COMMERCE ACT 1986: BUSINESS ACQUISITION SECTION 66

Public Notice Seeking Clearance

ST Cigar Group Holding BV

10 July 2007

Contents

Executive Summary

The parties

ST Cigar Group Holding BV (**STCGH** and, together with its subsidiaries, **STCG**) is a wholly owned subsidiary of Skandinavisk Tobakskompagni A/S (**ST**). ST is the parent entity of the ST Group of companies (**ST Group**) which manufacture and supply tobacco products internationally.

B.V. Schimmelpenninck Sigarenfabrieken v/h Geurts en Van Schuppen (**Schimmelpenninck**) and Tabacofina – Vander Elst N.V. (**TVE**) are indirect subsidiaries of British American Tobacco Plc (**BAT**) that are active in cigars. BAT and its subsidiaries (**BAT Group**) form one of the world's largest tobacco groups.

Proposed Transaction

STCGH seeks clearance for the acquisition of Schimmelpenninck and the cigar trademarks owned by TVE that are registered in New Zealand (the acquired TVE trademarks plus Schimmelpenninck, **the Targets**) (**Proposed Transaction**) as part of a wider international transaction between the ST Group and the BAT Group. Schimmelpenninck's main assets are cigar brands registered in several countries, including New Zealand (Schimmelpenninck's cigar brands plus the acquired TVE cigar brands together, the **Acquired Brands**).

The main Acquired Brands which are currently sold in New Zealand are Schimmelpennick Fresco, Panatella 5s, Mini Mild 20s, Mini Cigar 10s. Corona 2s, Calendula Half Coronas and Swing 10s are also sold (See **Annexure 6**). (Other Schimmelpennick brands are to be acquired, but currently are not used in New Zealand; further details are available, if required.) While the TVE cigar trademarks are part of the Proposed Transaction, the BAT Group discontinued sales of cigars under such trademarks (Mercator Jupiter) in New Zealand in 2005. (There are also two TVE brands to be acquired, which are currently not used in New Zealand; see **Annexure 1**.)

Accordingly, Schimmelpenninck's brands are the only Acquired Brands that are actively sold in New Zealand. After the Proposed Transaction, they will be imported and wholesaled in New Zealand by an independent wholesaler, Stuart Alexander & Co (NZ) Limited (**Stuart Alexander**), which already imports and wholesales STCG's existing cigar brands in New Zealand. The ST Group does not itself currently have any operations in New Zealand, and this will not change as a result of the Proposed Transaction.

The BAT Group has decided to sell the Acquired Brands (being traditional cigar brands), and to focus on a strategy of selling cigars based on its well-known international cigarette brands (notably Dunhill and Pall Mall). The BAT Group currently supplies Dunhill branded cigars in New Zealand and it intends to continue and grow these retained cigar activities after the Proposed Transaction, including in New Zealand. Apart from the sale of the Acquired Brands, the Proposed Transaction will not restrain the ability of the BAT Group to compete in relation to the supply of cigars in New Zealand.

The Proposed Transaction is subject to clearance from the Commission and completion is anticipated to be a date 10 days after required merger control clearances have been obtained or 3 September 2007 (whichever occurs later).

Markets

The relevant market is the market for the supply of cigar products in New Zealand.

While this is essentially a distinct product market, there are important competitive relationships between cigars and cigarettes that are relevant to any competition analysis of the Proposed Transaction. Notably, there is a worldwide trend for cigarette companies to launch cigars under brand names that are known for cigarettes. Moreover, in New Zealand, cigars, cigarettes and other tobacco products are distributed together, are subject to the same restrictive health legislation and directly compete for shelf space in retail outlets.

The Proposed Transaction concerns the product supply level, and will not structurally change distribution in New Zealand, which in STCG's case is by Stuart Alexander, save that Stuart Alexander instead of the BAT Group would handle import and wholesaling of the Acquired Brands after the Proposed Transaction.

Field of competition

STCG and the BAT Group (with the Acquired Brands and independently thereof) compete in relation to the supply of cigars to New Zealand.

STCG has no own import, wholesale, distribution or retail activities in New Zealand. Its cigars are sold by independent third parties. Accordingly, there is no downstream overlap between the operations of STCG and the BAT Group in New Zealand.

The BAT Group has its own import and wholesale distribution activities in New Zealand, which are organized under British American Tobacco Holdings (New Zealand) Limited (with its subsidiaries, **BAT NZ**). These activities remain unaffected by the Proposed Transaction. BAT NZ is the largest supplier and importer of tobacco products (mainly cigarettes and RYO) in New Zealand.

Concentration levels

The Proposed Transaction will not reduce the number of cigar brands competing in New Zealand. Since the BAT Group will continue to supply cigars in New Zealand following the Proposed Transaction, it will also not reduce the number of cigar suppliers.

On the basis of a market for the supply of cigars in New Zealand, following the Proposed Transaction, the brands owned by STCG would account for approximately 53% of sales by volume in New Zealand. STCG's sales share is currently approximately 30% of sales by volume, and the Acquired Brands account for approximately 23% of sales by volume of cigars in New Zealand.

Swedish Match, currently the largest supplier of cigars in New Zealand, would account for 42% of sales (by volume) of cigars in New Zealand.

As noted, the BAT Group will remain as a competitor following the Proposed Transaction and there are other competitors as well.

No substantial lessening of competition

While STCG accepts that there will be an increase in concentration following the Proposed Transaction, STCG will continue to be subject to a variety of significant competitive constraints in New Zealand. These constraints include:

(a) vigorous competition from Swedish Match, the current market leader, which owns brands including the highest selling cigar brand in New Zealand, Wee Willem, and also imports and wholesales cigar brands owned by other international cigar manufacturers;

(b) competition from other international cigar suppliers, such as Agio, Von Eicken and Altadis that are currently supplying cigars to New Zealand;

(c) continuing competition from the BAT Group through its Dunhill brand and, potentially, other brands;

(d) potential competition from cigarette companies that have large operations in New Zealand but currently do not supply cigars there (for example, the Imperial Tobacco Group and Philip Morris). These companies have significant existing operations in New Zealand, are large suppliers of cigarettes and RYO tobacco in New Zealand and currently supply cigar products internationally. For example, Imperial Tobacco Group is the third largest supplier of cigar products in the UK, and Philip Morris has recently launched cigarillos in Germany branded as “Next”, one of Philip Morris’ popular cigarette brands there; and

(e) potential competition from other international manufacturers of cigar products. For example, the leading supplier of cigars in the UK, Gallaher (which in 2007 was acquired by Japan Tobacco), is not yet present in New Zealand.

There are no significant barriers to importing cigar products into New Zealand, and at the wholesale level there are a number of companies that currently import their own and/or other companies’ cigars into New Zealand. There are also a number of independent importers/wholesalers and distributors.

At the retail level, the vast majority of sales of cigars in New Zealand take place in dairies/convenience stores and service stations. While there are regulatory restrictions on the display and advertising of tobacco products in New Zealand, STCG notes that these restrictions:

(a) have not prevented independent wholesalers of cigars from obtaining significant sales through the dairy/convenience store and service station channels;

(b) have not prevented the successful introduction of new brands of cigars in New Zealand; and

(c) have not led to market shares being static over time; the fluctuation in market shares of different brands demonstrates that a supplier can increase it sales despite the various restrictions by supporting its brands efficiently.

STCG does not consider that the Acquired Brands were a particularly vigorous or effective competitor in the hands of the BAT Group. In relation to any counterfactual analysis, STCG considers that the appropriate counterfactual for the Commission to adopt is one in which the Acquired Brands remain with the BAT Group and sales of the cigars under the Acquired Brands continue to be flat (at best) or declining.

For the reasons set out above, STCG submits that the Proposed Transaction will not result in a substantial lessening of competition in the market for the supply of cigar products in New Zealand, or any other market.

Part I: Transaction Details

Form for Notice under section 66
Questions 1 to 10

1 The business acquisition for which clearance is sought

1.1 The Proposed Transaction

The Proposed Transaction for which clearance is sought involves an international mixed asset and share transaction under which STCGH will acquire the following:

- from British American Tobacco The Netherlands BV, all of the shares in a Dutch company, Schimmelpenninck; and
- through STCGH's Dutch subsidiary company Henri Wintermans Cigars BV (**Henri Wintermans**), the cigar trademarks owned by the Belgian company TVE that are registered in New Zealand, Australia and Portugal.

TVE and Schimmelpenninck are currently part of the BAT Group.

The main impact of the transaction in New Zealand is that companies in the ST Group will own some of the brands under which the BAT Group currently sells cigars in New Zealand. STCG notes that, the BAT Group ceased selling cigars in New Zealand under the TVE brands (part of the Acquired Brands) in 2005. Schimmelpenninck does not own manufacturing or distribution assets.

In respect of the Proposed Transaction, attached as **Annexure 1** are:

- the Share Sale Agreement relating to Schimmelpenninck between British American Tobacco The Netherlands B.V. and STCGH, entered into on 23 May 2007; and
- the Trade Marks Sale Agreement relating to the Sale and Purchase of Certain Trade Marks of TVE between TVE and Henri Wintermans, entered into on 23 May 2007; and
- a list of the TVE trademarks to be acquired.

Under Section 5.1 of each of these two agreements, completion (or closing) of the respective share and asset transfers is subject to merger control clearance by the Commission and the Portuguese Competition Authority. STCG notes that the Australian Competition and Consumer Commission is also being notified of the Proposed Transaction.

Under the Proposed Transaction, there are no contractual restrictions that would prevent the BAT Group from continuing to supply cigars to New Zealand under the Dunhill brand, or any other brands that the BAT Group retains or will establish or acquire after the Proposed Transaction.

1.2 Global transaction

Under separate agreements, which are independent from the agreements referred to in Section 1.1 above, ST Group companies will also acquire other parts of the cigar activities of the BAT Group which do not have an effect on any market in New Zealand.

ST Group companies will acquire TVE's cigar trademarks registered in other countries as well as the company Compania de Cigarros Don Pablo Sociedad Limitada (**Don Pablo**), an indirect subsidiary of BAT which is registered in Switzerland and owns cigar trademarks under which cigars are sold in certain countries outside New Zealand.

An ST Group company will also acquire TVE's cigar manufacturing plant, which is located in Belgium and currently manufactures the cigars sold under the trademarks of TVE, Schimmelpenninck and Don Pablo and other brands of the BAT Group.

As noted above, the global transactions contemplated by these separate agreements do not affect any market in New Zealand.

2 Notice seeking clearance

2.1 This notice is given by:

Authorised: Robertus Adrianus Zwarts
Managing Director and Finance Director of ST Cigar Group Holding B.V.,

Address: Nieuwstraat 75-77
CB 5521 Eersel
The Netherlands
T: 31 (0) 497 581 911
F: 31 (0) 497 516 730
E: Please send to Mette Valentin, ST Group General Counsel on Valentin, Mette [ST.MV@st.dk]

2.2 All correspondence and notices in respect of this notice should be directed to:

Attention:	Luke Woodward	Simon Snow
Address:	Gilbert + Tobin Level 37 2 Park Street Sydney NSW 2000 Australia	Gilbert + Tobin Level 37 2 Park Street Sydney NSW 2000 Australia
T:	+64 2 9263 4014	+64 2 9263 4246
F:	+61 2 9263 4111	+61 2 9263 4111
E:	lwoodward@gtlaw.com.au	ssnow@gtlaw.com.au

3 Confidentiality

3.1 The fact of the proposed acquisition

Confidentiality is not sought for the fact of the Proposed Transaction.

3.2 Specific information contained the notice

Ongoing confidentiality is sought in respect of all confidential information deleted from the public copy of this Notice. Confidential information is identified in the non-public version by square brackets "[ ]". Confidentiality is also sought in respect of the information contained in **Annexures 1, 4, and 7** of the confidential copy of this Notice (**Confidential Information**). The confidential Annexures are not attached to the public copy of the Notice.

The Confidential Information in this Notice has been provided by the ST Group, the BAT Group and Stuart Alexander and confidentiality in respect of this information is sought indefinitely or until the relevant party advise the Commission that it can make public disclosure of the Confidential Information belonging to that party.

In respect of the Confidential Information, confidentiality is also claimed under s 9(2)(b)(ii) of the *Official Information Act* 1982 on the grounds that the information is commercially sensitive and valuable information which is confidential to the participants and disclosure would unreasonably prejudice the commercial position of the persons involved.

The ST Group, the BAT Group and Stuart Alexander each request that they be notified of any request made to the Commission under the Official Information Act for release of the Confidential Information, and that the Commission inform each relevant party as to whether the information remains confidential and commercially sensitive, at the time responses to such requests are being considered.

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4 The participants

4.1 The Applicant

Company: ST Cigar Group Holding B.V.
Address: Nieuwstraat 75-77
CB 5521 Eersel
The Netherlands

In respect of the acquisition of Schimmelpenninck, the shares will be acquired by:

Company: ST Cigar Group Holding B.V.
Address: Nieuwstraat 75-77
CB 5521 Eersel
The Netherlands

In respect of the cigar trade marks of TVE, these will be acquired by:

Company: Henri Wintermans Cigars B.V.
Address: Nieuwstraat 75-77
CB 5521 Eersel
The Netherlands

4.2 The Target

Schimmelpenninck and TVE are both ultimately owned by BAT.

In respect of Schimmelpenninck, which is being sold by means of share transfer:

Company: B.V. Schimmelpenninck Sigarenfabrieken v/h Geurts en Van Schuppen
Address: Handelsweg 53A
ZA 1181 Amstelveen
The Netherlands

The TVE cigar trade marks to be transferred to Henri Wintermans are currently owned by:

Company: Tabacofina – Vander Elst NV
Address: Koninckstraat 38
1080 Brussels
Belgium

All correspondence and notices addressed to BAT and/or its subsidiaries in respect of this notice should be directed in the first instance to:

Attention: Torrin Crowther

Address: Bell Gully
New Zealand
Vero Centre
48 Shortland Street
PO Box 4199
Auckland 1140
T: +64 9 916 8621
F: +64 9 916 8801
E: torrin.crowther@bellgully.com

5 Interconnected or associated

5.1 STCGH

STCGH is a wholly owned subsidiary of ST. Henri Wintermans is a 100% subsidiary of STCGH. An organisational chart for the ST Group is enclosed as **Annexure 2**.

ST is owned by 3 groups of shareholders: a Danish company, Skandinavisk Holding A/S (**SH**), which holds 64.7% of ST's shares;[1] a Dutch company Precis (1789) B.V., which is owned by the BAT Group and holds 32.35% of ST's shares;[2] and ST employees who control the remaining 2.94% of ST's shares.

No New Zealand registered companies are owned or controlled by ST.

5.2 Schimmelpenninck and TVE

Schimmelpenninck is a 100% subsidiary of British American Tobacco The Netherlands B.V., which in turn is a 100% indirect subsidiary of BAT.

The acquired TVE trademarks are owned by TVE, which also is a 100% indirect subsidiary of BAT.

Schimmelpenninck does not own shares in any other company.

In New Zealand, BAT NZ is wholly owned by British American Tobacco Australia Overseas Pty Limited (an Australian registered company), which in turn is ultimately wholly owned by BAT. BAT NZ currently imports cigars and other tobacco products into New Zealand and re-supplies them to distributors and retailers.

BAT, the ultimate parent entity of the BAT Group, is listed on the London Stock Exchange and has an ADR receipt program that is traded on the American Stock Exchange. To

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[1] SH itself is owned by three Danish foundations, which were originally established by the members of three families that were at the origin of the Danish tobacco industry.

[2] It is noted that ST is controlled by SH, with the BAT Group having only minority protection rights in relation to its shareholding in ST and the right to nominate two members to ST's supervisory board (which has 12 members in total). These nominees are not employees or board members of BAT and are bound by confidentiality agreements preventing them from disclosing confidential ST information to BAT.

