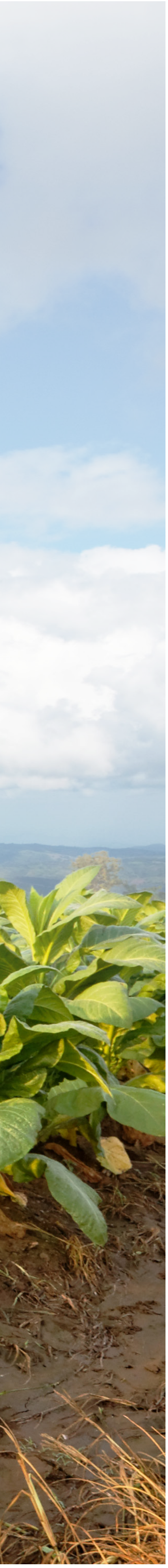
A journey of craftsmanship and heritage

Supporting the European cigar/ cigarillo industry

ECMA

Contents



Foreword

Paul Varakas, ECMA Director General

Making a cigar is an art. It is a craft men and women across the globe have dedicated their lives to understand, learn and perfect.

However, the cigar sector is presently at a crossroads – caught between increasing tobacco control policies to prevent young people from taking up smoking, a category of the population which does not consume cigars, and the continuation of the manufacturing of a historical product first introduced in the 15th century.

Cigars and cigarillos continue to be intrinsically different tobacco products. Unlike the other segments of the tobacco industry, we are distinct not only on account of our products and consumption patterns but also our operations and manufacturing. Each member of our association represents its history, its own products, each unique in their own right - all making up the spirit of the European Cigar Manufacturers Association (ECMA). From hand rolled premium cigars to filter cigarillos, from Sumatra leaves to the ones growing in the Vuelta Abajo area, the cigar industry is as varied and engaging as its people.

While European and world markets for cigarettes are dominated by a small number of multinational corporations, cigar and cigarillo production in Europe, by contrast, is characterised by a far larger number of mainly small craft family-owned producers. With on average 150 years of experience in craftsmanship, these companies are deeply rooted in their local economies and heritage.

As **niche products of enjoyment**, cigars and cigarillos only account for 1.6% of the total tobacco market in the European Union; making the cigar industry the smallest member of the tobacco family.

This report provides a blueprint of the traditions of an industry committed to delivering a high-quality agricultural product with care, attention and passion.

Building on this foundation, this report will detail the process from the cultivation of the seeds to sale of the cigars and cigarillos in Europe; introduce the profiles of individuals which support, directly and indirectly, the cigar sector; and paint a real picture of how the industry has invested in a global supply chain and contributed to employment within and outside Europe for several generations. In addition, it identifies the key differentiations between these products and other products. It also assesses the options for how to ensure the cultural legacy that the industry has created in Europe, whilst maintaining a clear regulatory framework.

In the early 1990s, ECMA was established to represent the interests the European producers of cigars and cigarillos. I am proud to announce that our membership continues to represent the overwhelming majority of cigars and cigarillos manufactured in, and exported from, the European Union.

We hope you will enjoy this report and discover the journey of craftsmanship and heritage that goes behind the manufacturing of cigars and cigarillos. **We also hope to count on your support – as invaluable as the cultural heritage we are trying to protect and promote.**

Introduction to cigars and cigarillos

While the global tobacco industry is generally comprised of large multinational corporations, the European cigar and cigarillo industry is characterised by medium sized businesses. In fact, with only a few exceptions, European cigar and cigarillo manufacturers continue to be owned and controlled by their founding families. With on average 150 years of experience in craftsmanship, these companies are deeply rooted in their local economies and heritage. Of its sixteen full members[1], ECMA boasts eleven family-owned companies from across Europe with strong regional roots.

SEVEN GENERATIONS – ONE FAMILY'S PASSION FOR HIGH-QUALITY CIGARS

On 30 January 1817 Johann Friedrich Christian André laid the foundations for the present-day Arnold André company. Seven generations later, Arnold André, still owner-managed, has become the largest cigar and cigarillo producer in Germany.

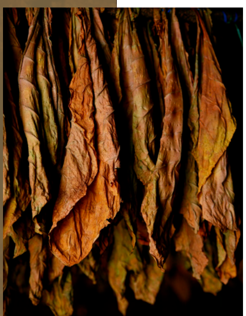
In 1851, Arnold André set up a plant in Bünde, North Rhine-Westphalia, as a subsidiary of the André brothers tobacco factory in Osnabrück, founded in 1817. To this day the company is committed to its manufacturing in the town of Bünde and has steadily developed to become one of the major economic drivers and employers in the region.

1 The rest of the European cigar industry, some 30 companies, generally employ between 1 to 20 people and one major company, all are family owned

AN AGRICULTURAL PRODUCT

Today, Europe's cigar manufacturing industry continues centuries-old processes involved in the highly delicate, artisanal craftsmanship of growing and manufacturing cigars and cigarillos of the highest quality for European and international markets.

Cigars and cigarillos are inherently agricultural products. Manufactured from mainly fermented air-cured tobacco leaves, sourced from only a limited number of countries around the world whose geography can ensure the highest quality and maturity of the three distinct product parts needed: a filler, a binder leaf which holds the filler in place, and a natural wrapper.



The tobacco leaves destined to become the wrapper of the cigar, in particular, are distinctive, both in type as well as in method of cultivation. This results in the use of many different tobacco types in the manufacturing process and a significant number of different consumer end-products. Each are characterised with a distinct consistency, burn-rate, flavour and aroma.

