



Passport

TOBACCO IN ECUADOR

Euromonitor International

October 2011

LIST OF CONTENTS AND TABLES

Executive Summary	1
Tobacco Taxes To Increase in 2011.....	1
Advertisement Bans Have No Deep Impact on General Consumption Trends.....	1
New Law Against Tobacco Close To Being Approved.....	1
Interesting Development of National Cigar Manufacturers	1
Continued Decline Expected	2
Operating Environment.....	2
Legislation	2
Summary 1 Legislation Summary at a Glance	3
Country-specific Legislation:.....	4
Overview.....	4
Minimum Legal Smoking Age	4
Smoking Prevalence.....	5
Table 1 Smoking Prevalence in Adult Population 2005-2010	5
Table 2 Number of Smokers by Gender 2005-2010.....	5
Tar Levels.....	6
Health Warnings	7
Advertising & Sponsorship.....	7
Point-of-sale Display Bans.....	8
Smoking in Public Places	8
Low Ignition Propensity (lip) Regulation.....	9
Electronic Cigarettes.....	9
Litigation	9
Death by Cause.....	10
Table 3 Deaths by Cause 2005-2010.....	10
Taxation and Pricing.....	10
Duty Paid Packet Marks	10
Taxation Rates.....	10
Table 4 Taxation and Duty Levies 2005-2010.....	11
Average Cigarette Pack Price Breakdown.....	12
Table 5 Average Cigarette Pack Price Breakdown: Brand Examples 2010	12
Production/imports/exports.....	12
Table 6 Production/Imports/Exports 2005-2010.....	12
Illicit Trade in Cigarettes	13
Market Indicators.....	13
Table 7 Illicit Trade Estimate of Cigarettes by Volume 2005-2010.....	13
Market Data.....	14
Table 8 Sales of Tobacco by Category: Volume 2005-2010	14
Table 9 Sales of Tobacco by Category: Value 2005-2010	14
Table 10 Sales of Tobacco by Category: % Volume Growth 2005-2010	14
Table 11 Sales of Tobacco by Category: % Value Growth 2005-2010	14
Table 12 Forecast Sales of Tobacco by Category: Volume 2010-2015	15
Table 13 Forecast Sales of Tobacco by Category: Value 2010-2015	15

Table 14	Forecast Sales of Tobacco by Category: % Volume Growth 2010-2015.....	15
Table 15	Forecast Sales of Tobacco by Category: % Value Growth 2010-2015.....	15
Definitions.....		16
Summary 2	Research Sources.....	16

TOBACCO IN ECUADOR

EXECUTIVE SUMMARY

Tobacco Taxes To Increase in 2011

A new proposal to increase taxes for tobacco and other non-essential products has been set in motion by the taxes commission of the Ecuadorian National Assembly. The proposal would change the tax calculation procedures and establish a straight value per stick adding US\$0.07 more to the actual average price per stick. Although there was not total agreement in the Assembly regarding this topic the proposal was expected to be approved in or around March 2011, and once it is applied it will affect the general consumption of tobacco considerably, amongst other things causing people to switch their preference to economy brands or to turn towards illicit trade.

Advertisement Bans Have No Deep Impact on General Consumption Trends

Three years of television and radio publicity bans have not had the impact on smoking prevalence that the government expected; volume sales did not decline by as much as they had hoped and value sales continued to show strong growth. This shows that brand identification and product preferences are strongly established on people's minds and it will be very difficult to change consumption patterns. The new proposal submitted to the Ecuadorian congress purports to be much more effective – not only by raising taxes but in a number of ways, outlined below.

New Law Against Tobacco Close To Being Approved

Since the new legislative project relating to tobacco was submitted in 2009 it has taken a long time to be considered by a specific Assembly commission and given priority. The plan focuses on the following areas: the prevention of smoking amongst children and adolescents; the establishment of treatment centres for tobacco addicts; the provision of areas in which smoking is freely allowed, which amounts to public recognition of smoker's civil rights; the promotion of laws to prevent tobacco consumption; and the monitoring of the results derived from the committee's efforts. This project was expected to be finally approved in the first months of 2011 – around March – and this new law together with the new tax increase will build a difficult landscape for tobacco retail sales, bringing deeper declining consumption trends.

Interesting Development of National Cigar Manufacturers

In view of the constantly increasing prices of tobacco products and especially non-cigarette products, national cigar manufacturers have specialised and improved their quality and presentation formats to reach high standards of competitiveness in the national and international markets. Ecuadorian cigars have been enjoying greater prestige in recent times but now companies are focusing their efforts on giving the products a more sophisticated image. Ecuadorian cigars are having wider distribution through specialised channels such as shopping mall stores, gift stores and tobacconists due to their better prices and wider acceptance.