BAT's knowledge, there is only one shareholder owning more than 10% of BAT's outstanding shares (R&R Holdings S.A., with approximately 30%).

6 Beneficial entitlements

Neither STCGH nor any of its interconnected bodies corporate has any beneficial interest or pecuniary interest in BAT, BAT NZ or any of their interconnected bodies corporate.

As far as the ST Group is aware, neither BAT nor BAT's New Zealand subsidiaries have any beneficial interest or pecuniary interest in ST or any of its interconnected bodies corporate except as outlined in section 5 above.

7 Links between participants

STCG does not have any formal or informal links with BAT or its related companies, any other participants in the relevant market or any competitors in that market, relevant to a market in New Zealand other than those set out below.

7.1 Contractual arm's length relationships with the BAT Group

As a result of the global transaction described in Section 1.2 above, STCG will acquire TVE's Belgian cigar manufacturing plant (**TVE manufacturing plant**). At that time, STCG and the BAT Group will enter into manufacturing agreements under which STCG will, in the manufacturing plant it acquires from TVE:

- produce cigars that the BAT Group sells under its Captain Black Miniatures, Pall Mall Miniatures and Dunhill Miniatures brands, and
- carry out the threshing and flavouring of certain tobacco blends used in the BAT Group as filler for so-called "eco-cigarillos" or "cigarlets".[3]

The agreements described above are arm's-length arrangements between STCG and the BAT Group. Contract manufacturing agreements such as these are very common in the tobacco industry.

In the period pending clearance by the Commission, the BAT Group will source cigars from the TVE manufacturing plant in order to continue its cigar business under the Acquired Brands until clearance of the Proposed Transaction occurs.[4]

7.2 Agreements of STCG with participants

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[3] The terms "eco cigarillos", "cigarlets", "cigarillos" and "mini cigars" are generally interchangeable as they refer to different types of small cigars.

[4] For sake of completeness, STCG also notes that, for a transitional period (probably not more than six months) after transfer of the TVE manufacturing plant acquired under the global transaction, the BAT Group and STCG will provide to each other certain services to ensure efficient implementation of the sale of the manufacturing plant and to ensure minimum disruption of the business activities of each side.

This agreement however has a very limited impact on the supply of cigars in relation to the New Zealand market.

8 Cross directorships

STCG directors do not hold any directorships in other companies that are involved in markets in which the Targets operate, other than in existing ST Group companies. Post-transaction, all the members of the board of Schimmelpenninck will resign and STCG will appoint new members to the board.

9 Participant's business activities

9.1 STCG

ST is the Danish parent entity of a mid-size tobacco group which is active mainly in Europe, although it is one of the larger manufacturers of cigars globally.

The ST Group manufactures and supplies tobacco products internationally (for example, pipe tobacco), but it is not involved in the tobacco plantation or raw tobacco trade.[5] The ST Group sells today approximately 1.3 billion cigars annually, mostly in Europe and North America.

The ST Group website is located at: http://www.st.dk/sw154.asp

STCGH is the holding subsidiary within the ST Group through which the cigar activities of the ST Group are organized.[6]

Internationally, STCG's most popular brand is Café Crème which is manufactured by a subsidiary, Henri Wintermans.[7] STCG manufactures its cigars at factories in the Netherlands (Eersel), Belgium (Geel) and Denmark (Nykøbing F. and Aarhus).

STCG's cigar sales to New Zealand account for approximately 0.3% of its global cigar sales.[8] In New Zealand, STCG is known for its Café Crème, Henri Wintermans Founder's Blend and Van Hartog brands.[9]

STCG has a single New Zealand customer for its cigars, the importer Stuart Alexander.[10] Stuart Alexander imports and wholesales STCG's cigars to distributors throughout New Zealand and in some cases it sells directly to large retailers. As mentioned above, the ST Group is not itself involved in the importation / wholesaling or distribution of cigars in New Zealand.

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5 In addition, ST has a 55% stake in Dagrofa a/s, a Danish company active in convenience goods retailing in Denmark and a 31.77% stake in Tivoli A/S, the Danish company that runs the Tivoli amusement park in Copenhagen.

6 Outside Europe, STCGH has a subsidiary in the Dominican Republic, in Canada, in the US, and a joint venture in Indonesia, which cut wrappers and binders for cigar products.

7 In 1996, the ST Group acquired the Dutch cigar company Henri Wintermans Sigarenfabrieken and its production facilities.

8 Approximately 3 million of 1.3 billion sticks.

9 STCG acquired the Van Hartog brands from New Zealand company, Continental Cigar Company Ltd, in 2001.

10 STCG sells all cigars destined to the Australian and New Zealand markets to Stuart Alexander's Australian parent entity, which then transfers the products on to New Zealand as required to meet New Zealand demand.

STCG products sold in New Zealand are listed in **Annexure 3**. Contact details for the top 10 distributors and direct customers who purchase STCG's cigars from Stuart Alexander are listed in **Annexure 4.**

9.2 Schimmelpenninck and TVE

As outlined above, Schimmelpenninck and TVE are indirect subsidiaries of BAT. The BAT Group is one of the largest international tobacco groups in the world with tobacco brands in over 180 countries.

BAT's international website is located at: http://www.bat.com/global.

BAT NZ wholesales and distributes a range of tobacco products. Cigarettes and RYO tobacco account for the vast majority of its sales, although it also sells cigars. BAT NZ is by far the largest supplier of cigarette products in New Zealand. BAT NZ also owns Tasman Suppliers Limited (**Tasman**), which wholesales tobacco products and also owns and operates cigarette vending machines. An organisational chart for BAT NZ is enclosed as **Annexure 5**.

Following the Proposed Transaction, BAT NZ will continue to supply cigars under the Dunhill brand (and potentially, other brands) in New Zealand.

The brands of cigars that BAT NZ currently supplies in New Zealand are listed in **Annexure 6** and contact details for BAT NZ's top 10 customers are listed in **Annexure 7**.

The Schimmelpenninck and TVE branded cigars sold by BAT NZ have been experiencing steady declining sales for each of the past 6 years.

The Proposed Transaction has no effect on BAT NZ's cigarette business or the distribution of other tobacco products supplied by BAT NZ (other than the cigar brands sold to STCG, which in the future will be imported by Stuart Alexander).

10 Reasons for and intentions in respect of the acquired business

The rationale for the Proposed Transaction relates to STCG's international cigar business, the brands concerned selling mainly in Europe.

The global transaction will help STCG to increase its competitiveness internationally, better enabling STCG to compete head-to-head with its international cigar competitors, such as Swedish Match, Altadis, Agio, Burger, Gallaher, Imperial Tobacco and BAT.

The BAT Group has decided to divest certain "cigar only" brands (including those of Schimmelpenninck and Mercator) and concentrate on a strategy of selling cigars based on its well-known international cigarette brands (notably Dunhill and Pall Mall).

Part II: Identification of markets affected

Form for Notice under section 66
Questions 11 to 15

Background

11 Cigars internationally

Worldwide sales of cigars of all types are estimated to be approximately 15 billion cigars annually.[11] North America and Western Europe are the two largest sales regions, accounting for more than 90% of global cigar sales. Asia accounts for less than 10% of global cigar sales,[12] and New Zealand for just 0.06% of global cigar sales (based on annual sales of 10 million cigars).

The table below lists the major cigar manufacturers, where they are based and their primary brands.

Table 1: Cigar manufacturers and their main brands worldwide

Company	Based in	Primary brands
Altadis	France / USA / Spain / Dominican Republic / Honduras / Puerto Rico	Farias, Cita, Hava-Tampa
Habanos[13]	Cuba	Montecristo, Cohiba, Romeo y Julieta, Partagas, Bolivar, and Cuaba
Swedish Match	Holland / USA	La Paz, Clubmaster, Wings, Salsa, Wee Willem, Macanudo
ST Group	Holland	Café Crème, Henri Wintermans, Colts and Petit
Swisher International Inc.	Switzerland	King Edward, Swisher Sweets, Bering, Optimo
Burger & Söhne AG	Switzerland	Dannemann, Oud Kampen, Ritmeester, Reig, Moods, Artist Line and Al Capone
Agio	Holland	Panter, Balmoral
BAT	Holland	Captain Black, Pall Mall, and Dunhill
Gallaher	UK	Hamlet
J. Cortes Cigars/Vandermarliere	Belgium	J. Cortes, Amigo and Neos
Villiger	Switzerland	Villiger
Imperial Tobacco	UK	Classic and Panama
Verellen	Belgium	Havana stokjes
Oettinger	Switzerland	Davidoff
Von Eicken	Germany	Candlelight

Source: STCG Management

[11] http://www.swedishmatch.com/Eng/MarketCigars.asp

[12] http://www.swedishmatch.com/Eng/MarketCigars.asp

[13] Altadis owns 50% of Habanos.

The main upstream activity for cigar manufacturing is tobacco growing or trading. Raw tobacco can be freely purchased from a large number of different tobacco growers or traders throughout the world. Tobacco is grown in significant quantities in such nations as Brazil, The Philippines, Cameroon, Cuba, Dominican Republic, Ecuador, Honduras, Indonesia, Mexico, Nicaragua and the United States.

The ST Group is not involved in the growing or wholesale trading of tobacco, and buys raw tobacco from a large number of different suppliers. BAT also purchases tobacco from a large number of different suppliers. The Proposed Transaction will not affect any relevant market for the acquisition of raw tobacco.

12 Cigars in New Zealand

12.1 Background

By weight, cigar sales comprise approximately 0.7% of the sales of all tobacco products sold in New Zealand (around 10.3 million sticks annually).[14]

According to STCG's knowledge, all cigars sold in New Zealand are imported. There is no domestic production. Manufacturers that currently supply cigars to New Zealand and their respective sales volumes for 2006 are set out in the table below.

Table 2: Cigar manufacturers and importers/wholesalers for 2006

Manufacturers	Importers/Wholesalers	2006 Sales by sticks
Swedish Match	Swedish Match	4,247,621
STCG	Stuart Alexander	3,047,823
Schimmelpenninck	BAT NZ	2,363,494
Habanos**	Pacific Cigar/Swedish Match/DFS	134,164
Agio	Moderna	84,195
Burger & Söhne AG	Swedish Match	80,113
Altadis	Swedish Match/Stuart Alexander/Pacific Cigar	33,627
Villiger	Swedish Match	32,351
Von Eicken	Von Eicken Logistics	28,134
Verellen	Swedish Match	22,789
Oettinger	Swedish Match/DFS	10,955
Tabaqueria de Filipinas Inc.	Moderna	6,100
Miami Cigar and Co.	Swedish Match	5,914
Cigarros de Nicaragua S.A.	Moderna	1,075
Carlos Torona	Stuart Alexander	1,048
Fuente & Newman	Swedish Match	306

[14] Murray Laugesen, "Tobacco returns for the 2005 calendar year: Report to the Ministry of Health" (31 July 2006). In 2005, of all tobacco (dry weight) used, 68.5 percent went into manufactured cigarettes, 30.6 percent into hand-rolled cigarette tobacco, 0.7 percent into cigars, and 0.2 percent into pipe tobacco

Manufacturers	Importers/Wholesalers	2006 Sales by sticks
BAT (retained cigar activities)	BAT/Swedish Match	232
Others	Moderna/Pacific Cigar	6,365
Total Market		**10,106,306**

Source: New Zealand Ministry of Health
** Habanos S.A. is 50% owned by Altadis.

A table setting out the volumes of sales for each of the above manufacturers for the past 7 years is set out at **Annexure 8**.

12.2 Importing and wholesaling cigars

Cigars are typically sold by the manufacturer (or an affiliated company) to a New Zealand importer/wholesaler and that person either distributes the cigars directly to the retailer or sells the products to a distributor who on-sells to retail outlets. One of the key functions of the wholesaler is to promote the cigars that it carries to the route trade and other retailers. It is therefore the wholesaler who arranges for sales representatives to regularly visit the various retail outlets to promote their product range.

STCG, the BAT Group and Swedish Match, the main manufacturers of cigars sold in New Zealand, each adopt a different approach to the wholesale and distribution of tobacco products in New Zealand.

- **STCG**: STCG sells its cigars to Stuart Alexander, a New Zealand and Australian importer/wholesaler of cigars. Stuart Alexander also imports and wholesales one [ ] and a range of grocery products (including Tabasco sauce, Fishermans Friend, health care products and Whittakers chocolate) in New Zealand. (In Australia Stuart Alexander also imports/wholesales cigars for other manufacturers).[15] Stuart Alexander buys STCG's products, promotes them to retailers and sells them to distributors including Gilmours, Toops and Trent (each of which are owned by Foodstuffs), Red Arrow, Tasman Supplies (but only until November 2007). [ ]
- **BAT**: BAT NZ currently supplies cigars to retailers via independent wholesalers such as Gilmours, Toops, Trent, Red Arrow and also through its distribution subsidiary Tasman. In some cases, BAT NZ also supplies cigars directly to supermarkets such as Progressive and Foodstuffs, and certain duty free outlets. In relation to BAT NZ's use of independent wholesalers/distributors, as of November 2007, it will supply its retail customers directly via DHL and its subsidiary, Tasman, and it will continue to promote its products through its BAT NZ network of sales representatives. (Tasman will however no longer provide distribution services to importers/wholesalers such as Stuart Alexander.)
- **Swedish Match:** Swedish Match, through its New Zealand subsidiary, imports and wholesales its own cigar brands, as well as cigars

[15] See footnote 10 above.

manufactured by other cigar competitors such as Altadis and a range of other products such as lighters, matches and fire lighters.

The differences between the approaches of each of these companies are illustrated below.

STCG	**BAT**	**Swedish Match**
Manufactures cigars	Has cigars contract manufactured	Manufactures cigars
↓	↓	↓
Stuart Alexander imports and wholesales STCG cigars.	BAT NZ imports and wholesales cigars	A Swedish Match subsidiary imports and wholesales its own cigars as well as cigars for other manufacturers and other products
↓	↓	↓
Gilmours, Toops, Trent, Red Arrow distribute STCG cigars to retailers	From Nov. 2007, BAT NZ via DHL and Tasman distributes its cigars and cigarettes to retailers	Gilmours, Toops, Trent, Red Arrow distribute Swedish Match products to retailer
↓	↓	↓
Retail Outlets	Retail Outlets	Retail Outlets

Other factors differentiating STCG, BAT and Swedish Match include the following:

- BAT is the largest supplier of cigarettes in New Zealand;
- in addition to cigars, Swedish Match also supplies chewing tobacco and matches (eg, the Beehive matches) and other accessories (eg lighters) in New Zealand.

In contrast, STCG only supplies cigars to a single independent importer/wholesaler in New Zealand.

Other importers/wholesalers

There are also a number of other cigar importers/wholesalers in New Zealand that are not affiliated with either STCG, Swedish Match or BAT, notably Moderna (distributing Agio brands among others), Von Eicken Logistics (distributing Von Eicken cigars) and the Pacific Cigar Company (distributing, among others, cigars of Altadis and Habanos). Typically, these importers/wholesalers on-sell to the distributors.

Other cigarette companies

Apart from BAT NZ, discussed above, there are two other major suppliers of cigarettes in New Zealand: Philip Morris and Imperial Tobacco. As noted above, cigarettes account for the vast majority of tobacco products sold in New Zealand. Both Philip Morris and Imperial Tobacco have their own operations in New Zealand for the import and wholesale of their tobacco products.

Philip Morris distributed the majority of Swedish Match's cigar products until 2005, when Swedish Match decided to set-up its own import/wholesale subsidiary. Imperial Tobacco does not import cigars to New Zealand at the moment.

Summary

The principal effect of the Proposed Transaction would be to move the volumes of sales of cigars sold under the Acquired Brands from BAT's import, wholesale and distribution operation to Stuart Alexander's import and wholesale operation. The Proposed Transaction will not affect the range of importers/wholesalers and distributors that sell tobacco products, including cigars, to retail outlets in New Zealand.