The distinction between cigars and cigarillos essentially relates to the unit weight of products: cigars generally weigh 2.5-3.0g (sometimes much more than that), while cigarillos are mostly in the 1.2-1.5g range.

A TRADITIONAL PRODUCT WITH A RICH HISTORY

When Columbus and his crew first came across tobacco in Central America, they first saw it being consumed through the mouth using a form of cigar. The English word "cigar" is actually derived from the Spanish "cigarro", which is an adaptation of the Mayan word for tobacco: "siyar". Even as one of the first tobacco products imported into Europe, cigars did not catch on until the early 19th Century. But their spread among European consumers was continuous and producers all over Europe created regional production companies to accommodate cigars and cigarillos to the specific taste of their countrymen. Thus, locally produced cigars and cigarillos as well as imported quality cigars became a traditional product and part of the European cultural heritage. Today, European manufacturers remain world leading producers of traditional cigars and cigarillos.

A HIGHLY SKILLED FEMALE WORKFORCE

ECMA and its members take enormous pride in the industry's exceptionally high percentage of skilled female employees at work throughout every stage of the manufacturing process. Today, Europe's cigar and cigarillo industry boasts a workforce that is 60% female, from skilled hand-rollers to owners and CEOs.

A DISTINCT CONSUMER PROFILE

The skilled craftsmanship and small-batch production cycles involved in the manufacturing process make cigars and cigarillos an inherent premium product targeted towards a specific consumer profile. Thus, unlike mass-market tobacco products such as cigarettes, cigar and cigarillos are consumed with more appreciation for taste and quality, key characteristics expected by consumers.

Yet, while cigars and cigarillos differentiate themselves from mass-market tobacco based upon consumer expectations of their quality, they also significantly set themselves apart at the initial seeding stage, through to the manufacturing process and quite different consumption patterns of mostly mature consumers, conscious of any risks related to excessive and addictive tobacco consumption behaviour.

From seed to leaf – growing the perfect cigar leaves

As an agricultural product, the tobacco plant is the most important element in the manufacturing process of cigars and cigarillos. While tobacco seeds can be relatively easy to grow, producing the quality tobaccos needed for cigars requires extensive and careful controls of its growth environment.

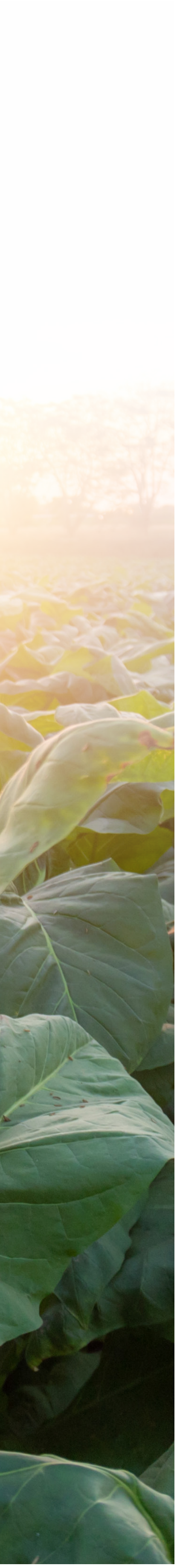
PROFILE OF A MASTER BLENDER – MAYA SELVA

As with any fine wine or cuisine, the quality and proportion of a cigar's ingredients is what sets it apart. It is the role of the 'Master Blender' to choose the leaves that will make up the final cigar. Master Blenders spend much of their careers learning how the tobacco used in each component of a cigar interacts to provide different tastes and aromas.

It is this blending of different tobacco types used in the filler, binder and wrapper that ultimately determines the flavour, strength and aroma of a cigar. Based on their expertise and understanding, it is the Master Blender who defines the sorting criteria and decides on the necessary curing and fermentation periods.

With a French mother and Honduran father, Maya Selva grew up in Tegucigalpa, Honduras, with a strong link to the country's tobacco industry. Following a year of intensively learning about every aspect involved in the growing and manufacturing of cigars, Maya worked with her local partners to define a set of very stringent specifications for the production and quality of her cigars before launching her own collection in 1995.

Today, Maya continues to personally select the growing areas in Honduras and Nicaragua where her tobacco is grown and oversees the local blending and manufacturing processes.



To ensure this, seeds are initially placed in a protected seedbed, before being transplanted into a field where they will remain for eight to twelve weeks. During this time, the leaves are carefully cultivated by manual labour and may remain covered with special cloths to protect them from harmful solar rays.

Following their manual harvesting, the tobacco leaves undergo an extensive curing process, to allow each of them to develop their own distinctive and special aroma. To ensure the highest quality and taste, the curing process must begin without delay once the leaves have begun to change colour. Throughout the curing process, the tobacco leaves are hung on wooden laths and suspended from the ceilings of well-ventilated large curing barns. A leaf can go through different kinds of curing – e.g. sun drying, air-drying, drying above a fire or at a high temperature – depending on what taste profile the cigar should have to the particular liking of its future consumer.

After curing, leaves are secured and bundled in large casks, piles or packed into boxes where they further cure / ferment for several months or years, to activate the tobacco's natural fermentation process, allowing it to develop its unique taste and aroma.

Typically, leaves intended for cigars and cigarillos use are allowed to ferment considerably longer[2] than leaves for cigarettes if at all. Following the fermentation stage, the leaves can be sorted according to their colour, quality and size. Many tobaccos are then aged for two to three years in bales made of burlap, or in palm bark tercios before rolling. Some tobaccos may receive as many as seven years of aging. The wrapper for machine made cigars are manually stretched and cut before they are rolled in a bobbin.

