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Central

B.A.T (U.K. and Export) Limited
Woking

TO	SEE DISTRIBUTION	FROM	R. BRETNALL
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US DOMESTIC - CANADIAN BORDER

Background

For a number of years the trade on the border from the US to Canada has been increasing due to the high domestic price of Canadian cigarettes. On average, a carton of Canadian premium cigarettes will cost C\$48.00 (US\$39.67) compared with the same product costing US\$20.00 on the US side. The differential is due entirely to the high Canadian Federal and Province taxes.

It is estimated that this trade, primarily for Canadian cigarettes, is worth 3 billion per annum. Three main sources of purchases - Border shops - US side: Retail domestic outlets inclusive of Indian reservations and smuggling.

Due to political, economic and domestic retail pressure, the Canadian Government announced on February 12th an immediate imposition of C\$8.00 per carton on all Canadian exports of cigarettes regardless of destination. The assumption being that the majority of Canadian exports are, in fact, imported back across the border.

At the time of writing, there has been no immediate impact on pricing as there is estimated to be 2-3 months stock in trade. In addition, the situation is extremely fluid with rumours of yet further changes in duty structure. Provincial governments are not helping the Federal government as they can and are applying different strategies to their local duties. For example, it has just been learned that Ontario may apply additional 5% Luxury Tax and Manitoba a 6% Tax on all products. If proven to be true, these actions will only raise demand over the border.

A probable move will be for all Canadian manufacturers to switch export production off-shore. MacDonalds are rumoured to have already commenced production in Puerto Rico.

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Implications for BATUKE

BIT, our US domestic distributor, has always been developing business along the border as a natural extension to their growth. Due to other priorities, this border trade had not formed part of our key strategies except where business could be developed to Vietnamese living in Canada, but close to the border. An average monthly volume of 2 million State Express (out of an average 16 million nationally) is being achieved through distribution to key border distributors who in turn supply Indian reservations.

If these new duties remain in place, then there would appear to be an opportunity for BATUKE with a Virginia proposition at a reasonable price. Border sales, this month, have risen to 7 million due to speculative purchases from the trade.

Actions

1. Distribution

Consider distribution is the first priority.

BIT have been asked to expand their distribution base.

Brown and Williamson - Hoyt Higgins, Vice President Domestic Sales has been asked by the writer to undertake a full distribution survey along the border for the 555s brand. He has readily agreed and results should be provided within two weeks.

BWTT - have been asked to recheck their distribution to the key duty-free border shops. Apparently the largest Company - Ammex is overpricing all of its cigarette product compared to aggressive domestic retail chains. BWTT are making proposals for a change in policy.

2. Pricing

With 555s currently underpriced, in trade terms, in the US domestic, it is an attractive proposition at US\$ 19.00 per carton.

3. Communication

After consultation with CME, no local press of any importance is available but they are investigating outdoor opportunities. At this stage, BIT had immediately sent out a trade flyer and a more professional, universal leaflet could be beneficial.

The key points are - Made in England
- Virginia
- Value - Priced right

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Use of POS has been considered but, at this stage, requires more thought due to the reliance on the material being passed from distributor to wholesaler to retailer.


4. Volume projection

Due to the high number of variable factors it is difficult to make any reasonable assessment. Another strong rumour is that following strong representations from the Canadian tobacco manufacturers, further changes to duty structures or possibly a repeal could be made in the next few days. It is clear the Canada consumer is only going to switch products if he considers his own brand is too expensive. US generics are possible attractions.

5. Market Visits

Whatever the ongoing situation, we need a closer appreciation of the business at the border. Kelvin Ling will be visiting this month, Buffalo, New York State with the co-operation of the local Brown and Williamson domestic team and Seattle, Washington State.

6. A further report will be issued at the end of April unless circumstances change so necessitating an earlier summary.



pp R. Brenmall

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