12.3 Distributing cigars

The distribution of tobacco products in New Zealand uses similar equipment, processes and technology to that of other distributors of lightweight, non-frozen consumer products. Distribution of tobacco products is undertaken in any of three ways: van sales, book and delivery, or telephone orders.

Generally, smaller retailer outlets such as newsagents, service stations, tobacconists, hotels, convenience stores and mixed businesses and independent grocers order their tobacco products from a wholesaler's representative who supplies the product via a distributor such as Gilmours,[16] Toops,[17] Trent or Red Arrow. Supply to this group of retailers is referred to as "the route trade" or the van sales part of the distribution business and relies on orders resulting from regular visits to, or contacts with, the operator of the retail outlet.

In terms of distribution to retail outlets:

- Stuart Alexander and Swedish Match distribute cigars through Gilmours, Toops, Trent and Red Arrow; and
- BAT, from November 2007 onwards, will no longer use independent distributors but will instead distribute its products direct to retailers via DHL and Tasman but will continue to promote its products to the retail channel through its BAT NZ network of sales representatives.

Tasman, a BAT subsidiary, currently distributes cigars for Swedish Match and Stuart Alexander. However, from November 2007, Tasman will no longer provide distribution services to other cigar importers/wholesalers and will distribute only BAT products.

In addition, Toops is understood to both import/wholesale and distribute the King Edward brand of cigar.

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16 http://www.gilmours.co.nz/info/

17 http://www.toops.co.nz/info/

The Proposed Transaction will not affect the range of distributors operating in New Zealand.

12.4 Retailing cigars

Competition in relation to the retail supply of cigars to consumers occurs across a range of formats, including supermarkets, convenience stores, petrol stations and specialty tobacconists. While these formats have different characteristics, they are ultimately seeking to meet the same consumer demand for tobacco products. In terms of the retail outlets which sell tobacco products:

- tobacconists derive the majority of their income from the sale of tobacco products;
- convenience stores are an increasingly important retailer of tobacco products;
- oil companies including stand-alone branded convenience stores (eg, BP Connect and Caltex Starmarts) sell a range of grocery items and tobacco products; and
- other important retailers include mixed businesses, news agents, corner stores (dairies), hotels, independent grocers and the two supermarket chains, Progressive Enterprises and Foodstuffs.

The breakdown of the retail trade for tobacco products is set out in the table below.

Table 3: Breakdown of retail outlets selling cigars

Channel	Stores	Store count	% of cigar sales by volume
Supermarkets	Progressive, Foodstuffs	[ ]	[%]
Department Stores	The Warehouse, K Mart, Farmers	[ ]	
Dairies / Superettes / Newsagents / Tobacconists	4 Square Dairies	[ ]	[%]
Oil companies	Caltex Starmarts, Caltex Shops, Shell Select, Shell Shops, BP Connect, BP Express, BP 2 Go, BP Shops, Mobil On the Run, Woolworths Quick Stops and Gasoline Alley	[ ]	[%]
Liquor Outlets	SuperLiquor, Liquorland, The Mill, Cellar Select	[ ]	[%]

Source: STCG Estimates

The Proposed Transaction will not affect the range of retailers operating in New Zealand.

12.5 Advertising and promoting tobacco products in New Zealand

Tobacco is regulated in New Zealand under the *Smoke-free Environments Act* 1990 (**Act**). This Act has been amended several times since its inception, most recently (and most substantially) in 1997 and 2003. In addition, the *Smoke-free Environments Regulations* 1999 include provisions relating to the disclosure of the contents of tobacco products, and provide for some detailed controls over the marketing and labelling of tobacco products.[18]

Section 22 of the Act prohibits the publication of any tobacco product advertisement in New Zealand. A tobacco product advertisement is defined as:

> *"any words, whether written, printed, or spoken, including on film, video recording, or other medium, broadcast or telecast, and any pictorial representation, design, or device, used to encourage the use or notify the availability or promote the sale of any tobacco product or to promote smoking behaviour…"*

On 3 December 2003, an amendment to the Act was passed. The amendment (the *Smoke-free Environments Amendment Act* 2003) required, among other things, that the display of tobacco products in retail outlets be restricted as follows (s 23A(2)):[19]

> *"(a) no tobacco product exposed for sale is visible from outside the place; and*
> *(b) unless the place of business is a tobacconist's shop, not more than 100 tobacco packages are exposed for sale at any point of sale; and*
> *(c) unless the place of business is a tobacconist's shop, not more than 40 tobacco cartons are exposed for sale at any point of sale; and*
> *(d) not more than 2 tobacco packages of the same kind are exposed for sale at any point of sale; and*
> *(e) not more than 2 tobacco cartons of the same kind are exposed for sale at any point of sale; and*
> *(f) no tobacco package (other than a pouch pack of loose tobacco) with a face that has an area greater than 66 cm2 is exposed for sale; and*
> *(g) no pouch pack of loose tobacco with a face that has an area greater than 105 cm2 is exposed for sale; and*
> *(h) no tobacco carton with a face that has an area greater than 266 cm2 is exposed for sale; and*
> *(j) no tobacco product is exposed for sale on any counter top or similar surface; …"*

Under the legislation, retail outlets (except tobacconist's shops[20]) are not allowed to display ("expose for sale") more than 100 packages and 40 cartons of tobacco products.

In respect of cigars, a pack of unwrapped cigars is counted as one "package" and a pack of individually wrapped cigars, where the pack is intended to be sold as a single unit, is counted as one "carton".[21] For example, the Café Crème 10s (small cigars) are individually wrapped inside a Café Crème tin and therefore count as one carton. A cigar pack which did not contain individually wrapped cigars would count as a package.

Therefore, cigars in packets that are individually wrapped count as a "carton" and do not compete with cigarettes under the 100 package quota but instead can be included in the 40 carton limit (retailers do not often display 40 cigarette cartons).

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[18] http://www.moh.govt.nz/moh.nsf/0/66783C553F56BB9ECC256EE1000E8E5F/$File/reviewofsmokefreeregs30-07.pdf

[19] http://www.legislation.govt.nz/libraries/contents/om_isapi.dll?clientID=1295115596&infobase=pal_statutes.nfo-&jd=a1990108%2fs.23a&record={8D396}&softpage=DOC

[20] A 'tobacconist's shop' is a retailer that obtains at least 60 percent of the gross revenue from its retail sale of tobacco products. The maximum limit of 100 tobacco packages and 40 cartons at a point of sale do not apply to a tobacconist.

[21] Ministry of Health, "Tobacco Display Guidelines: Changes affecting tobacco and retailer organisations, arising from the Smoke free Environments Amendment Act 2003," Wellington (July 2006) at page 10 and 17.

It is also relevant that where a retail outlet has two point-of-sale counters, the quota is doubled and access to display space is not such an issue in these types of outlets.

In addition, under the Act, while humidors, “cigar bars” and other smaller counter–top display units cannot be displayed on the counter-top, they may be attached to a wall, cupboard shelf or the like. Therefore, cigar cabinetry and cigar display units remain permissible under the legislation and individually sold cigars may be displayed in this way.[22]

[22] Ministry of Health, “Tobacco Display Guidelines: Changes affecting tobacco and retailer organisations, arising from the Smoke free Environments Amendment Act 2003,” Wellington (July 2006) at page 17.

13 Aggregation as a result of the proposed acquisition

The Proposed Transaction will result in an aggregation in the market for the supply of cigars in New Zealand, although it will not reduce the number of suppliers of cigars in New Zealand.

The Commission has not previously been required to consider the supply of cigars.

STCG considers that the product dimension of the relevant market is cigars.

This product dimension has been accepted in a number of decisions of the European Commission in its consideration of acquisitions involving cigars.[23]

While accepting that the product dimension of the relevant product market is cigars, STCG notes that, for a number of reasons, any competition analysis should also consider competitive constraints from suppliers of other tobacco products, especially cigarette suppliers.

Notably, on the demand side, there is a degree of cross-over by customers between cigars and cigarettes. In particular, as part of a worldwide trend, some cigarette customers may switch from smoking cigarettes to occasionally smoking a cigar.

On the supply side, there is a trend for cigarette companies to introduce cigars under brand names that are well-established for cigarettes (this is further described below). In addition, as described above, cigarettes and cigars in New Zealand are distributed through the same distribution channels, compete for the same shelf-space in retail outlets and are taxed and treated identically under New Zealand legislation. These factors emphasize the competitive tension that exists between cigarettes and cigars.

From a geographic perspective, the market is at least a national market. STCG, BAT, Swedish Match and other cigar manufacturers all supply cigars seamlessly to wholesalers, which, through distributors, supply retailers throughout New Zealand. Tobacco products, including cigars, are relatively easily and cheaply transported and wholesalers and distributors are able to supply tobacco products nationally, even if they are located in regional centres.

The European Commission has previously considered that the geographic market for tobacco products is not wider than national due to national characteristics concerning taxation, public health protection, advertising and distribution.[24]

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23 See for example the Italian Competition Authority's decision in case C6133 – British American Tobacco/Ente Tabacchi Italiani, Provvedimento n. 12685 of 17/12/2003, issued in Bollettino n. 51/2003. This decision was referred to the European Commission.

24 See European Commission's decisions in case COMP/M.2779 – Imperial Tobacco/Reemtsma Cigarettenfabriken of 8.5.2002 (paragraph 16); case COMP/M.1735 - Seita/Tabacalera of 3.12.1999 (paragraph 21); case COMP/M.4424 – JT/Gallaher of 21.2.2007 (paragraph 19-20).

14 Standardised versus differentiated products

While cigars have specific characteristics that reflect differences in composition, size, weight, taste, price or image, it is submitted that this does not support a finding of separate product markets.

As to whether *cigars* should be further divided into specific segments, for example into (larger) cigars and (smaller) cigars, the European Commission and the Italian Competition Authority rejected any further segmentation of the cigar market in their consideration of the acquisition of the former Italian tobacco monopoly entity Ente Tabacchi Italiani (**ETI**) by BAT. In its decision to refer the case to the Italian Competition Authority[25], the European Commission stated that "*…the analysis carried out by the Commission did not bring decisive elements for a specific segmentation of the market* (between cigars and cigarillos)"[26]. In its decision clearing the BAT/ETI transaction[27], the Italian Competition Authority concluded that

> "… *cigarillos are cigars of smaller size, which can be assimilated to cigars for both the manufacturing process and consumer habits*"[28] and concluded that "*[t]he Italian cigars market must be considered as only one market within which it would not be correct to make any further distinction on the basis of the segments relating to different types of cigars. Cigarillos should also be included in the same relevant product market*" [29].

The definition of one relevant product market for all types of cigars accords with the approach taken by the European Commission in relation to cigarettes, where similar product distinctions (eg, taste, image, weight etc) exist. In relation to cigarettes, the European Commission rejected further segmentation of the cigarette market, stating that it would be "*arbitrary and not meaningful*" to segment the market for (factory manufactured) cigarettes according to a particular criterion or any combination thereof.[30]

On this basis, STCG's view is that there are not separate markets for small, medium, large or premium cigars. Even if the Commission were to decide to adopt separate product dimensions for cigars, the Proposed Transaction would not result in a lessening of competition of any such markets.

15 Vertical integration issues

Not applicable. The Proposed Transaction does not result in any vertical integration.

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25 See Commission's decision in case COMP/M.3248 BAT/ETI of 23.10.2003.

26 See Commission's decision in case COMP/M.3248 BAT/ETI of 23.10.2003, paragraph 24: "Le indagini condotte dalla Commissione non hanno fatto emergere elementi decisivi a favore di una determinata segmentazione del mercato".

27 See Italian Competition Authority's decision in case C6133 – British American Tobacco/Ente Tabacchi Italiani, Provvedimento n. 12685 of 17/12/2003, issued in Bollettino n. 51/2003.

28 See Italian Competition Authority's decision in case C6133 – British American Tobacco/Ente Tabacchi Italiani, paragraph 16: "Nel mercato dei sigari devono essere inclusi anche i "sigaretti": trattasi di sigari di minore calibro, assimilabili ai sigari, per modalità di produzione e abitudini di consumo dei consumatori. Pertanto, si ritiene che i sigaretti non costituiscano un mercato distinto, ma possano essere inclusi nel mercato del prodotto dei sigari".

29 See Italian Competition Authority's decision in case C6133 – British American Tobacco/Ente Tabacchi Italiani, paragraph 72: "Il mercato italiano dei sigari deve essere considerato come un unico mercato, all'interno del quale non risulta corretto individuare mercati distinti corrispondenti ai segmenti delle diverse tipologie di sigaro. Anche i sigaretti devono essere inclusi in tale mercato del prodotto".

30 See Commission's decision in case COMP/M.2779 Imperial Tobacco/Reemtsma of 8 May 2005 (paragraph 11), referring to the earlier decision in case No IV/M.1415 BAT/Rothmans of 17 March 1999.

16 Previous notifications

Not applicable.

Part III: Constraints on market power by existing competition

Form for Notice under section 66
Questions 16 to 26

Existing competitors and expansion conditions

17 Market share

Currently, 3 manufacturers supply the majority of the cigars sold in New Zealand, namely Swedish Match, STCG, and the BAT Group.

Swedish Match is currently the largest supplier of cigars in the market with a 42.0% share of sales in New Zealand by volume. Swedish Match's brands include Wee Willem (**WW**) (WW Regular, WW Mild and WW Extra Mild, WW Amanda, WW Long Panatella) and White Owl (Miniatures and Winks).

STCG is the second largest supplier, with approximately 30.2% of sales by volume. The main brands supplied to the New Zealand market are Café Crème (**CC**) (CC Regular, CC Blue, CC Aroma, CC Filter) and Van Hartog (**VH**) (VH Elfinos, VH Elfinos Tipped and VH Panatella).

The Acquired Brands account for the third largest volume of sales of cigars in the New Zealand market. However, over the last six years the sales share of these Acquired Brands has been in continual decline falling from around 33% in 2000 to 23% in 2006. Schimmelpenninck's (**SP**) main brands are SP Cubero Milds, SP Fresco, SP Panatella, SP Mini Mild and SP Mini Cigar. After a significant decline in sales, the BAT Group stopped selling cigars under TVE's Mercator trademark in 2005, which was the only TVE brand name under which TVE cigars were sold in New Zealand.

Several other well established international cigar suppliers, including Agio, Altadis, Habanos (50% owned by Altadis), Von Eicken, Verellen, Villiger, Burger and the BAT Group (through its retained interest in cigars under the Dunhill brand) supply the balance of the market.

The pre and post-Proposed Transaction sales shares by volume of STCG, Swedish Match, the Acquired Brands and the other suppliers are set out in **Annexure 9**. The source for the data is the New Zealand Ministry of Health.

18 Existing competitors and entrants

As noted previously, the Proposed Transaction will not have any impact on the number of suppliers of cigars in New Zealand.

In particular, the BAT Group will continue to supply cigars to New Zealand with its retained cigar business.

In addition to the existing suppliers of cigars in New Zealand, STCG considers that there is a wide variety of well resourced near entrants who could enter the market quickly in response to any attempt by current suppliers to raise prices or reduce output or quality. These near entrants include other tobacco companies with existing operations in New Zealand as well as other global manufacturers of cigars not currently supplying cigars to New Zealand.

The existing competitors and near entrants are discussed below.

19 Existing competitors

19.1 Swedish Match

Following the Proposed Transaction, Swedish Match will continue to compete with the combined entity.

Swedish Match sells tobacco products in more than 100 countries, with production facilities in 11 countries.[31] The Swedish Match head office is located in Stockholm, Sweden and the company employs around 12,465 employees. Swedish Match has five different product categories - snuff, cigars, chewing tobacco, pipe tobacco and lights (it is the world's largest producer of matches and has a wide geographic spread of lighter sales). The company generates approximately half of its sales and more than two thirds of its operating income from snuff and cigars.[32]

Swedish Match is currently the largest cigar supplier in New Zealand with 42.0% of the market by volume. Swedish Match supplies the top 3 cigar products in New Zealand (under the Wee Willem brand) and in addition it supplies a very large portfolio of different types of cigars which will continue to compete strongly with the portfolio of STCG following the Proposed Transaction.

