RYO	22%