This intricate, considered selection process is time and labour-intensive, which represents a key reason for the subsequent leaf price differential between wrapper tobacco and other tobacco products such as cigarettes. In this regard, the price of a leaf meant to be used as a wrapper is approximately 10 times higher than filler tobacco.

Between 2019 and 2020, ECMA members sourced over 23,770 tons of high-quality tobacco for use in fillers, binders and wrappers. Over 25% of this tobacco was cultivated in Europe, with Italy, Germany, Spain and Bulgaria being major providers.

2 On average, most cigar tobacco is left to ferment for three to seven years for high-quality brands.

High quality tobacco's origin for Europe's Cigar and Cigarillo production

	Amount (Tons) in 2019-2020		
	Filler	Binder	Wrapper
Bulgaria	324	–	–
France	27	–	1
Germany	194	143	71
Greece	106	–	–
Italy	2.636	–	2.219
Poland	10	–	–
Spain	376	–	–
Benelux	38	–	–
Total EU tobacco	**3.711**	**143**	**2.291**
Brazil	3.284	–	683
Cameroon	–	23	1
Cuba	253	–	–
Dominican Republic	2.461	40	12
Ecuador	3	1	632
Honduras	194	16	12
India	55	–	
Indonesia	2.503	469	2.225
Nicaragua	149	24	1
Philippines	509	–	–
Sri Lanka	40	–	–
Paraguay	375	–	–
Colombia	364	–	58
Zambia	40	–	–
Uganda	452	–	118
Malawi	397	–	–
Russia	74	–	–
Zimbabwe	491	–	–
Turkey	327	–	–
Mozambique	20	–	–
Macedonia	31	–	–
Mexico	–	–	34
USA	550	–	731
Total non-EU tobacco	**12.572**	**553**	**4.500**
Total use of tobacco	**16.283**	**696**	**6.791**

How a cigar is made

1 Indoor seeding

Tobacco plants are seeded indoors before they are moved outside.

2 Outdoor growing

After 6-10 weeks, the plants are moved into a field, where they remain for 2-2.5 months.

3 Cultivation

The leaves are cultivated and covered with special cloths to protect them from the sun's harmful rays.

4 Harvesting

The plants are harvested and their leaves are prepared for curing.

5 Curing

The leaves are cured on laths suspended from the ceiling in a well-ventilated curing barn until they have changed from bright green to yellow / brown.

6 Bundling

The leaves are then secured and tied into bundles for storage and fermentation.

7 Fermentation

The bundles are placed in large casks or packed in boxes to develop the taste and aroma of the tobacco.

8 Sorting

After somewhere between three and seven years, the leaves are retreived and sorted once again.

9 Steaming

The sorted leaves are steamed to restore any humidity lost, to prevent the leaves breaking down.

10a Rolling: by hand

Filler leaves are rolled into a tight bunch then placed on the binder leaf and rolled. The wrapper leaf is then rolled around.

10b Rolling: by machine

Filler leaves are fed into a machine then wrapped in the wrapper leaf. All cigars that pass the inspection are placed onto trays for wrapping.

11 Packaging

Cigars are boxed in groups or individually wrapped for sale. This step is very labour-intensive.

Manufacturing high-quality cigars and cigarillos

With an enormous range of models, sizes, brands, types of packages and prices, cigars and cigarillos require a wholly different manufacturing approach than standardised mass-market tobacco products. While most cigars are today manufactured in small-batch machine-production runs, premium cigars continue to be rolled by hand to ensure their highest quality.

Whether made by hand or by machine, the manufacturing of cigars and cigarillos requires intricate attention to detail, with this exact process varying slightly between different manufacturers for these natural products. These slight variations further add to the distinctiveness of each cigar and cigarillo brand.

Differentiating the manufacturing process

Irrespective of whether a cigar or cigarillo is manufactured by hand or machine, its manufacturing process differs significantly from that of factory-made cigarettes in both quantity and length of production.

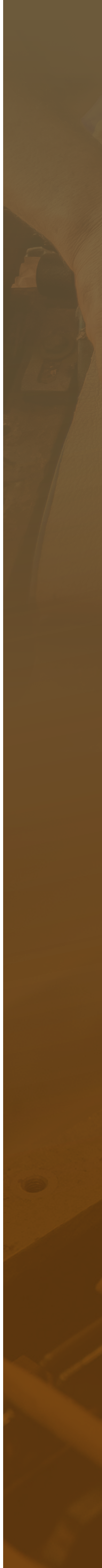
To manufacture a single premium cigar, which is exclusively made by hand, it may take a highly trained and efficient roller up to 10 minutes to complete the process.

Meanwhile, while half of all marketed cigars and all cigarillos are manufactured using highly specialised machinery, the complex manufacturing process and enormous range of cigar and cigarillos significantly limit the output of even the most productive machinery. A fully mechanised machine may manufacture only as many as 28 cigars, or maximum 160 cigarillos per minute.

A single rolling machine may also be used for the production of different ranges of cigars and cigarillos regardless of their shape or size. Consequently, cigars and cigarillos are commonly manufactured in low-volume production runs. This can limit the full utilisation of rolling machines, as they require a careful recalibration to specific weights and measurement characteristics in between the production of different products.

In contrast to the relatively slow and low-volume batch production in the cigar and cigarillo industry, the speed and manufacturing quantities involved in the making of factory-made cigarettes match underlines its status as a mass-market product. To satisfy the demand for cigarettes, modern double rod cigarette-making machines are capable of manufacturing more than 20.000 cigarettes per minute without interruption, more than 400 times the output of machine-made cigars.