Swedish Match also supplies pipe tobacco in New Zealand as well as the top selling brand of matches (Beehive), lighters and firelighters. It owns the Bryant & May company which supplies matches and lighters to Australia and New Zealand.[33]

In New Zealand, Swedish Match uses its own local subsidiary to import and wholesale cigars, and handles both its own cigars and cigars manufactured by other global cigar producers.

Swedish Match is the world's second largest cigar manufacturer in terms of sales after Altadis. Swedish Match's website states that its strategy for cigars is to strengthen its market share in the two main markets, being the US and Europe, and to focus on global growth other areas and segments where its presence can be increased.[34] Some of Swedish Match's best known international cigar brands are Wee Willem, Macanudo, La Paz, Willem II, Garcia y Vega, and White Owl.

Swedish Match produces cigars in Houthalen (Belgium), Pandaan (Indonesia), Santiago (Dominican Republic), Danli and Confradia (Honduras) and Dothan, Alabama (USA). The Group owns tobacco plantations in the Dominican Republic and in Connecticut, in the US. Swedish Match also owns 40 percent of Arnold André, a German cigar supplier with production units in Bünde and Königslutter.

In Australia, Swedish Match is the leader in the cigar market with the best-selling cigar brand in Australia, Willem II.

19.2 Agio

Agio Cigars is one of the leading cigar manufacturers in Europe. Its primary brands include Mehari's, Panter, Balmoral and De Huifkar. Agio manufactures and sells about

31 http://www.swedishmatch.com/Eng/OurBusiness.asp
32 http://www.swedishmatch.com/Eng/OurBusiness.asp
33 http://www.swedishmatch.com/Eng/SwedishMatchAB.asp
34 http://www.swedishmatch.com/Eng/Products_hb.asp

750 million cigars annually; primarily through the company's own sales organisations in western Europe. Agio also exports to over 100 countries outside Europe. Founded in 1904, Agio Cigars is still owned and managed by the founding family. Headquartered in Duizel, Holland, the company employs over 2,800 people and has an annual turnover of approximately 100 million euros.

For more information regarding Agio see: http://www.agiocigars.com

Agio currently distributes its cigars in New Zealand through Moderna Trading Co Ltd (**Moderna**), a wholesaler located in Wellington. Moderna supplies cigars from a number of different manufacturers including the following Agio branded cigars in New Zealand: Mehari, Half Corona (5's and 25's), Wilde Havana, Petitos and Balmorals. Moderna also supplies a number of brands of cigarettes. Moderna has been involved in the wholesale supply of Agio cigars for at least the past 6 years.

As discussed below, Agio is one company that could easily and significantly expand its presence in New Zealand through its existing wholesaler.

19.3 Altadis

Altadis is the world's leading cigar company.

Altadis has 3 core activities: cigarettes, cigars, and logistics. Altadis has over 27,000 employees worldwide. Cigar sales accounted for 22% of Altadis' business in 2006.[35] Altadis' Cigar Division is a global leader, with a 25% share of the world market. Altadis' main strengths are its brand portfolio, its distribution network and product innovation. Altadis is the only company in the world able to offer a portfolio of prestige Cuban brands, following its acquisition in September 2000 of a 50% interest in Habanos S.A, discussed below. Altadis operates cigar production facilities in Spain, France, Cuba, the Dominican Republic, and Honduras as well as Puerto Rico, Pennsylvania, Virginia, Alabama and Florida. The company also has production facilities for other tobacco products in Spain, France, Mexico, Brazil and Holland.

Altadis successfully launched its "Hava-Tampa" brand in New Zealand in 2003. By 2006 sales of this cigar accounted for some 32,665 sticks.[36] Altadis currently supplies its "Hava-Tampa" brand to Stuart Alexander, and Stuart Alexander promotes this brand to retail outlets.

For more information regarding Altadis see: http://www.altadis.com/en

19.4 Burger & Söhne AG

Burger & Söhne AG is a Swiss family-owned company headquartered in Burg (Switzerland) with factories in Switzerland, Germany and Brazil. Burger also owns a tobacco plantation in Brazil. Its main markets are Germany, Spain, and Switzerland. It exports to 50 countries. Its annual production is around 1,180 millions cigars and its main brands are Dannemann, Moods, Ritmeester, Artist Line, and Al Capone.

19.5 Habanos S.A.

Habanos is a leading cigar manufacturer which specialises in handmade premium cigars. Habanos S.A. is a joint venture between the Cuban State and Altadis. It is involved in the

[35] Altadis, *Annual Report 2006*.

[36] See the Tobacco return filed with the Ministry of Health at: http://www.ndp.govt.nz/tobacco/tobaccoreturns/2006/tobacco-returns-2006-moderna.pdf

production and sale of Cuban tobacco products, mainly cigars, and other related products, worldwide. Habanos supplies over 100 countries worldwide. Habanos S.A has approximately a 70% share of the world market for premium cigars.

For more information regarding Habanos see:
http://www.habanos.com/habanos.asp?i=ing.

In New Zealand, Habanos supplies The Pacific Cigar Co (New Zealand) Ltd (**PCC**) with over 30 brands of cigars.[37] For the 2006 period, PCC sold over 56,000 sticks. This volume of reported sales was achieved by PCC in its first year of operation.[38]

PCC was established in October 2001 and until recently was called the Fine Tobacco Co (New Zealand) Pty Ltd, but at the end of 2005, its name was changed to PCC. It has a specialist retial outlet in Auckland, Havana House Cigars. PCC is located in 13 countries including Australia, Singapore, Hong Kong, China, and America.

19.6 Swisher

Swisher International, Inc is one of the largest manufacturers of cigars and smokeless tobacco in the world. It is headquartered in Jacksonville (Florida, USA) and has factories in the USA, the Dominican Republic, and Honduras. Its annual cigar production is around 2,250 million cigars. In the US, it is one of the largest tobacco businesses, accounting for one-third of US cigar sales. It is also one of America's largest cigar exporters. Its products can be found in more than 60 countries around the world. Swisher offers a full range of cigars in all price categories. For example, Swisher manufactures the King Edward cigar brand, which is available in New Zealand.

For more information regarding Swisher see:
http://www.swisher.com/main/productbrand.cfm?pt=4&pb=5

19.7 Verellen

Verellen NV is a Belgium manufacturer based in Wuustwezel and controlled by the Verellen Family. With annual production of 250 million cigars and a turnover of 29 million euros, Verellen NV is a significant cigar manufacturer. Verellen is well known for its "Alternativos" brand of cigars.[39] Alternativos is one of the best selling small cigars in Europe, and these are also available to New Zealand.

For more information regarding Verellen see:
http://www.verellen.be/HetBedrijf_ENG/tabid/54/language/en-US/Default.aspx

19.8 Villiger

Villiger is the second largest cigar company in Switzerland and the third largest in Germany, and the number one exporter in both countries. The company's head office is in Pfeffikon, Switzerland, and it also has factories in Germany, Ireland and Indonesia. Currently, Villiger employs about 900 people worldwide, and distributes its trademark Villiger cigars and cigarillos to over 95 countries. Villiger supplies a range of cigars and cigarillos in a number of variants.

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[37] http://www.pacificcigar.com/eng/aboutus/company.php

[38] See the Tobacco return filed with the Ministry of Health at: http://www.ndp.govt.nz/tobacco/tobaccoreturns/2006/tobacco-returns-2006-pacificcigar.pdf

[39] Alternativos come in plastic cases of ten and there are 5 different variants.

For more information regarding Villiger and its brands see: http://www.villiger.ch/english/Products/detail/braniff-1-0.php?nf=1

19.9 Von Eicken

Von Eicken is a German manufacturer of cigars. It also manufactures cigars under the Don Antonio, Manitou and Calume brands.

In New Zealand, Von Eicken supplies 11 variants of its Candlelight cigars to the wholesaler VE Logistics NZ Ltd (**VE Logistics**). The cigars imported include a number of smaller cigarillos as well as medium and larger cigars. VE Logistics, in 2006 sold approximately 28,000 Candlelight cigars. VE Logistics also supplies cigarettes and RYO tobacco to the market.[40]

For more information regarding Von Eicken see http://www.von-eicken.com/en/frameseite.html.

19.10 BAT

The BAT Group is the largest supplier of tobacco products in New Zealand (notably because of its cigarette business which supplies the most popular Holiday brand of cigarettes)[41]. In New Zealand, BAT NZ has around 77% of the cigarette/RYO market.

BAT NZ has supplied cigars in New Zealand for over 35 years and will continue to sell the Dunhill brand of cigars following the Proposed Transaction. BAT has strong relationships with distributors and retailers and considers that it is well placed to expand in response to any perceived opportunities.

STCG considers that the BAT Group will remain a significant constraint on STCG in relation to the supply of cigars in New Zealand because:

- the BAT Group is particularly well positioned to sell in the New Zealand market;
- the BAT Group currently sells its Dunhill Signed (or Signature) Range of cigars in New Zealand as part of its international strategy to sell cigars under its well-established global cigarette brands;
- in other countries, the BAT Group has also started selling miniature cigars under its Dunhill and Pall Mall brands, which are each equally well-established global brands. The BAT Group could therefore also sell cigars in New Zealand under the Pall Mall brand;[42] and
- the BAT Group could also bring its best selling Australian miniature cigar, the Captain Black, to New Zealand. The Captain Black miniatures account for approximately 23% of the Australian cigar market.

BAT's branding strategy following the Proposed Transaction, which is different from the traditional approach adopted by the other cigar manufacturers, is to market and sell

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40 See the Tobacco return filed with the Ministry of Health at: http://www.ndp.govt.nz/tobacco/tobaccoreturns/2006/tobacco-returns-2006-voneicken.pdf

41 The most popular brand of cigarettes in New Zealand is BAT NZ's "Holiday" brand. The Holiday brand accounts for 31 percent of all cigarette sales (as at 2004) see Laugesen, M. 2005. Tobacco manufacturers' returns for the 2004 calendar year. Retrieved June 1, 2006 from:
http://www.ndp.govt.nz/tobacco/tobaccoreturns/2004/analysis/analysis-2004.doc

42 Also part of the international brand portfolio of the BAT Group are the Lucky Strike, Kent, Rothmans, Kool, Benson & Hedges, State Express 555, Peter Stuyvesant, Viceroy and John Player Gold Leaf brands.

cigars under its well-known international tobacco (cigarette) brands.[43] BAT has successfully employed this strategy in other regions using its well known Dunhill and Pall Mall brands. For example:

- since 2001, the BAT Group has launched Dunhill Signed Range of cigars in countries like the US, UK, Australia, New Zealand, Hong Kong, Taiwan, Malaysia, Philippines, Korea, Indonesia, Singapore, Russia, Uzbekistan and Belarus. Attached as **Annexure 10** are copies of BAT press releases regarding its Dunhill Signed Range of cigars; a copy of a BAT press release about its launch of its Dunhill Signed Range in the Belarusian market; and a news article regarding BAT's launch of the Dunhill Signed Range of cigar in the Philippines;

- Dunhill branded miniature cigars are available in Australia and have also been launched in Greece. These miniature cigars are packed and appear very similar to STCG's Café Crème brand and Swedish Match's Wee Willem brand; and

- Pall Mall branded miniature cigars as well as Pall Mall cigarillos have been launched in Switzerland (2007) and Finland (2007). An example of a packet of Pall Mall small cigars is set out below. At **Annexure 11** is a picture of Pall Mall branded small cigars which are sold in convenience stores in Finland.

PALL MALL CHICAGO

The BAT Group has supplied the Dunhill Signed Range of cigars to New Zealand since 2004. Swedish Match initially wholesaled the Dunhill Signed Range for the BAT Group between 2004 and 2005. Since then, the BAT Group has taken on the wholesale and distribution of the Dunhill Signed Range of cigars. (It is noted that recently BAT has experienced some stock issues which related to transitioning changes in supply, but these issues have now been resolved.)

STCG notes that in or around 2005, BAT NZ briefly test marketed Captain Black cigarillos in Wellington. However, at the end of the test marketing period, the decision was made not to continue to supply Captain Black in New Zealand at that time.

19.11 Summary

As identified above, there are a number of major cigar manufacturers that already supply cigars to New Zealand which, in response to the appropriate market conditions, could

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[43] BAT has four internationally recognised cigarette brands include, namely Lucky Strike, Dunhill, Kent and Pall Mall. These brands that are sold in over 180 countries. Also part of its international brand portfolio are the Rothmans, Kool, Benson & Hedges, State Express 555, Peter Stuyvesant, Viceroy and John Player Gold Leaf brands.

easily and significantly expand their supply of cigars to New Zealand. These global companies, currently and post acquisition will continue to constrain the activities of STCG.

20 Near entrants

There are two important categories of near entrants:

(a) the major cigarette companies that currently supply cigarettes to New Zealand. These companies also have the ability to readily source and supply cigars to New Zealand; and

(b) major international manufacturers and suppliers of cigars that are not currently supplying to the New Zealand market.

20.1 Other New Zealand tobacco companies

Imperial Tobacco

Imperial Tobacco is the world's fourth largest international tobacco company, with tobacco products sold in over 130 countries worldwide. Like the BAT Group, it is based in the UK and has a multi-product portfolio, manufacturing, marketing and selling a range of cigarettes, cigars, other tobacco products and rolling papers.

It has some of the world's leading brands such as Davidoff[44], West, Golden Virginia, Drum and Rizla. Classic is Imperial Tobacco's top selling cigar brand; other brands are Castella, Panama and Cadena. The company has around 14,500 employees and operates 32 manufacturing sites across the globe. Imperial Tobacco Group PLC was listed on the London Stock Exchange as a FTSE 100 company in 1996.

In New Zealand, Imperial Tobacco New Zealand Ltd (**ITNZ**) sells cigarettes, RYO tobacco and associated products such as tobacco papers and distributes its products in the same way that Stuart Alexander, Swedish Match and The BAT Group do, through Gilmours, Toops, Trent and Red Arrow. ITNZ is the second largest tobacco supplier of tobacco product in New Zealand and has around 19% of the cigarette/RYO market in New Zealand.

For more information on Imperial Tobacco see: www.imperial-tobacco.com.

Phillip Morris

Philip Morris (New Zealand) Ltd (**PMNZ**) is part of Philip Morris International which belongs to the Altria group of companies, and is based in the United States. The Altria Group is the parent company of Kraft Foods and related Philip Morris corporations.

In New Zealand, PMNZ has around 3.5% of the cigarette/RYO market and is best known for supplying the Marlboro brand. Until 2004 PMNZ acted as the importer and wholesaler for Swedish Match and promoted Swedish Match's products to the retailer.

Like the BAT Group, Phillip Morris has adopted a strategy in certain countries of launching cigars under popular Phillip Morris cigarette brands. For example, in Europe Philip Morris in Germany launched in 2007 cigarillos under the "NEXT" brand, which is one of its popular cigarette brands (see **Annexure 12**).

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[44] For cigarettes only – for cigars, the Davidoff brand is owned by the family-owned Oettinger Group, Switzerland.

That Phillip Morris has previously provided wholesale services to another tobacco company, namely Swedish Match (a cigar company), indicates that it would be open to one of the major international cigar companies discussed above to approach Phillip Morris and enquire whether it would provide wholesaling and distribution services to assist it supply its products to New Zealand cigar market.

For more information on Phillip Morris see: www.philipmorrisinternational.com.

20.2 Global tobacco companies not present in New Zealand

Gallaher Group & Japan Tobacco Inc.