Continued Decline Expected

Retail sales of tobacco in Ecuador will continue to drop during the forecast period. Tougher anti-tobacco legislation, advertising bans, higher taxes and the increasing health awareness among Ecuadorian consumers are all having an adverse effect on the overall performance of tobacco. Furthermore, tougher smoking bans in public places will make it all the more difficult for smokers to maintain their current levels of consumption.

OPERATING ENVIRONMENT

Legislation

Legislative overview/ FCTC ratification

- Movements and political views against tobacco consumption are rising in all segments of society in Ecuador, and President Rafael Correa's government is taking determined actions to affect this market growth. Stricter tobacco legislation is one of the topics about which the Ecuadorian Assembly together with education main actors, health authorities, consumer organisations and other sectors like the police are all pushing in just one way, even reaching agreements with the tobacco companies.
- The legislative framework is becoming wider and stronger, especially since 2009, and with pending new regulations that will be securely approved in 2011. Consumers will adapt their cultural customs to restrictions on smoking in public places, but the adapting could take some time, since historic customs have always been based on total smoking freedom; it will be difficult to enforce a change in these ingrained habits and expectations – especially in suburbs and rural zones.
- Ecuador subscribed to the World Health Organisation's Framework Convention on Tobacco Control (FCTC) in 2004, and this covenant was ratified by the Ecuadorian Congress in 2006. The ratification of the adoption of the FCTC pre-empted the approval in the National Assembly of the outlawing of smoking in public buildings, as well as an increase in sales tax applied to tobacco products from 98% to 150% during the final quarter of 2008.
- On July 2010 Ecuador also ratified the international agreement called "Convenio Marco de la OMS para el Control del Tabaco" (World Health Organisation Framework Convention on Tobacco Control) with another 26 countries of Latin America. On 15 November at the annual reunion of the Global Smokefree Partnership (GSP) different evaluation processes were established to identify where the country needs to create more smoke-free environments, but related to the other rules that GSP members agreed upon to control smoking prevalence Ecuador has already made positive progress.
- Main results related to FCTC regulations that Ecuadorian authorities highlight are the decreasing negative impact on non-smokers sharing environments with smokers. Although it is too difficult to measure these results, many people see the benefit, and also especially public offices have completely banned smoking from their buildings; because of this and other less visible control consequences, sales have been clearly affected in restaurants, bars, and every public building (civil register, government banks, etc).
- The National Council on Narcotic Drugs and Psychotropic Substances (CONSEP – Consejo Nacional de Control de Sustancias Estupefacientes y Psicótropicas) is the main national institution dedicated to the control of tobacco consumption. CONSEP is in charge of applying specific tobacco-related regulations and controls; it has a governmental figurehead supported by a central budget and with influence on taxes and international trade control operations as well.

- The Interagency Committee on Smoking Control is the most important specific anti-tobacco organisation in Ecuador, even working closely with the National Assembly on the new law. This organisation is composed of representatives from health and educational organisations such as the Ministry of Health, Ministry of Education, The Pan-American Health Organisation (PAHO), the Ecuadorian Red Cross and the National Health Council (Conasa), amongst others.
- The Provincial Department of Education through the Department of Guidance and Student Welfare (DOBE) compliments a strong body intended to build a multidisciplinary committee devoted to smoking prevention and control. The committee formed by these three institutions established a national plan for the prevention and control of tobacco for the period between 2008 and 2011, el Plan Nacional de Prevención y Control de Tabaquismo.
- The plan focuses on the following areas: the prevention of smoking amongst children and adolescents; the establishment of treatment centres for tobacco addicts; the provision of areas in which smoking is freely allowed, which amounts to public recognition of a smoker's civil rights; the promotion of laws to prevent tobacco consumption; and the monitoring of the results derived from the committee's efforts.
- A new proposal for anti-smoking legislation, la Ley Organica Integral para el Control del Tabaco, was submitted to the National Assembly by a key member of the Ecuadorian health commission, Dr Carlos Velasco in 2009 but the Commission was not able to formally discuss the proposal until the end of 2010. Work on the proposal was expected to resume in January 2011 and to be approved a couple of months later.
- 2011 will be a key year for legislative development in Ecuador, given the anticipated approval of the reforms presented in the Assembly since 2009. Approval of the new reforms will mean deeper restrictions on both smoking in public places and smoking promotion compared to what is currently in effect and shown in the Summary table below for 2010.
- The project extends the ban on smoking in workplaces such as offices or public agencies or private business, factories, industries, malls, hotels, restaurants, cafés, bars, clubs, art clubs and entertainment centres, and places where competitive sports, recreational or cultural activities take place, even including fairs. The proposed new rules would seek to declare 100% smoke-free public spaces and private enclosed places of work and public access, and particularly public and private spaces, indoor or outdoor, which administer or provide health care and educational activities at all levels.
- 100% smoke-free public spaces and private enclosed places should be well marked and smoking is prohibited in such places throughout the country on a national level.