In the context of automated production, it is important to remind that cigarillos can only be manufactured at much lower volumes than cigarettes due to their smaller volume production involving a number of the time-intensive processes very much comparable to the manufacturing of cigars.



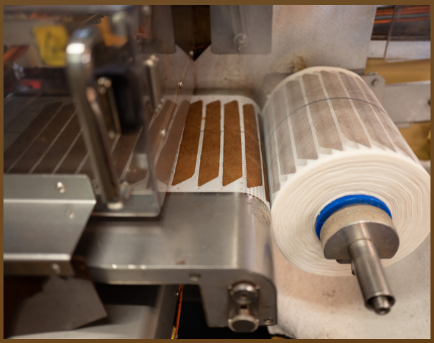
Hand-Rolled

Almost all exclusively premium cigars are hand-rolled by expert cigar rollers.

On average, it takes a minimum of nine months of extensive training to acquire the necessary skills to manufacture hand-rolled premium cigars, although it may take rollers years to develop the expertise and intricate craftsmanship to manufacture cigars of the highest quality.

Fitted with their own spacious workspaces and a selection of leaves, the expert roller must be able to leverage their experience and knowledge to identify the perfect combination of leaves to ensure the premium status of the final product, thus satisfying their demanding consumers' expectations.

Using a specialist "chaveta" knife the roller ensures, without mechanical assistance, all natural irregularities are removed before finishing the final cigar by wrapping the outer leaf tightly around the binder three and a half times, cutting a small round piece out of a different wrapper leaf and attaching it to the end of the cigar using natural vegetable paste.



Machine-Rolled

Despite the importance of hand rolled cigars for the premium market, today half of all cigars manufactured use specialist machines, while most of the cigarillos are machine-rolled.

Although a machine-rolled process allows the industry to manufacture at a considerably higher rate than traditional rolling by hand, the inherent complexities of processing products made with natural tobacco. In this regard, the vast majority of machine-made cigars are done with a natural filler, bunched with a homogenised tobacco leaf before being wrapped in a natural tobacco leaf.

Not surprisingly, also the mechanised processes employed in cigar and cigarillo manufacturing are significantly more complex, much different and slower than those used in the mass volume manufacturing of cigarettes. Automated cigar and cigarillo manufacturing requires specific machines for bobbinising, bunch making, over-rolling, cutting, packaging, and box finishing at much smaller numbers.

Despite using a mechanised processes, several operators are necessary to manage the production of machine-rolled cigars. Once approved, the cigars will be passed on for mechanised binding, wrapping and final packaging either as individually sold, exclusive cigars or in one of many different, particular packages.

As packaging also has to communicate regulatory obligations, a final step applies labelling on country-specific elements such as public health or taxation information, often through the use of stickers.

A global supply chain that supports local communities

ECMA members operate approximately forty-five manufacturing sites worldwide, eighteen of which are placed within the European Union.

Globally, ECMA members directly employ almost 31.000 people, with close to 6.000 workers, a fifth of ECMA members' direct workforce, being employed within the European Union[3].

In addition, through close and long-standing partnerships with tobacco plantations and other suppliers, predominantly in developing countries, ECMA members further support thousands of skilled jobs in developing countries.

ECMA members hold deep-rooted historical and socio-economic ties to their local, and often rural, communities. This is particularly the case for their operations in South-East Asia or South and Central America countries. ECMA's members' strong commitment to local and regional engagement is a foundation of the industry. Across the globe, our members are champions of local communities, offering educational support, investment in social welfare and environmental programmes as well as economic and employment opportunities. In order to further build on its commitment to local communities, ECMA's members lead environmental programmes driving local and sustainable reforestation practices.

ECMA members are proud that, of all direct employees in countries outside of Europe, almost two-thirds are female.

3 Source ECMA

Employment

TOTAL EMPLOYMENT 36.568

Belgium	881
Denmark	378
France	223
Germany	2.503
Hungary	460
Italy	462
Netherlands	407
Spain	245
Sweden	13
Other (Portugal, Austria)	25
Total EU employment	**5.597**

Brazil	1.000
Dominican Republic	10.998
Honduras	3.096
Indonesia	5.121
Nicaragua	2.910
Sri Lanka	4.322
Switzerland	374
United Kingdom	38
USA	2.832
Other (Myanmar, Russia, MEA)	280
Total non-EU employment	**30.971**

TRULY ITALIAN – A TWO-HUNDRED-YEAR COMMITMENT TO THE LOCAL SUPPLY CHAIN

According to the legend in 1815, at the Florence tobacco factory, a bale of Kentucky tobacco - left to dry in the summer sun - was drenched by a heavy downpour. To make use of the tobacco, new cigars were manufactured for sale to the people of Florence. The cigars were immediately a huge success. This was the born of the legend of the Toscano cigar, which has been in continuous production since 1818.

Towards the end of 1800 the importation of Kentucky tobacco in Italy had increased to the point of weighing considerably on the management of the Monopoly, so they decided to start a cultivation of Kentucky in Italy. The first experiments in acclimatisation and selection of the Kentucky tobacco started in 1850, but only in 1891, Kentucky cultivation was regularly introduced in the national production.

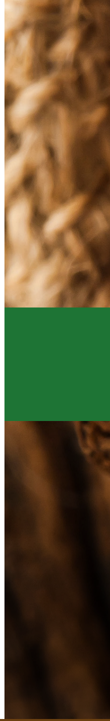
With two manufacturing sites exclusively sourcing from Italian tobacco growers, Italy's Manifatture Sigaro Toscano (MST) today continues the 200-year old Italian

tradition. Operating sites in Lucca (Tuscany) and Cava de' Tirreni (Campania) and a dedicated Receiving Centre in Foiano della Chiana (Arezzo), MST directly supports 250 Italian tobacco growers and 1.800 workers across Italy. This makes the Toscano cigar production the only Italian cigar with a wholly integrated and local supply chain.