Gallaher Group plc is a significant supplier of cigars worldwide, and notably in Europe. Its main cigar brand is Hamlet, a brand which has been very successful in Europe and in particular in the UK. Its European cigar market share amounts to approximately 44.1%. As far as STCG is able to determine, Gallaher has not in the past supplied cigars in New Zealand.

In April 2007, Gallaher Group Plc was acquired by Japan Tobacco Inc (**JT group**), one of the world's largest international tobacco manufacturers. Over 23,000 employees are employed in JT group's tobacco business. The JT group sells 8 out of the 10 top brand styles in Japan, with the top three styles all coming from the Mild Seven brand. In Asia, the group has significant presence through JT International, where Mild Seven is the major brand in the portfolio. In the global market, 3 of the best-selling international cigarette brands: Camel, Mild Seven and Winston, are within JT's product portfolio, along with Salem, one of the world's leading international menthol brands.

J. Cortes Cigars/Vandermarlière

J. Cortes Cigars/Vandermarlière is a Belgium company, headquartered in Zwevegem-Moen (Belgium). It sells 420 million cigars in more than 50 countries. It is mainly present in Belgium and France, but it is also active in Australia. It owns factories in Belgium, in Sri Lanka and in Indonesia. Its main brands are J. Cortes, Neos, and Amigo.

20.3 Summary

Swedish Match currently competes vigorously with STCG and will continue to do so.

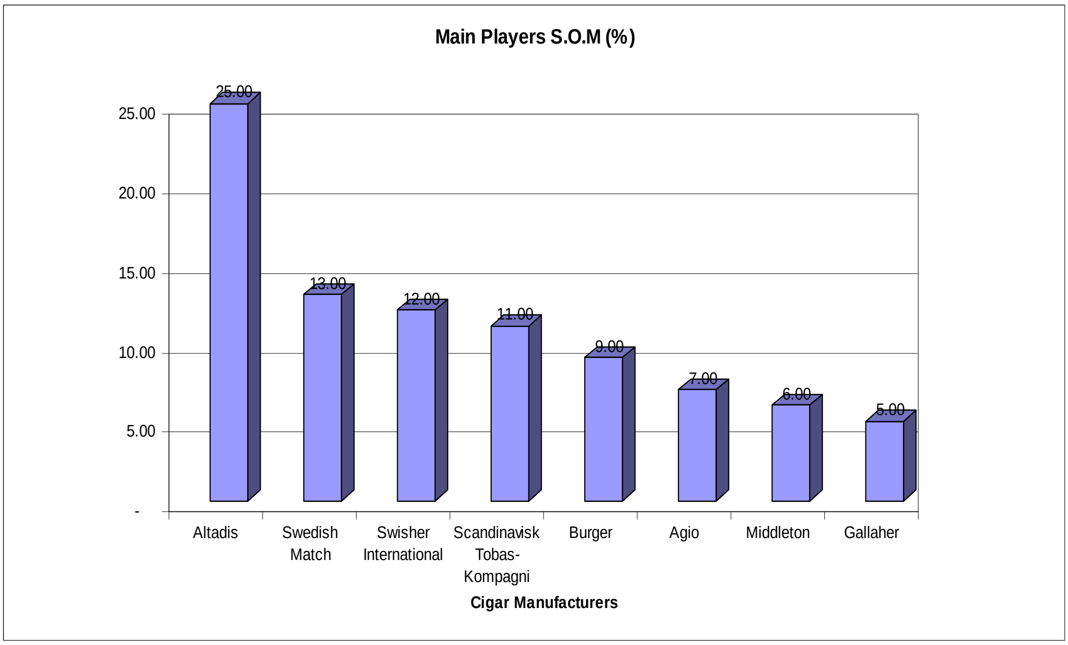
Global cigar manufacturers like Altadis, Agio and Burger, each currently supply the New Zealand market to varying degrees and have the capacity and resources to significantly expand their operations rapidly in New Zealand if they saw a worthwhile commercial opportunity.

Gallaher which owns the No.1 UK cigar brand, Hamlet, could enter the New Zealand market relatively easily.

Finally, the cigarette companies like BAT with its Dunhill Signed Range, Dunhill miniature cigars, Pall Mall miniature cigars and the No.1 Australian cigar brand, Captain Black, are ideally positioned to take advantage of any market opportunities that may present themselves.

To demonstrate the relative sizes internationally of the major cigar manufacturers the relative global position of these cigar manufacturers is illustrated below.

Chart 1: Share of the global market in units



Source: Altadis Management Presentation (2006), available on Altadis' website

21 Spare capacity

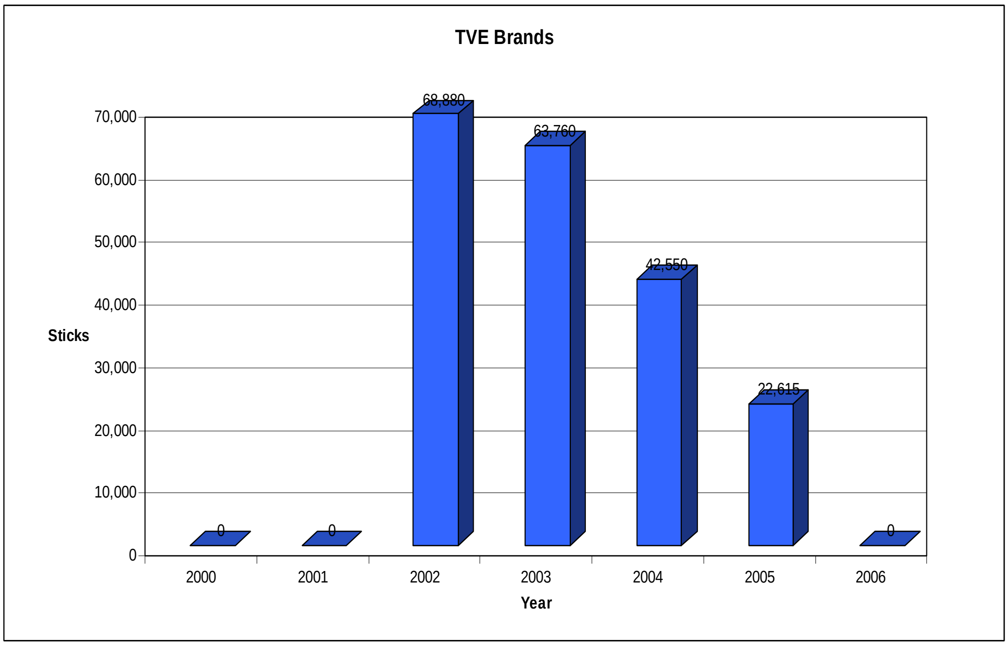
STCG considers that it would not be difficult for manufacturers to increase their supply to New Zealand to take advantage of any commercial opportunity that presented itself. Since cigars are manufactured on a global basis, STCG is not aware of any shortage of capacity that would impact on their supply to New Zealand.

22 No elimination of a maverick

The Proposed Transaction will not remove a vigorous maverick, nor even a very effective competitor. The Schimmelpenninck brands have been in decline for the past 6 years and the only TVE brand sold in New Zealand, Mercator, has been de-listed since 2005 due to lack of sales.

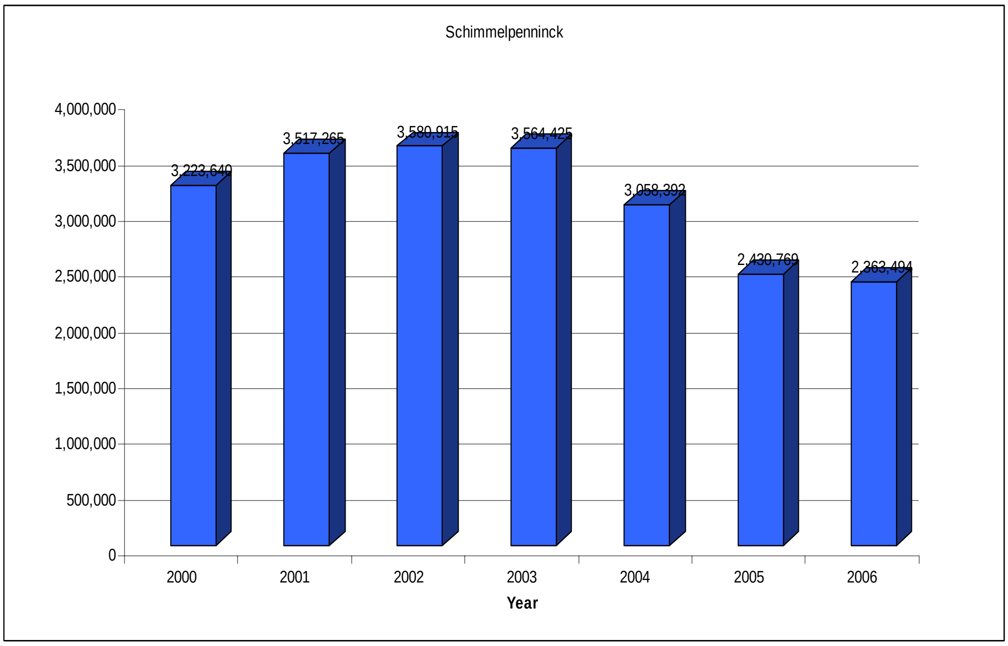
The volume of sales of Schimmelpenninck branded cigars has fallen from around 33.2% in 2000 to 23.4% in 2006 and sales of TVE branded cigars has fallen from around 0.067% in 2002 to 0% in 2006. The decline in these brands is illustrated in the chart below.

Chart 2: Decline of the TVE brands



Source: Figures from the New Zealand Ministry of Health

Chart 3: Decline of the Schimmelpenninck brands



Source: Figures from the New Zealand Ministry of Health

Absent the Proposed Transaction, in any counterfactual analysis, STCG would expect the decline of Schimmlpenninck sales to continue in New Zealand, as BAT focuses on its cigarette/RYO business and cigars that share a brand name with cigarettes.

23 Coordinated market power

STCG considers that the Proposed Transaction does not materially enhance the potential for coordination in the market for the supply of cigars in New Zealand.

23.1 STCG and Swedish Match trade at different levels

STCG notes that STCG and Swedish Match have adopted different approaches to supplying cigars in New Zealand. Both companies produce cigars abroad, but STCG supplies its independent importer/wholesaler Stuart Alexander, while Swedish Match is vertically integrated and supplies distributors and large retailers in New Zealand directly.

23.2 STCG and Swedish Match's prices are not transparent

Neither STCG's prices to Stuart Alexander nor Swedish Match's intra-group prices to its New Zealand subsidiary are public or transparent (and thereby capable of coordination).

STCG also notes that it is not responsible for setting wholesale prices in New Zealand, instead Stuart Alexander sets the prices at which it sells to distributors and large retailers, whereas Swedish Match sets its own wholesale prices.

In New Zealand, wholesale prices for cigars depend instead on a combination of:

(a) the differing brands concerned;

(b) the wholesale pricing decisions of Stuart Alexander and Swedish Match, given their different profiles;

(c) the actual and potential competition from third parties; and

(d) the countervailing power of certain customers.

Such issues make pricing non-transparent and therefore the coordination of prices unlikely.

23.3 Stuart Alexander and Swedish Match have different profiles

As noted, Stuart Alexander is an independent wholesaler, while Swedish Match is vertically integrated.

STCG also notes that each company supplies other tobacco products [ ] and Altadis cigars for Swedish Match) and other non-tobacco products (such as Fisherman's Friend and Whittakers chocolate for Stuart Alexander and Beehive matches, lighters and other tobacco accessories for Swedish Match), as discussed in section 12.2 above.

This is important because the two companies' differing product offerings and different cost structures can be expected to lead to differing prices. [ ] Swedish Match does the same, but as a vertically integrated company it will have different considerations.

Each company is also selling various different cigars, with different target markets and branding, which lead to different marketing and pricing considerations as brand product performance fluctuates (see below section 25.6). This means that decisions as to how to price different cigar brands vary on an individual brand basis, and what each company will do with each brand at a given time is not predictable. Variations result all the time as the position of individual brands change.

23.4 STCG/Stuart Alexander and Swedish Match face the threat of market expansion or entry

As noted above, both STCG/Stuart Alexander and Swedish Match face the threat of competition from:

(a) other major worldwide cigar producers, many of which are already present in the New Zealand market, albeit at the moment with smaller volumes. These companies include: Habanos, Agio, Burger, Altadis, Villiger, Von Eicken, Verellen, Oettinger and BAT;

(b) major tobacco groups selling or launching cigarette branded cigars like BAT and Philip Morris; and

(c) new entry from well resourced international manufacturers such as Imperial Tobacco and Gallaher (with plenty of distribution options available).

The ability of such strong tobacco suppliers to expand their operations or enter the market in the short or near term in response to a commercial opportunity makes coordination difficult, because of the uncertainty as to the likely response of these near competitors and whether other market participants will follow any attempted price increase.

23.5 Both Stuart Alexander and Swedish Match face significant countervailing power

STCG notes the presence of large oil companies, such as BP, Caltex and Shell. These oil companies are sophisticated buyers and they have countervailing power. The oil companies account for a significant amount of cigar sales, some [%] and require rebates in relation to their purchases of cigars.

23.6 Evidence of competition

Active and varied competition in the market is evidenced by:

(a) STCG's market share, behind Swedish Match, the current market leader, has increased from 23.3% in 2000 to 30.2% in 2006, indicating that there is real and aggressive competition in the cigar market in New Zealand;

(b) several cigar manufacturers have successfully launched new products in New Zealand in recent years (see Table 5 in section 25.8 below). As Swedish Match states on its website:[45]

> *"The market for cigars continues to be influenced by frequent new product launches, responding to trends for both premium and machine made cigars. The growing popularity of aromatic and little cigars during recent years provides one example."*

Swedish Match also states that manufacturers typically introduce several new products using well established brands every year.[46]

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[45] http://www.swedishmatch.com/eng/cigars.asp?acc=y&

[46] http://www.swedishmatch.com/Eng/MarketCigars.asp

(c) the fact that Swedish Match is also strong in the large cigar segment, where STCG has little presence; and

(d) competition for retail shelf space with cigarette and other tobacco suppliers (see section 25.7 below).

23.7 Summary

In the light of the above considerations, STCG submits that the potential for coordination will not be materially enhanced after the Proposed Transaction. Instead, stronger competition between the differently profiled STCG/Stuart Alexander and Swedish Match may be expected.

24 Substantial lessening

While STCG accepts that there will be an increase in concentration following the Proposed Transaction, STCG will continue to be subject to a variety of significant competitive constraints in New Zealand. These constraints include:

(a) Vigorous competition from Swedish Match, the current market leader, which owns brands including the highest selling cigar brand in New Zealand, Wee Willem, and also imports and wholesales cigar brands owned by other international cigar manufacturers;

(b) competition from other international cigar suppliers, such as Agio, Von Eicken and Altadis that are currently supplying cigars to New Zealand;

(c) continuing competition from the BAT Group through its Dunhill brand and, potentially, other brands;

(d) potential competition from cigarette companies that have large operations in New Zealand but currently do not supply cigars there (for example, the Imperial Tobacco Group and Philip Morris). These companies have significant existing operations in New Zealand, are large suppliers of cigarettes and RYO tobacco in New Zealand and currently supply cigar products internationally. For example, Imperial Tobacco Group is the third largest supplier of cigar products in the UK, and Philip Morris has recently launched the “NEXT” cigarillos in Germany using one of its popular cigarette brands there; and

(e) potential competition from other international manufacturers of cigar products. For example, the leading supplier of cigars in the UK, Gallaher (which in 2007 was acquired by Japan Tobacco), is not yet present in New Zealand. Neither is J. Cortez Cigars, which is however present in Australia.

There are no significant barriers to importing cigar products into New Zealand, and at the wholesale level there are a number of companies that currently import their own and/or other companies’ cigars into New Zealand. There are also a number of independent importers/wholesalers and distributors.

At the retail level, the vast majority of sales of cigars in New Zealand take place in dairies/convenience stores and service stations. While there are regulatory requirements regarding the display and advertising of tobacco products in New Zealand, STCG notes that these restrictions:

(a) have not prevented independent wholesalers of cigars from obtaining significant sales through the dairy/convenience store and service station channels;

(b) have not prevented the successful introduction of new brands of cigars in New Zealand; and

(c) have not led to market shares being static over time; the fluctuation in market shares of different brands demonstrates that a supplier can increase it sales despite the various restrictions by supporting its brands efficiently.

STCG does not consider that the Acquired Brands were a particularly vigorous or effective competitor in the hands of the BAT Group. In relation to any counterfactual analysis, STCG considers that the appropriate counterfactual for the Commission to adopt is one in which the Acquired Brands remain with the BAT Group and sales of the cigars under the Acquired Brands continue to be flat (at best) or declining.

For the reasons set out above, STCG submits that the Proposed Transaction will not result in a substantial lessening of competition in the market for the supply of cigar products in New Zealand, or any other market.

Part IV: Constraints on market power by potential competition

Form for Notice under section 66 Questions 27 to 35

Conditions of Entry

25 Ability of new firms to enter the market

The cigar manufacturers that are referred to above could easily and in a timely manner enter the market if STCG were to attempt to raise its prices above a competitive level.

In order to enter, these cigar manufacturers need only find a wholesaler to import its cigars and promote them to distributors and retailers (or it would choose to set up its own operations to perform these tasks).

As outlined above, these barriers are not significant and it is highly likely that any of the cigar manufacturers referred to would: (a) be able to locate a wholesaler; and (b) provided they supported the product, be able to build a brand that retail outlets would be prepared to stock. Otherwise, no specialised know-how is required to import cigars and no special licenses etc are required but it is important for the wholesaler to be knowledgeable about tobacco products and to be able to effectively promote the products to retailers.

25.1 Legal or regulatory barriers to importing cigars

There are no legal or regulatory barriers preventing the supply of cigars to New Zealand. Relevant tax, advertising and health warning laws have to be complied with, but this is the case for existing players as well as for new entrants. Accordingly, these laws do not constitute specific barriers to entry.

25.2 Restrictions arising from intellectual property rights

There are also no barriers to entry arising from intellectual property rights.

25.3 Supplying cigars to New Zealand

All cigars supplied in New Zealand are imported. As discussed above there is a wide range of cigar manufacturers internationally.

25.4 Access to wholesale services

Access to wholesale services for cigars is not a barrier to entry to the market for cigars.

The entry costs for cigar companies that are active in, for example, Europe, the US or Australia but not yet active in New Zealand are low. Entrants would normally enter into a distribution agreement with a wholesaler and thus bear similar distribution costs as other existing suppliers (the wholesaler normally obtains a percentage of the product price). This is demonstrated by the fact that several New Zealand cigar suppliers (such as STCG, Agio and Altadis) use independent wholesalers who often wholesale cigar on behalf of more than one manufacturer.

Options for near or new entrants to access wholesale services for cigars include:

- **Stuart Alexander:** Stuart Alexander is not under any exclusivity arrangement with STCG and would be able to wholesale a cigar manufactured by a company not already represented in the market. For example, Stuart Alexander currently distributes Hava-Tampa Vanilla for Altadis and [ ] and in Australia it wholesales for Altadis and Swisher.
- **Swedish Match:** As outlined above, Swedish Match already provides wholesale services to a large range of other cigar manufacturers.

- **Other importers:** There are a range of cigar importers, for example VE Logistics, who could provide wholesale services to an entrant.

- **Existing distributors:** Existing distributors, who have contact with the "route trade", could provide wholesale and distribution services to an entrant. For example:

  – *Gilmours, Toops, and Trents*: Provides wholesale and distributions services for Swisher which supplies the King Edwards cigar brand;

  – *Red Arrow*: Provides distributions services for tobacco products supplied by Imperial Tobacco and PMI, it could easily provide wholesaling services to an entrant; and

  – *Crean Foods:* This national distribution company has 15 branches located throughout New Zealand and is subsidiary of Bidvest, which is a leading foodservice products distributor in the United Kingdom, Australia, South Africa.[47] It distributes a mix of products including: frozen food; dry grocery products; paper products & disposables and cleaning materials, chemicals.

BAT and Imperial each undertake their own wholesale operations. In BAT's case, from November 2007 it will also undertake the distribution function. Imperial Tobacco uses Gilmours, Toops, Trents and Red Arrow to distribute its products to the market. Therefore, should BAT or Imperial Tobacco wish to expand their cigar product range, as neither relies on wholesale services from third parties, they are not affected by the need to locate a wholesaler.

Finally, to STCG's knowledge, exclusive agreements between suppliers and wholesalers are not usual in New Zealand.

25.5 Access to distribution services

There are a number of distributors that could provides distribution services to an entrant including, Gilmours, Toops, Trent, Red Arrow and Crean Foods. In particular:

- **Gilmours**: Gilmours is New Zealand's largest food and liquor distribution group. It sells over 14,000 product lines, including confectionery, snack foods, catering, chilled and frozen, beverages, general groceries, cleaning products, packaging, beer, wine and spirits through 9 Cash 'n Carry warehouses. See: http://www.gilmours.co.nz/info/

- **Toops**: Toops provides full coverage of the lower half of the North Island.

- **Trents**: Trents supply the foodservice and convenience business sectors. Trents is the largest foodservice and "route trade" grocery wholesaler in the South Island. It services business requirements for cigarettes, tobacco, cigars and assorted merchandise such as papers, matches, lighters and phone cards. See http://www.trents.co.nz/info/default.htm

- **Red Arrow**: Red Arrow is a tobacco and confectionary wholesaler, with distribution throughout New Zealand. Red Arrow operates a fleet of delivery vans, supplying small retailers and food service providers. Red Arrow is headquartered in Auckland. See http://www.redarrow.co.nz/index.htm

[47] http://www.crean.co.nz/ourstory.htm

25.6 Developing brands and securing retail space

The main investment required of an entrant is to achieve the necessary product recognition. In terms of building product recognition, as outlined above, tobacco retailing (including cigars) is governed by the *Smokefree Environment Amendment Act 2003*. This Act limits the number of tobacco product facings that retailers can display.

Despite the legislative framework restricting an entrant's scope for advertising and promoting products this does not amount to a significant barrier to entry to the market. As in any FMCG (fast moving consumer goods) market, an entrant who wished to promote a new product in that market would, like anyone else, need:

- a product which had either been very successful overseas, or which could demonstrate a good business case for achieving sales in the New Zealand market; and

- to be able to support their brand. In the case of cigars this is done by having either the entrant's own representatives, or by having their agent's representatives visit the route trade. By doing follow-up visits and by developing a relationship with the store owner (for owner-operated convenience stores) or the Category Buyer (for grocery chains or petrol stations) an entrant would be able to have their products included in that retail outlets planogram.

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Diagram 1: Example of a cigar display case

By supporting "route trade" retail outlets and or focusing on building a relationship with the Category Buyers within organisations like Shell, Caltex and BP an entrant can have some input into the planogram for the stores tobacco products. In turn, this will help the entrant achieve the necessary product recognition for the entrant's product by having it visible in-store. A typical cigar display for cigars in a retail store is pictured below.

Diagram 2: Example of point of sale display of cigars

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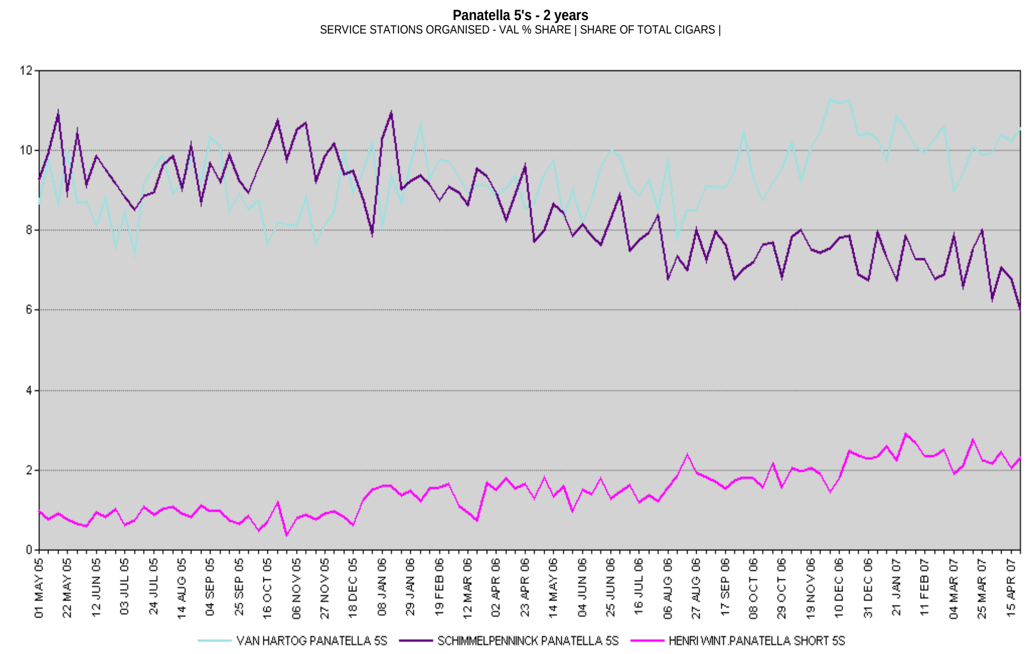
The requirement that the manufacturer commit to supporting its product (either as new product or to expand sales of an existing product) is not a barrier to entry but a market condition faced by all participants.

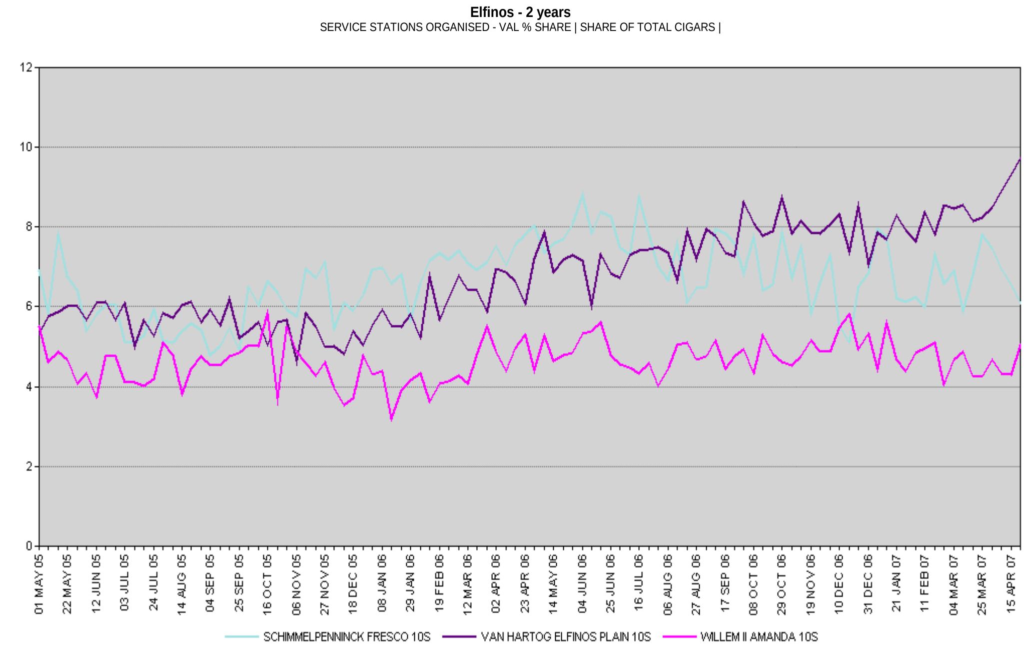
Evidence that access to retail outlets and display space is not a constraint and that the approach described above is effective can be inferred from the fact that cigar brands in the New Zealand market do not enjoy stable market shares. Instead, the evidence is that brands' shares fluctuate: some brands have increased their market share, some brands have lost market share and others have oscillated between increases and decreases in their market shares.

The following graphs were prepared by ACNielsen New Zealand from ScanTrack data for service stations over the last 2 years.

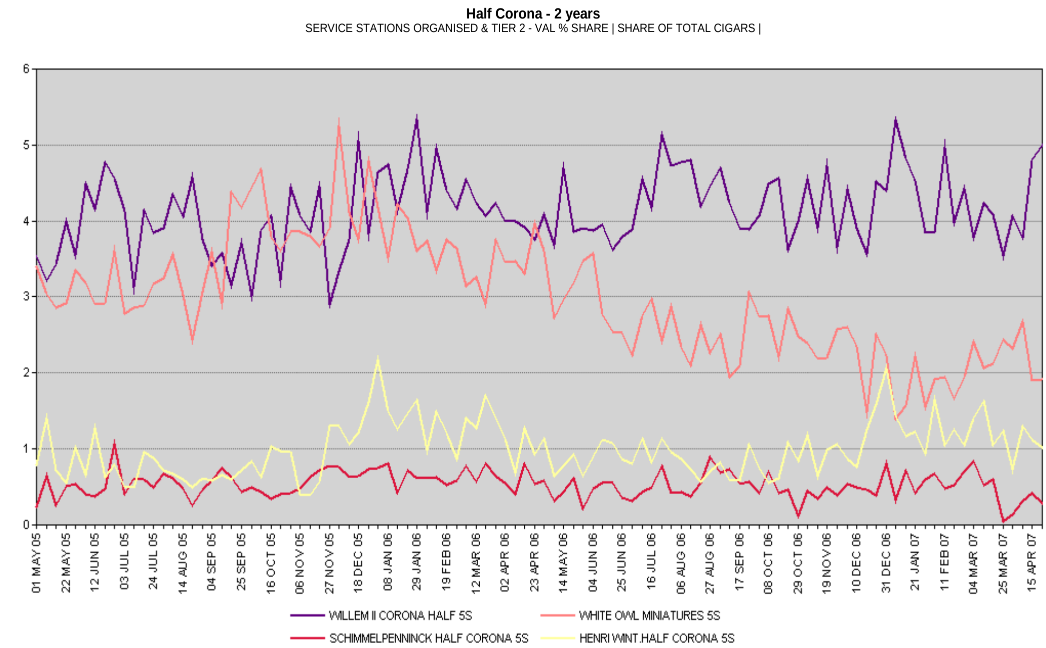
Chart 4: Fluctuations in brands' shares 2005-2007



Source: ACNielsen New Zealand ScanTrack



Source: ACNielsen New Zealand ScanTrack



Source: ACNielsen New Zealand ScanTrack

25.7 BAT, Imperial Tobacco and Phillip Morris

In terms of an entrant's ability to achieve the necessary product recognition, where the entrant is a cigarette company with existing operations in New Zealand, the position is different.

The high consumer demand for cigarettes (relative to cigars) at retail outlets means that cigarette companies are able to exert more influence over the planogram for tobacco product facings. The typical breakdown of tobacco facings at a retail outlet is set out in the table below.

Table 4: Tobacco facing breakdown in Retail outlets

Product	Proportion of facings
Cigarettes	[%]
Roll-your-own	[%]
Cigars	[%]
Other (matches etc)	[%]
Total	[%]

Source: STCG Management Estimates

This means, for example, that, in STCG's view, BAT, which supplies around 77% of the cigarettes sold in New Zealand, if it wanted to promote a new cigar in competition with the merged entity, would be well placed to encourage the retail outlet owners or the Category Buyers for the oil companies to give them facing space to promote their cigars.