From the sowing to the harvesting process, MST maintains a close and strategic link to its more than 250 partnering tobacco farmers, sourcing 90% of Italy's total value of 'Kentucky tobacco leaf' production.

Since 2014, MST's commitment to Italy's tobacco growers has been underpinned by a programmatic agreement with the Italian Ministry for Agriculture and Forestry Policies.

An occasional niche tobacco consumption



Factory-made cigarettes in boxes of 20 pieces are the dominant product placed on the market in the EU, followed at a distant second by fine-cut tobacco, accounting between them for 94% of sales by volume.

Cigars and cigarillos combined accounted for 1.6% of the total tobacco market in the European Union in 2019.

Over the period collated, from 2011 to 2019, volume of the aggregate of all manufactured tobacco products fell from 687.8 billion units to 572.7 billion. According to a recent study, for cigarillos, the decline in consumption has been significantly faster than for cigars.

ESTIMATED MARKET SHARES OF TOBACCO PRODUCTS IN THE EUROPEAN UNION IN 2019[4]

	Number of pieces, billions	% of total market
Factory-made cigarettes	458.4	80.1
Fine-cut tobacco	79.25	13.8
Heat-not-burn products	12.3	2.2
Cigars and Cigarillos	9.23	1.6
Smokeless tobacco	7	1.2
Pipe tobacco	6.5	1.1
Total	**572.68**	**100.0**

4 DG TAXUD, Releases for consumption of cigarettes and fine cut tobacco (2002-2019), ECMA figures for cigars/cigarillos and Euromonitor International; Tobacco Industry Edition, 2021 for heat-not-burn, smokeless and pipe tobacco products. The estimate of 'units' for the fine-cut, smokeless and pipe tobacco categories are based on a conversion of tonnage data at 1 gramme per piece. These figures include consumption in the United Kingdom.

SALES OF CIGARS IN THE EU MEMBER STATES 2012 - 2020 IN MILLION OF UNITS[5]

	2012	2013	2014	2015	2016	2017	2018	2019	2020
Austria	77	72	71	69	69	69	70	70	75
Belgium	373	346	342	312	283	272	257	251	241
Bulgaria	7	7	8	8	8	8	9	9	8
Cyprus	12	11	4	4	4	4	4	4	4
Croatia	-	-	5	5	6	7	7	8	7
Czech Republic	27	27	28	28	29	29	29	29	29
Denmark	84	118	145	85	64	55	45	40	34
Estonia	4	5	5	5	5	7	7	7	9
Finland	119	112	109	110	110	167	138	111	130
France	1.497	1.422	1.365	1.327	1.237	1.239	1.239	1.227	1.189
Germany	3.795	3.560	3.858	2.956	3.049	2.812	3.007	2.644	2.743
Greece	55	53	64	68	68	68	68	69	69
Hungary	381	465	565	507	530	520	561	579	674
Ireland	21	17	16	14	13	12	11	10	10
Italy	501	486	485	482	492	853	876	916	875
Latvia	91	65	57	57	62	43	36	30	29
Lithuania	55	61	63	54	63	67	70	71	72
Luxembourg	50	62	65	30	39	36	40	37	37
Malta	4	4	4	4	4	5	12	14	17
Netherlands	395	390	380	386	378	359	346	332	338
Poland	22	23	24	21	15	15	19	18	16
Portugal	129	183	308	287	278	203	231	289	250
Romania	4	6	6	7	6	7	7	8	8
Slovak Republic	27	34	45	60	60	18	20	19	17
Slovenia	16	25	31	33	30	27	21	19	21
Spain	2.223	2.330	2.303	2.286	2.201	2.123	2.073	2.011	1.907
Sweden	42	42	39	38	38	37	40	38	38
EU TOTAL	**10.445**	**10.340**	**10.768**	**9.243**	**9.141**	**9.062**	**9.243**	**8.860**	**8.847**

5 The United Kingdom has been removed as a Member State to allow for a better comparison between years, up until 2020.

Cigar Consumers – a niche profile

The European Commission's most recent Special Eurobarometer report on 'Attitudes of Europeans towards tobacco and electronic cigarettes', published in February 2021[6], highlighted that cigar and cigarillo smokers have a specific consumer profile which sets them apart from cigarettes or other tobacco products.

> "Only 1% or less of EU smokers smoke cigarillos, cigars or pipes on a daily basis; these tobacco products are more likely to be smoked on an occasional basis or tried only once or twice."

The survey demonstrates:

- Smoking cigars appears to be a characteristic of older age groups.[7]
- Cigar smokers tend to be older men with higher-income and well-educated background[8].
- Only 1% or less of smokers in the EU consume cigarillos, cigars or pipes on a daily basis[9], as opposed to 69% for factory made cigarettes.
- And, 4% of cigars or cigarillos smokers, respectively, commented that they do so less than monthly.
- 13% of respondents stated that they had tried cigars or cigarillos only once or twice. These levels have remained stable since 2012.

These results further support the status of cigars and cigarillos as niche and "occasional"[10] enjoyment consumer products as opposed to factory-made cigarettes and nicotine delivery devices.

Data provided by the Special Eurobarometer report also shows that 81% of respondents said that factory-made, boxed cigarettes had been their first experience with a tobacco product[11].