Equally, STCG believes that Gallaher, which claims to be the UK's leading cigar manufacturer, with a 47.2% share of the total UK market, could bring its biggest selling small cigar, Hamlet, to New Zealand. In the small sector, Gallaher's Hamlet is the number one cigar with around 50.4% of sales in the independent and distributive channels during the last Christmas period.[48]

Similarly, Imperial Tobacco could bring Classic, its top selling brand, which is third overall in cigars in the UK to New Zealand.[49]

Each of these companies have cigar products that sell well in the UK but are not represented in New Zealand. In STCG's view these brands could easily be introduced to the New Zealand consumer. Imperial Tobacco and Gallaher are both sufficiently well resourced to be able to use their network of sales representatives to promoting their product. In addition, both have products with a sales history and, as such, would appeal to the "route trade".

BAT, Imperial Tobacco and Philip Morris, as discussed above, are also more likely to be able to secure support for a new product in the retail channel through their ability to use brands which are already well known to consumers, for example BAT's Dunhill brand. Through their influence in the retail channel, these companies would be able to constrain the merged entry in the event it increased prices as they could easily introduce and acquire the facing space required to promote their cigars.

25.8 History of entry in New Zealand

The New Zealand market has a history of product launches and innovations by the major suppliers. Relevant product launches are set out in the table below. The product launches set out in the table demonstrate that an entrant committed to entry could enter the New Zealand cigar market.

Table 5: Cigar product launches in the last 5 years

Launch Date	Product	Wholesaler	Manufactuer
2001	Tatiana (5,914 in 2006)	Miami Cigar & Co	Miami Cigar & Co
2002	Half Corona (27,425 in 2006)	BAT	Schimmelpenninck
2003	Hava-Tampa (32,665 in 2006)	Stuart Alexander	Altadis
2003	Alternativos (22,789 in 2006)	Swedish Match	Verellen
2003	CC Filter (163,525 in 2006)	Stuart Alexander	STCG
2003	CC Aroma (155,320 in 2006)	Stuart Alexander	STCG
2003	Short Panatella (47,105 in 2006)	Stuart Alexander	STCG
2003	Slim Corona (7,585 in 2006)	Philip Morris	Swedish Match
2004	Candlelight (27,997 in 2006)	Von Eicken Logistics	Von Eicken

48 http://www.prowholesaler.co.uk/news/fullstory.php/aid/1487/Smokers_keep_their_resolve.html

49 http://www.prowholesaler.co.uk/news/fullstory.php/aid/573/Smokers_resist_restrictions.html

Launch Date	Product	Wholesaler	Manufactuer
2004	Dunhill Signed range (231 in 2006)	Swedish Match (2004-05) and BAT (2006)	BAT
2005	WW Aroma Filter (7,430 in 2006)	Swedish Match	Swedish Match
2005	WW Aroma (4,180 in 2006)	Swedish Match	Swedish Match

Source: STCG Management

25.9 Summary

Evidence that entry to the cigar market is possible is shown by fact that the market shares for the various brands are not static over time. The fluctuation in the market shares of different cigar brands demonstrates that suppliers are able to increase their sales despite the legislative restrictions by supporting and promoting their brands efficiently.

26 Conditions of entry

A decision to enter the New Zealand market could occur in a variety of circumstances, including:

- a decision by a tobacco company to expand into New Zealand as part of a wider global strategy to increase the markets supplied (eg, a decision by Gallaher to promote its Hamlet cigars in New Zealand);
- a decision by a tobacco company to supply cigars to the Australasian market. The volume of cigars sold in New Zealand is low, whereas the volumes sold in Australia are much higher. Therefore, where a company decided to expand into this region, the incremental effort to also supply New Zealand would be minimal; and
- a decision by a tobacco company with existing operations in New Zealand to expand the scope of products offered in New Zealand to include cigars. As noted above, we do not consider that this would require significant investment.

Given the ease with which near entrants could enter the New Zealand market discussed above, a decision by any particular potential entrant to enter would depend on that company's assessment of the available commercial opportunities in the market. These opportunities would in turn depend on the potential profitability of entry and the perceived attractiveness of that company's products to New Zealand consumers.

STCG does not consider that any of the categories of market conditions specified by the Commission in the clearance application form (frontier/entry, legislative/regulatory and industrial/business) are likely to present significant barriers to any potential entrant.

27 Likelihood, sufficiency and timeliness of entry

27.1 Likelihood, sufficiency and timeliness of entry

The likelihood, sufficiency and timeliness of entry will vary depending on whether the company supplying the cigars:

- already has established operations in New Zealand or has existing relationships with a New Zealand importer/wholesaler;
- has an established cigar product in another country; or

- is entering as a *de novo* entrant to the manufacture or supply of cigar products.

Depending on the mode of entry, and the existing business of the new entrant, the time and cost to enter will vary significantly. Entry in some cases could involve minimal costs and as a little as 3 months to generate significant sales in the market. In other cases, for example where the entrant does not have any existing operations in New Zealand or any established relationship with an importer/wholesaler and therefore the entrant would be starting from scratch, some minor investments may be required to build a significant position in the market.

27.2 A supplier already present in New Zealand

For a company that already has established tobacco product operations in New Zealand (for example Philip Morris and Imperial Tobacco), entry is likely to be easy. Such companies already have wholesale operations and an existing sales network in place and would therefore be readily able to introduce a new product and, with sufficient support, ensure that it obtains sufficient exposure in retail channels.

For a cigarette company with established operations in New Zealand, it is estimated that the costs of entry to supply cigars in competition with the merged entity would be minimal, and that a reasonable level of sales could be achieved within 3 to 6 months.

27.3 Established product in another country

For a company that has a well established cigar product, even one that is established in a foreign market, for example Gallaher's Hamlet brand which is the No. 1 small cigar in the UK market (where it competes with the ST Groups' Café Crème branded cigars), entry is also likely to be reasonably easy, even without an established import/wholesale relationship in New Zealand. With an established cigar product, it is likely that a wholesaler such as Stuart Alexander or an existing distributor such as Gilmours would be able to very effectively promote this product to retailers. This would do away with the need to establish a local network of sales representatives and significantly reduce the costs of entry.

It is estimated that the costs of entry along these lines, with the goal of achieving a reasonable level of ongoing sales, would be in the region of [ ] per sales representative per year, with a reasonable level of sales being achieved within 18 months.

27.4 *De novo* entry

For a company that is not already present in the New Zealand market and which does not have a well established cigar product to offer to the market, to achieve a reasonable level of sales it would be necessary to either:

- form a relationship with an existing importer/wholesaler and invest in promoting the product to retailers; or

- independently establish a network of sales representatives to promote the product to retailers. It is estimated that to achieve a reasonable level of sales, a sales force of between 5-7 sales representatives would be required. In addition, warehousing and related back-office support would be required to support the new business.

It is estimated that the costs to establish an operation with the goal of achieving a reasonable level of ongoing sales would be in the region of [ ] per sales representative per year.

27.5 Summary

For tobacco companies with existing operations in New Zealand, entry into the New Zealand cigar market would face few if any barriers, and the entry costs would be minimal. Similarly, entry costs would not be significant for a cigar manufacturer with an internationally established cigar product. *De novo* entry would require an initial commitment to marketing and promotion (which could be done by the entrant itself or through a local importer/wholesaler). However, once established (after a period of approximately 2 years), the required support would not be any greater than that required by other existing cigar products.

Part V: Other potential constraints

Form for Notice under section 66
Questions 36 to 41

Constraints on Market Power by the Conduct of Acquirers

28 Can acquirers of cigars constrain the merged entity

Countervailing power exists where a supplier faces a buyer with market power or a credible threat of some form of bypass (or in some cases direct importing). In such cases the ability of the merged firm to increase prices may be constrained.

The credible threat posed by the oil companies and supermarkets in New Zealand either to facilitate entry by a cheaper cigar manufacturer or to directly import cigars means that following the Proposed Transaction, prices will still be maintained at competitive levels.

28.1 Oil companies (by-pass)

The worldwide operations of the major oil companies, Shell, Caltex and BP are significantly larger than any cigar manufacturer. In New Zealand, as outlined above, the oil companies account for around [%] of cigar sales in the route trade channel. As such, the cigar purchasing activities of the oil companies represents a significant portion of the sales of the supplier to the end-consumer.

With [%] of the "route trade" accounted for by these companies, a credible threat could be made that if the merged entity sought to raise prices and or reduce the quality of its products, the oil companies could by-pass the merged entity by delisting its product from their shelves. Such an action would have a significant impact on the merged entity's cigar sales and also represents a significant opportunity for an entrant. Effectively, the oil companies could by-pass the merged entity in favour of another supplier by granting it shelf space in the service stations and convenience stores controlled by the oil companies.

The likelihood of this happening is a real constraint on STCG.

28.2 Supermarkets (direct importing)

In addition, due to the sheer volume of product they sell, the supermarkets (Foodstuffs and Progressive Enterprises) are also a potential constraint on the merged entity because of their ability to directly import and launch their own cigars.

In this regard, Foodstuffs, which owns the Pack'n Save, New World and Four Square supermarket chains, has recently started stocking a UK brand of cigarettes, Lambert & Butler. STCG understands that Foodstuffs has made its own arrangements to stock these cigarettes by entering into an exclusive arrangement with the manufacturer, Imperial Tobacco, to obtain supply in New Zealand.

It would be relatively easily for Foodstuff or Progressive Enterprises, or any other large grocery chain similarly to directly import and launch a cigar that is not currently being sold in New Zealand but which is successful overseas (just as Foodstuffs is doing with these Lambert & Butler cigarettes).

The effort required by the supermarket to directly import cigars from one of the many worldwide cigar manufacturers is low and given the emphasis on margins by the supermarkets a likely scenario if the merged entity were to increase its prices.

Foodstuffs is also likely to increase in importance as a channel for cigar manufacturers in the future. Foodstuffs through its Duffy & Finn stores will be the first of the big grocery company to sell a full range of alcoholic drinks, as well as "related products such as cigars and glasses".[50] Foodstuffs has said it planned to open 10 Duffy & Finn stores in the lower North Island by the end of next year - on the same sites as its supermarkets where possible.

[50] See the article: "Foodstuffs opens stand-alone stores to beat spirits ban," dated (21 July 06) located at http://www.foodworks.co.nz/news/newsretgroc.htm

THIS NOTICE is given by ST Cigar Group Holding B.V.

I, Robertus Adrianus Zwarts, Managing Director and Finance Director of ST Cigar Group Holding B.V., am authorised to make this application on ST Cigar Group Holding B.V.'s behalf.

I hereby confirm that:

(a) All information specified by the Commission has been supplied;

(b) All information known to the applicant which is relevant to the consideration of this application has been supplied;

(c) All information supplied is correct as at the date of this application.

I undertake to advise the Commission immediately of any material change in circumstances to the application.

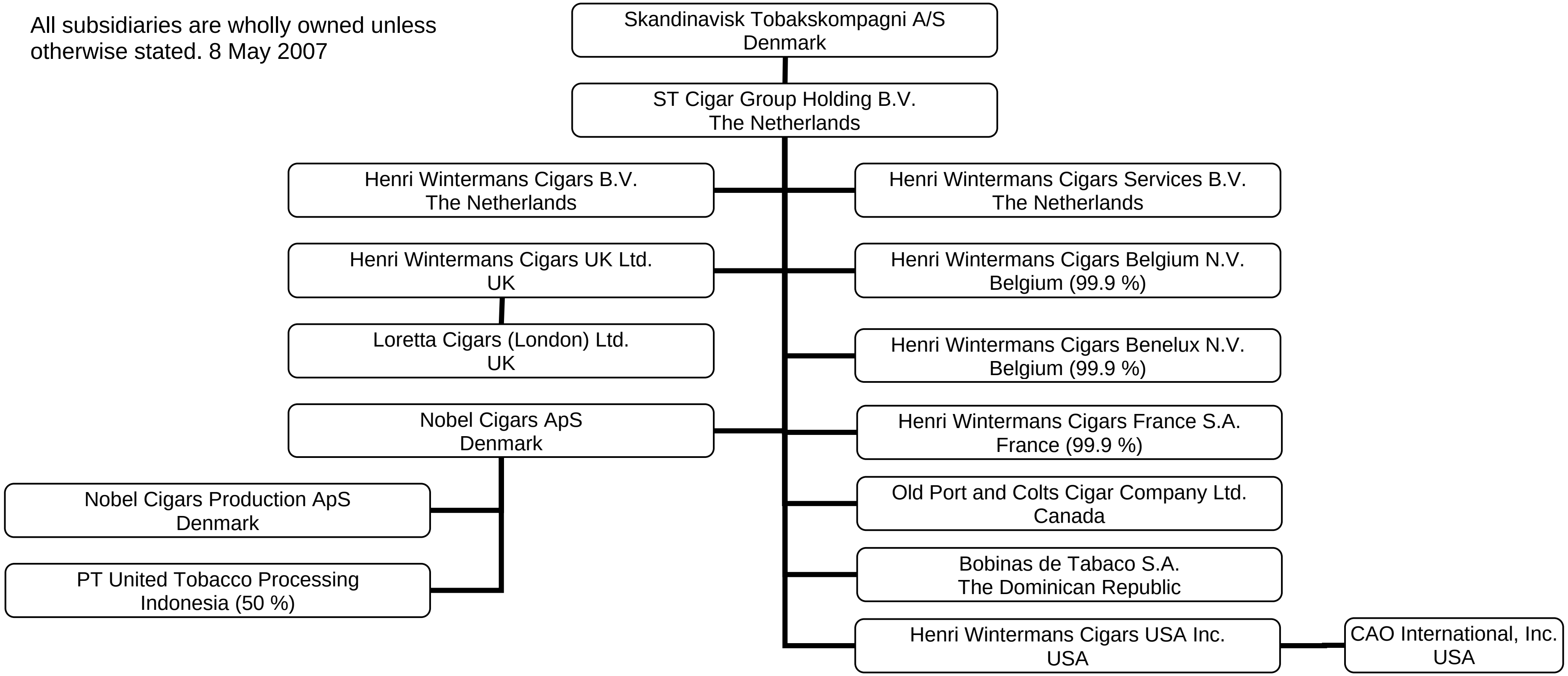
Dated this 10th day of July 2007

________________	________________
Robertus Adrianus Zwarts	Martinus J.P.P Dirkx
Managing Director	Finance Director
ST Cigar Group Holding B.V.	ST Cigar Group Holding B.V.