6 European Commission, Special Eurobarometer on "Attitudes of Europeans towards tobacco and electronic cigarettes", EBS 506, February 2021.
7 European Commission, Special Eurobarometer on "Attitudes of Europeans towards tobacco and electronic cigarettes", EBS 429, May 2015, p. 21.
8 European Commission, Special Eurobarometer on "Attitudes of Europeans towards tobacco and electronic cigarettes", EBS 385, May 2012, p. 16.
9 European Commission, Special Eurobarometer on "Attitudes of Europeans towards tobacco and electronic cigarettes", EBS 506, February 2021, pp. T9-T10.
10 European Commission, Special Eurobarometer on "Attitudes of Europeans towards tobacco and electronic cigarettes", EBS 506, February 2021, p. 26.
11 European Commission, Special Eurobarometer on "Attitudes of Europeans towards tobacco and electronic cigarettes", EBS 506, February 2021, p. 97.

In contrast, only 1 to 2% of respondents said that their first experience with a tobacco product was a cigar or cigarillo, respectively. This data further underlines the status of cigar and cigarillos as a niche product, rather than a gateway for new tobacco users.

While cigars and cigarillos as tobacco products are logically regulated from a public health policy perspective, ECMA believes that policymakers should continue to ensure a balanced and pragmatic approach when regulating production, marketing and consumption of traditional cigars and cigarillos, part of the European culture and heritage.

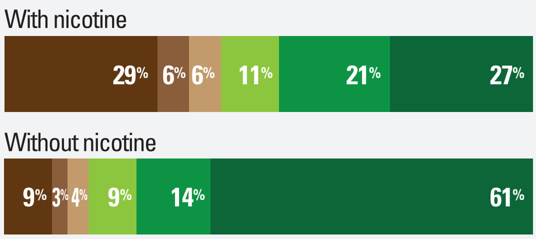
Regulation should allow for differentiation based on consumption patterns and user profiles. The European Commission's Eurobarometer findings demonstrated distinctions between mass consumed tobacco products and cigars and cigarillos respectively, regulation should allow the same.

ECMA and its members fully support measures to ensure that their products comply with all regulation and are only consumed by those of legal age.

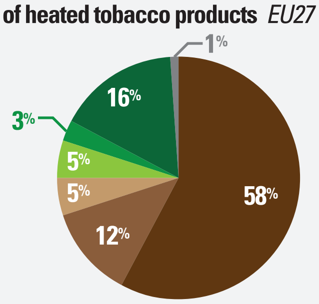
ECMA and its members continually stand ready to constructively engage with policymakers responsible for regulating our traditional products.

SURVEY RESULTS

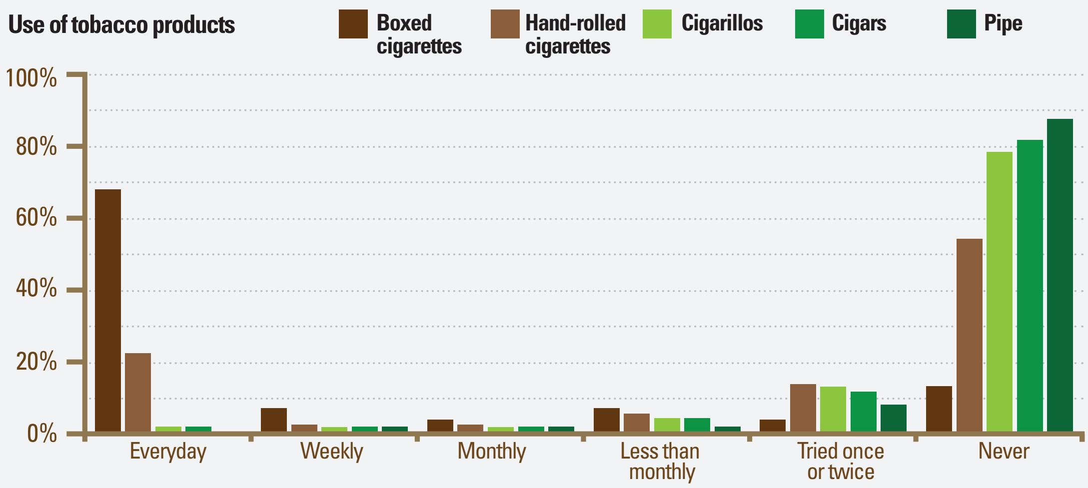
Use of e-cigarettes *EU27 + UK*



Use of heated tobacco products *EU27 + UK*



Use of tobacco products



Source: Special Eurobarometer, European Commission, February 2020. 6775 respondents, Age 15 upwards, survey date August to September 2020.

Maintaining a differentiated regulatory approach

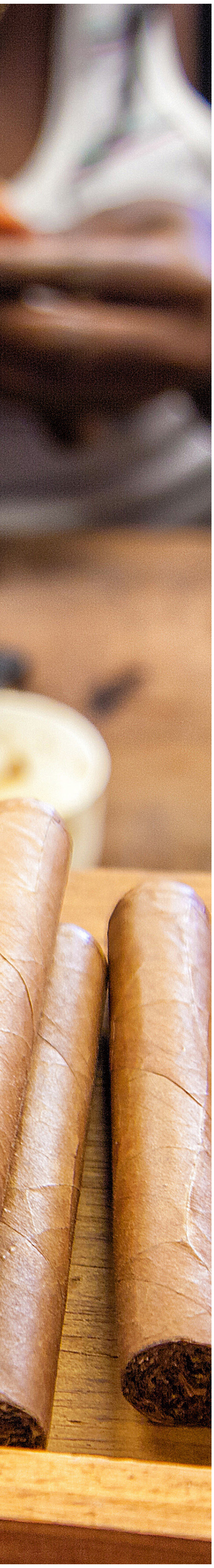
The Regulatory framework

In the European Union, extensive tobacco control measures regulate the production, trade, packaging, advertising and taxation of tobacco products. Specifically, the Tobacco Products Directive[12] and the Tobacco Excise Directive[13] set out the EU legislative framework for production and pricing/taxation of tobacco products placed on the EU market.