Annexures to Confidential Notice Seeking Clearance

Confidential Annexure 1: Transaction Agreements

Annexure 2: Corporate structure diagram for STCG



Source: http://www.st.dk/sw760.asp

Annexure 3: STCG brands sold in NZ in 2006

The following STCG brands are sold in New Zealand:

- Corona de Luxe
- Half Corona
- Short Panatella
- Mini Cigar
- Café Crème Regular
- Café Crème Filter
- Café Crème Blue
- Café Crème Aroma

(Source: New Zealand Ministry of Health)

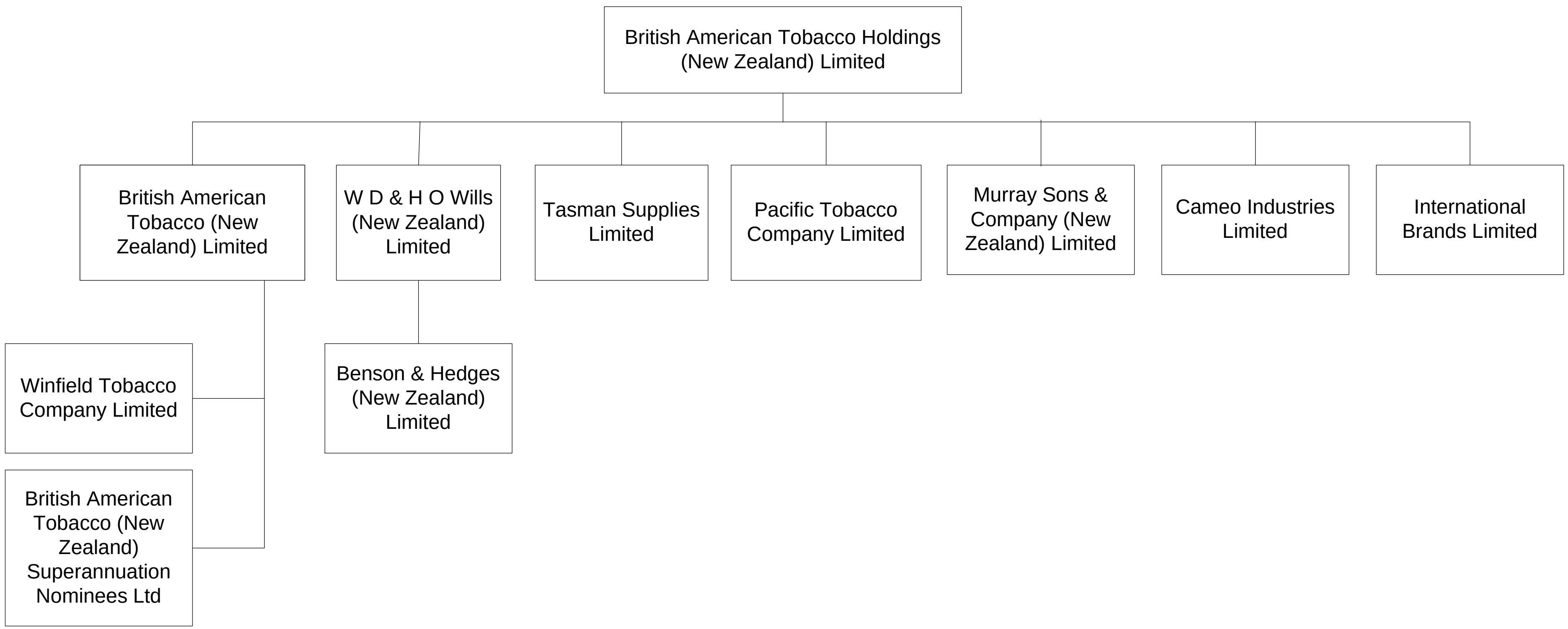
Confidential Annexure 4: Stuart Alexander top 10 customers in NZ for 2006

Number	Customer	Total Unit Sales 2006	Address	Contact	Phone Number
1	[ ]	[ ]	[ ]	[ ]	[ ]
2	[ ]	[ ]	[ ]	[ ]	[ ]
3	[ ]	[ ]	[ ]	[ ]	[ ]
4	[ ]	[ ]	[ ]	[ ]	[ ]
5	[ ]	[ ]	[ ]	[ ]	[ ]
6	[ ]	[ ]	[ ]	[ ]	[ ]
7	[ ]	[ ]	[ ]	[ ]	[ ]
8	[ ]	[ ]	[ ]	[ ]	[ ]
9	[ ]	[ ]	[ ]	[ ]	[ ]
10	[ ]	[ ]	[ ]	[ ]	[ ]

Source: STCG

Annexure 5: Corporate structure diagram for BAT

BAT NZ Group Structure as at 5 March 2004



Annexure 6: BAT cigar brands sold in NZ in 2006

The following BAT brands are sold in New Zealand:

- Corona (Schimmelpenninck)
- Half Corona (Schimmelpennick)
- Panatella (Schimmelpennick)
- Fresco (Schimmelpennick)
- Mini Cigar Mild (Schimmelpennick)
- Mini Cigar (Schimmelpennick)
- Swing (Schimmelpennick)
- Cubero Mild (Schimmelpennick)
- Dunhill Signature Churchill
- Dunhill Signature Corona
- Dunhill Signature Petit Corona
- Dunhill Signature Robusto
- Dunhill Signature Torpedo

(Source: New Zealand Ministry of Health)

Confidential Annexure 7: BAT top 10 wholesale/retail customers in NZ for 2006

Name	'000 sticks	Address
[ ]	[ ]	[ ]
[ ]	[ ]	[ ]
[ ]	[ ]	[ ]
[ ]	[ ]	[ ]
[ ]	[ ]	[ ]
[ ]	[ ]	[ ]
[ ]	[ ]	[ ]
[ ]	[ ]	[ ]
[ ]	[ ]	[ ]
[ ]	[ ]	[ ]
[ ]	[ ]	[ ]
[ ]	[ ]	[ ]
[ ]	[ ]	[ ]
[ ]	[ ]	[ ]

Source: BAT NZ

Annexure 8: New Zealand cigar sales for 2000-2006

Manufacturers	2000	2001	2002	2003	2004	2005	2006
ST	2,268,516	2,415,831	2,530,540	2,866,980	2,938,605	2,906,690	3,047,823
Schimmelpenninck	3,223,640	3,517,265	3,580,915	3,564,425	3,058,392	2,430,769	2,363,494
TVE	0	0	68,880	63,760	42,550	22,615	0
Merged entity	**5,492,156**	**5,933,096**	**6,180,335**	**6,495,165**	**6,039,547**	**5,360,074**	**5,411,317**
Swedish Match	3,811,443	4,030,095	3,694,240	4,066,293	4,195,199	4,440,678	4,247,621
Habanos	27,670	42,938	38,884	52,761	66,527	74,311	134,164
Agio	30,795	54,445	120,918	76,975	92,070	71,320	84,195
Burger & Söhne AG	273,372	179,984	167,617	170,509	130,408	107,487	80,113
Altadis	0	0	0	22,230	19,602	15,779	33,627
Villiger	9,129	12,680	23,794	40,089	46,895	36,893	32,351
Von Eicken	0	700	0	0	43,219	29,250	28,134
Verellen	0	0	0	0	24,509	23,899	22,789
Oettinger	0	0	0	0	12,288	13,764	10,955
Tabaqueria de Filipinas Inc.	0	0	0	0	5,775	5,125	6,100
Miami Cigar and Co	0	12,990	9,649	14,115	12,369	8,312	5,914
Cigarros de Nicaragua, S.A.	0	0	0	0	2,450	1,400	1,075
Carlos Torona	270	383	0	1,591	1,773	1,417	1,048
Fuente & Newman	0	0	0	0	905	761	306
BAT (remaining cigar business)	0	0	0	0	2,022	1,835	232
La Flor de la Isabela	330	388	0	0	0	75	0
Others	76,121	10,932	51,794	0	59,076	9,239	6,365
Total All (except ST, Sch., TVE and SM)	417,687	315,440	412,656	378,270	519,888	400,867	447,368
TOTAL MARKET	**9,721,286**	**10,278,632**	**10,287,231**	**10,939,728**	**10,754,634**	**10,201,619**	**10,106,306**

Source: New Zealand Ministry of Health

Annexure 9: New Zealand cigar market shares for 2000-2006

Manufacturers	2000	2001	2002	2003	2004	2005	2006
ST	23.3%	23.5%	24.6%	26.2%	27.3%	28.5%	30.2%
Schimmelpenninck	33.2%	34.2%	34.8%	32.6%	28.4%	23.8%	23.4%
TVE	0.0%	0.0%	0.7%	0.6%	0.4%	0.2%	0.0%
Merged entity	**56.5%**	**57.7%**	**60.1%**	**59.4%**	**56.1%**	**52.5%**	**53.6%**
Swedish Match	39.2%	39.2%	35.9%	37.2%	39.0%	43.5%	42.0%
Habanos	0.3%	0.4%	0.4%	0.5%	0.6%	0.7%	1.3%
Burger & Söhne AG	2.8%	1.8%	1.6%	1.6%	1.2%	1.1%	0.8%
Agio	0.3%	0.5%	1.2%	0.7%	0.9%	0.7%	0.8%
Altadis	0.0%	0.0%	0.0%	0.2%	0.2%	0.2%	0.3%
Von Eicken	0.0%	0.0%	0.0%	0.0%	0.4%	0.3%	0.3%
Villiger	0.1%	0.1%	0.2%	0.4%	0.4%	0.4%	0.3%
Verellen	0.0%	0.0%	0.0%	0.0%	0.2%	0.2%	0.2%
Miami Cigar and Co.	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Tabaqueria de Filipinas Inc.	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%
Oettinger	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%
BAT (remaining cigar business)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Carlos Torona	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Fuente & Newman	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cigarros de Nicaragua, S.A.	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
La Flor de la Isabela	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Others	0.8%	0.1%	0.5%	0.0%	0.5%	0.1%	0.1%
Total All (except ST, Sch., TVE and SM)	**4.3%**	**3.0%**	**4.0%**	**3.5%**	**4.7%**	**4.0%**	**4.4%**
TOTAL MARKET	**9,721,286**	**10,278,632**	**10,287,231**	**10,939,728**	**10,754,634**	**10,201,619**	**10,106,306**

Source: New Zealand Ministry of Health

Annexure 10: Press Releases regarding Dunhill branded cigars

British American Tobacco PLC BTI

Full Description

Sector: Consumer/Non-Cyclical   Industry: Tobacco View BTI on other exchanges

Back to the Company Overview

British American Tobacco PLC is a holding company that owns, directly or indirectly, investments in the numerous companies constituting the British American Tobacco Group of companies. The Company is an international tobacco company engaged in the sale of cigarettes, cigars, leaf and other tobacco products. It produces and markets a diverse range of brands to suit consumers' preferences, with a particular focus on its four Global Drive Brands (GDBs), which are Dunhill, Kent, Lucky Strike and Pall Mall. Its cigar portfolio includes the handmade premium Dunhill Signed Range. The Company has over 300 brands in its portfolio and its brands are sold in over 180 markets.

On July 19, 2006, the Company's Italian subsidiary sold its cigar business, Toscano, to Maccaferri. In August 2006, British American Tobacco PLC purchased minority interests in its subsidiary in Chile. On May 31, 2006, the Company's associate company, Reynolds American Inc., completed the acquisition of Conwood, a manufacturer of smokeless tobacco products in the United States. British American Tobacco PLC directly owned subsidiaries are British American Tobacco (1998) Limited, B.A.T. International Finance p.l.c., B.A.T Capital Corporation, BATMark Limited, British American Ventures Limited and British American Tobacco QUEST Limited. The Company's subsidiary companies produce approximately 689 billion cigarettes through 52 cigarette factories in 44 countries, and have four separate factories in four countries manufacturing cigars, roll-your-own (RYO) and pipe tobacco. Its companies in South Africa, Sweden and Japan sell Swedish-style snus, a form of smokeless tobacco. It is sold under the Lucky Strike, Peter Stuyvesant and Kool brands.

British American Tobacco PLC operates in Europe, Asia-Pacific, Latin America, Africa and the Middle East, and America-Pacific. The Europe region covers over 40 countries, and the brands include Kent, Dunhill, Lucky, Strike, Pall Mall, Barclay, HB, MS, Parisienne, Rothmans, Royals, Peter Stuyvesant, Viceroy and Vogue. The Asia-Pacific region comprises South Korea, China, and the countries of South Asia, South-East Asia and Australasia. Its brands in the Asia-Pacific region include Kent, Dunhill, Pall Mall, Benson & Hedges, Craven A, Gold Flake, Holiday, John Player Gold Leaf, State Express 555, Vogue and Winifield. The Latin American region covers the countries of South America, Mexico, Central America and the Caribbean, and British American Tobacco PLC brands include Kent, Lucky Strike, Belmont, Carlton, Consul, Derby, Free, Hollywood, Jockey Club and Viceroy.

In the African and the Middle East region, the Company's brands include Kent, Pall Mall, Benson & Hedges, John Player Gold Leaf, London, Peter Stuyvesant, Rothmans and Viceroy. The African and the Middle East region covers South Africa, and the countries of West Africa, Equatorial Africa, the Middle East and North America, and Caucases, Israel, Northern Cyprus and Turkey. The America-Pacific region comprises Canada and Japan, and the Company's brands include Kent, Lucky Strike, du Maurier, Kool, Matinee and Players. The launch of House of Pall Mall in Switzerland included the introduction of four different tobacco products (small cigars, RYO, Superslims and Stix) along with a range of King Size cigarettes.
http://stocks.us.reuters.com/stocks/fullDescription.asp?rpc=66&symbol=BTI

LENGTH: 245 words
HEADLINE: BAT launches Dunhill brand on Belarusian market
BODY: MINSK, Aug 11 (Prime-Tass) -- British American Tobacco (BAT) has launched the Dunhill

brand on the Belarusian market of tobacco goods, the director of the foreign company British-American Tobacco Trading Company, Eduard Gramovich, told a presentation on Thursday.

BAT has presented Dunhill cigars and plans to start selling cigarettes in November 2006.

"Dunhill cigars are image-making products that will strengthen our positions in the premium-segment and facilitate sales of Dunhill cigarettes later on," Gramovich said.

Belarus has become the third CIS country after Uzbekistan and Russia to offer Dunhill cigars.

"This means our company is flexible and eager to respond to demand. Belarus is getting more interested in tobacco goods, especially the premium-segment and cigars," Gramovich said.

Cigars account for 1% to 2% of the tobacco goods market of the country, BAT consumer marketing manager Tatyana Petrova said. Cigars will be sold in top-level stores, restaurants and night-clubs of Belarus that offer the most expensive high-quality services and products. It is also planned to engage cigar experts.

Minsk is expected to have its first cigar boutique in early 2007.

BAT offers six types of handmade cigars from Dominican Republic - Churchill, Toro, Torpedo, Corona, Robusto and Petit Corona.

Recommended selling prices range from 50,000 Belarusian rubles (Br) per one Churchill cigar to about 20,000 rubles per a Petit Corona. End (Br 2,142 - U.S. $1)

NOTES:
PUBLISHER: Prime TASS Business News Agency
LOAD-DATE: August 14, 2006

BusinessWorld
March 8, 2004, Monday

SECTION: Pg. 8
LENGTH: 398 words
HEADLINE: British American Tobacco unveils premium cigar line
BYLINE: Cecille S. Visto
BODY:

An international cigarette company has recently launched its premium cigar line in the Philippines, projecting that Filipinos will shift to cigars from cigarettes as the economy improves and purchasing power strengthens.

The British American Tobacco, which claims to be the world's biggest tobacco group, has introduced the Dunhill Signed Range Cigars from the House of Dunhill here even as Premium Cigar Manager Chris Boon said the Philippines is "not a big cigar market."

"The cigars are the pinnacle of the House of Dunhill. It is really part of the marketing mix to complement the king sized, which is the volume driver... It's a very slow burn process. We don't expect to make money overnight on this," Mr. Boon said.

The cigars as well as the House of Dunhill were formally launched in Hong Kong, Taiwan, Malaysia and Korea.

After the Philippines, two other main Asian markets - Indonesia and Singapore - will also see the entry of the premium cigar line.

Dunhill products are also available in duty-free shops in China.

Cuban cigars dominate the Philippine and other Asian markets in the premium and super premium categories, shipping about 3.5 million sticks this year.

Mr. Boon said Dunhill has exported about 200,000 sticks to Asia since January.

Philippine cigars are not considered competition as these belong to a different category and price point.

Dunhill cigars are manufactured in the Dominican Republic and distributed in Asia from a central hub in Singapore.

Mr. Boon said Makati customers are the main target of the cigar line, thus the cigars will be sold only in cigar outlets in five hotels at the business district.

"Dunhill as a brand in Asia is very successful. I'm sure it will be successful in the Philippines when we get it up and running. What we have at the moment are counterfeit products... and that is not something we want to judge the brand by," Mr. Boon said.

He stressed the company takes the issue of fake products "very seriously," and is taking steps to address it.

Counterfeits are either illegally manufactured here or smuggled in.

British American Tobacco's four international brands, namely Lucky Strike, Dunhill, Kent and Pall Mall, are sold in 180 countries.

Also part of its international brand portfolio are Rothmans, Kool, Benson & Hedges, State Express 555, Peter Stuyvesant, Viceroy and John Player Gold Leaf.

Annexure 11: An example of Pall Mall branded cigars being sold in a convenience store in Switzerland

Annexure 12: Philip Morris “Next” cigarillos product launch brochure and STCG Translation