While there has been increasing movement towards a one size fits all approach harmonisation of all tobacco products since the 1990s, the cigar and cigarillo industry's unique position and heritage has so far been consistently recognised. That is reflected in numerous regulatory exemptions for cigars and cigarillos to policies that have otherwise been extended to mass-produced tobacco products like cigarettes. A harmonised approach to tobacco regulation would ignore the considerable differentiation among tobacco products and would potentially endanger these justified exemptions that have consistently been granted for cigars and cigarillos.

12 DIRECTIVE 2014/40/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 3 April 2014 on the approximation of the laws, regulations and administrative provisions of the Member States concerning the manufacture, presentation and sale of tobacco and related products and repealing Directive 2001/37/EC

13 COUNCIL DIRECTIVE 2011/64/EU of 21 June 2011 on the structure and rates of excise duty applied to manufactured tobacco



Maintaining a differentiated approach to excise duties

EU legislation on excise duties for manufactured tobacco defines:

- the categories of manufactured tobacco products
- the principles of taxation
- the minimum rates and structures to be applied.

Manufactured tobacco is also subject to the common provisions for excisable goods under EU law.

Directive 2011/64/EU requires Member States to levy a minimum rate of excise duties on factory-made cigarettes and sets down minimum excise duty rates for manufactured tobacco other than factory-made cigarettes, including cigars and cigarillos due to their obvious differentiation in character, production and consumption pattern.

Member States can *choose* between applying a specific component or an ad valorem component, or if they wish, they may apply a mixture of the two: 5% of the retail selling price or €12 per 1000 or per kilogram.

These lower excise rates relate to various historical and economic reasons, including the well-known higher production costs for manufacturing of cigar and cigarillo – translated in higher retailing prices, the high incidence of SMEs in this segment of the tobacco industry, the overall limited and largely occasional consumption pattern. The actual rates applied by Member States are generally higher than the EU minimum, but still lower than the rate applied to factory-made cigarettes.

A 'one size fits all' approach to taxation for all tobacco products, would thus be highly disproportionate and disregard the divergent characteristics, as well as the different tax-bearing capacity of cigars and cigarillos, which is not the same as mass-produced tobacco products given the substantial differences in the production process and consumption patterns presented earlier[14]. In order to be sustainable, it is estimated that the revenue after tax (comprising industry and trade) for cigars and cigarillos should be at least twice as much as for factory-made cigarettes[15].

In addition, while cigars and cigarillos benefit from lower minimum rates, the decline in their sales has in recent years largely matched the pace of the decline of the overall market for manufactured tobacco – refuting the need for an overhaul reform of the differentiated approach to excise duties.

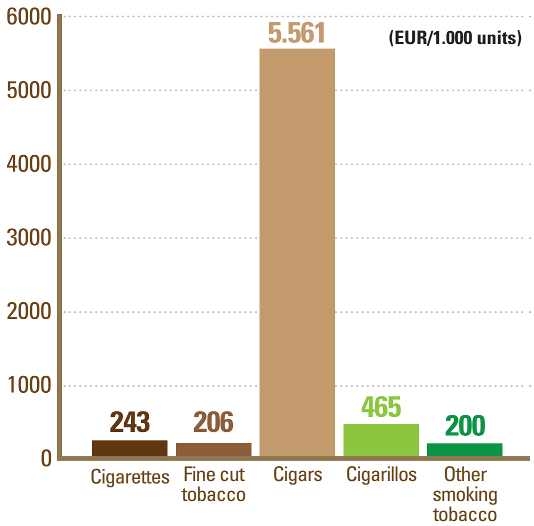
Considering the above, the introduction of stricter tax measures aimed at restricting/removing the tax differential approach in the Tobacco Excise Directive may eventually have non-negligible distortive effects on the entire category.

14 Economisti Associati for DG TAXUD, Study on Council Directive 2011/64/EU on the structure and rates of excise duty applied to manufactured tobacco, Volume 1, May 2017, pp. 171-172.

15 Economisti Associati for DG TAXUD, Study on Council Directive 2011/64/EU on the structure and rates of excise duty applied to manufactured tobacco, Volume 1, May 2017, p. 130.

Tax-induced substitution issues linked with cigars and cigarillos

The Economisti Associati study confirms that the differentiated treatment provided, under the current legislative framework, to cigars and cigarillos does not translate into any price advantage in the marketplace. This is because cigars and cigarillos are far more expensive than other tobacco products even when the tax component in the retail price is less significant[16].



*Source: EA 2019, Weighted Average price (WAP) data, **Calculation of the WAP:** (Total value of products concerned released for consumption (TIRSP) / Total quantity of products concerned released for consumption).*

While important price differentials (related to disparities in tax regimes) may have encouraged the emergence of some 'borderline' cigarillos on some national markets, it is important to underline that these products not only taste very differently, thus limiting substitutability and are lacking production steps/phases typical for traditional cigarillos.

Meanwhile, the question of 'borderline' cigarillos has been largely and effectively locally addressed over the past few years with the adoption of a revised product definition and with the adoption by Member States of appropriate tax structures[17]. Such measures, for 'borderline' cigarillos have already been pursued with observable impact of reduced numbers in individual Member States. This has notably been the case in Germany where low-priced / 'borderline' cigarillos placed on the market have more than halved since 2007 following the introduction of a minimum tax and changes to the product definition[18].

In its current form, the EU legislative framework for excise of tobacco products appears capable of addressing any issues of substitution arising in connection with 'borderline' cigarillos where appropriate, while permitting Member States to pursue revenue and public health policies through increases in the real price of tobacco products. In this sense, the introduction of a minimum tax on relevant national markets could provide an effective means to address these products while preserving the broader integrity of the cigar category and avoid jeopardising a traditional and very labour-intensive sector in Europe.

In conclusion, cigars and cigarillos generally do not pose tax-driven substitution issues, "*either because their market is marginal or because their price is well-above the price of cigarettes, or simply because for their inherent characteristics and consumption patterns, they are only weak substitute of cigarettes*"[19].

Cigars and cigarillos are far more expensive than other tobacco products.

16 Economisti Associati for DG TAXUD, Study on Council Directive 2011/64/EU on the structure and rates of excise duty applied to manufactured tobacco, Volume 1, January 2019, p.167

17 Economisti Associati for DG TAXUD, Study on Council Directive 2011/64/EU on the structure and rates of excise duty applied to manufactured tobacco, Volume 1, May 2017, p. 204.

18 Bundesverband der Zigarrenindustrie e.V., Steuerzeichenbezug für Zigarren und Zigarillos laut Statistischem Bundesamt rückläufig Klassische Zigarren und Zigarillos behaupten sich als Genussartikel in der Nische, 15 January 2020, https://www.presseportal.de/pm/66198/4492235

19 Economisti Associati for DG TAXUD, Study on Council Directive 2011/64/EU on the structure and rates of excise duty applied to manufactured tobacco, Volume 1, January 2019, p. 175.

Maintaining a differentiated approach to product regulation

EU legislation lays down rules governing the manufacture, presentation and sale of tobacco and related products, including cigars and cigarillos.

Considering the EU legislation's focus preventing young people from tobacco addictive behaviour, cigars and cigarillos, have been granted exemptions from certain requirements relating to ingredients, flavours, labelling and reporting, as products mainly consumed by mature and conscious consumers representing small groups of the population[20].

This approach is widely understood and shared across the globe – from the exclusion of cigars to the US Food and Drug Administration's Final Deeming Rule[21] to the labelling exemption granted for cigars and cigarillos in the vast majority of countries which have implemented plain packaging for cigarettes.

In the absence of clear change of circumstances in terms of sales volumes or consumption patterns of young people, as previously demonstrated, ECMA firmly believes that cigars and cigarillos should continue to be treated differently from mass-consumed tobacco products.

Conclusions on the possible revision of the EU legislative framework

ECMA and its members believe potential changes to Council Directive 2011/64/EU regarding the classification of cigars and cigarillos and their minimum taxation rules are unlikely to have a material effect either on smoking prevalence or on the fiscal revenues of member states. Their share of the market is simply too small and price formation of these products, is not amenable to substantially influence from taxation policy, since the non-tax element in the retail price is so dominant.

At the same time, perceived anomalies such as 'borderline' cigarillos are already being addressed by actions taken by individual Member States and do not warrant a need for a broad recast of the existing Council Directive.

Furthermore, as highlighted in the consultation conducted with national fiscal administrations in the context of the Commission's Economisti Associati study, the majority of Member States do not consider tax-driven substitutions a problem in the context of cigars and cigarillos.

The overall conclusion, based on the evidence publicly available and supported by the European Commission's own external studies, is that no persuasive case can be made for major alterations to the treatment of cigars and cigarillos within the EU legislative framework, as these products neither drive any tax-induced substitution nor impede on the European Union's tobacco control policy.

20 Recital 26 of Directive 2014/40/EU of the European Parliament and of the Council of 3 April 2014 on the approximation of the laws, regulations and administrative provisions of the Member States concerning the manufacture, presentation and sale of tobacco and related products and repealing Directive 2001/37/EC, OJ L 127, 29.4.2014, p. 1–38.

21 United States Court of Appeals for the District of Columbia Circuit, CIGAR ASSOCIATION OF AMERICA vs US FDA, No. 18-5195, 7 July 2020 and confirmed in the Food & Drug Administration (FDA) and the Center for Tobacco Products (CTP), Final Substantial Equivalence and Premarket Tobacco Product Application Rules to address deemed product, 19 January 2021.

ECMA was founded in the early 1990s as the representative body of the European manufacturers of cigars and cigarillos. Today, ECMA represents the major cigar and cigarillo manufacturers in Europe.

ECMA's membership includes a wide range of European companies involved in tobacco manufacturing – from companies with a global footprint, to Small and Medium Enterprises (SMEs) and family-run businesses.

ECMA Associated Members

- Asociacion Empresarial del Tabaco *Spain*
- Associação Nacional dos Fabricantes e Importadores de Charutos e Cigarrilhas *Portugal*
- Bundesverband der Zigarrenindustrie *Germany*
- Fecibel *Belgium and Luxembourg*
- Fédération des fabricants de cigares *France*
- Imported Tobacco Products Advisory Council *United Kingdom*
- Nederlandse Vereniging voor de Sigarenindustrie *Netherlands*
- Tobaksindustrien *Denmark*
- Verband Schweizerischer Zigarrenfabrikanten *Switzerland*

Our Members

“ ECMA members account for over 80% of the cigars and cigarillos produced in, and exported from, the European Union. ”

ECMA

Rue Véronèse 73, 1000 Brussels, Belgium
info@ecma.eu
EU Transparency Register: 92802501097-37