Summary 1 **Legislation Summary at a Glance**

A	B	C	D	E	F	G	H	I
FCTC ratification (year)	Minimum smoking age (years)	Tar cap (max mg)	Verbal pack health warning	Graphic pack health warning	Advertising ban or restriction	Retail point-of-sale restrictions	Public smoking ban	Restaurant/bars/public smoking ban
2010	18	No	Yes	No	Yes	No	Yes	No

Source: Euromonitor International

COUNTRY-SPECIFIC LEGISLATION:

Overview

- The constitution of Ecuador, recently rewritten in 2007, addresses the smoking problem in Article 46, which puts the state in charge of the “protection against the use of narcotics, psychotropic substances and alcohol and other substances harmful to health and development.”.
- The Reformatory Consumer Defence Law prohibits smoking in public places, including restaurants, airports, theatres, elevators, stadiums, public offices, banks, supermarkets, hospitals, schools, shopping malls, public transportation and places of worship, amongst others. It also prohibits designated smoking areas in public non-smoking areas, with exceptions for airports and other transport terminals. The only places where tobacco use is currently permitted are bars, nightclubs and casinos, but these locations must have a specific ventilation system in order to reduce the level of ambient residual tobacco smoke. Those found in violation of this law will incur a US\$50 fine. The Political Constitution of the Republic enforces the civil right to a healthy environment, including the right to enjoy smoke-free workplaces and other areas. The Reformatory Organic Consumer Defence Law forced the Ministry of Health to issue new regulations for tobacco consumption such as health warnings and education programmes regarding the dangers of tobacco consumption.

Minimum Legal Smoking Age

- The minimum legal smoking age in Ecuador is 18 years old, which is considered as the entrance to adulthood for citizens and is the age at which they are first legally allowed to drink alcoholic beverages, to participate in politics and gaming, travel abroad, etc. It is the age at which, normally, teenagers leave high school and start going to the university. Purveyors of all kinds of tobacco products are strictly banned from selling their products to people under the age of 18, and advertisements in all distribution and publicity channels must highlight this rule.
- The legal smoking age remained the same throughout the review period and is not expected to change over the forecast period.
- A large number of independent small grocers on the outskirts of Ecuador’s major cities and in the country’s more remote rural areas willingly sell cigarettes to minors, as it is still commonplace for parents to send their children to the shop to purchase tobacco on their behalf. Control is not so clear and there is a cultural factor as well that shows young consumers as normal. Police and municipal authorities in charge of controlling sales to under-age consumers have no strong plans to prevent teenage consumption. However, retailers that flout the law are liable to incur fines and other penalties. In the case of ongoing infringements, the store can even be closed for a period of time.
- A survey conducted by the Tobacco Control Program in conjunction with the Ministry of Public Health and the Second World Meeting on Youth Tobacco revealed that in 2001 the average age for a youngster to start smoking was 13 years, whilst in 2008 the age had decreased to 12. Moreover, actual trends for 2010 show that in certain zones such as the Amazonia region of the country, children start smoking at about 11 years old.
- Cities like Guayaquil have seen an increased rate of smoking amongst adolescent teenagers, rising from 7% in 2001 to 14% in 2007. Similarly, in Quito, 13% of young people were recorded as smokers in 2001 and the percentage increased to 16% in 2007. The same survey revealed that at least 52% of the total young smoker population in the country had tried smoking at least once or a couple of times, amongst them an important 40% of female possible smokers. This index is higher in rural areas and especially in the northern part of the

country and in the east where young people considered as smokers accounted for 24% of the total youth population.

Smoking Prevalence

Table 1 Smoking Prevalence in Adult Population 2005-2010

% adult population	2005	2006	2007	2008	2009	2010
Adult Male Population	21.5	21.6	21.8	21.9	22.2	22.3
Adult Female Population	10.5	9.5	9.5	9.5	9.5	9.6
Total Adult Population	15.9	15.5	15.6	15.7	15.8	15.9

Source: Euromonitor International from national statistics

Note: Definition of adult smokers: daily smokers who are older than the minimum legal smoking age in the country

Table 2 Number of Smokers by Gender 2005-2010

'000	2005	2006	2007	2008	2009	2010
Male No of Smokers	851.7	874.3	897.6	916.0	944.4	967.6
Female No of Smokers	423.0	389.7	396.7	403.9	409.5	423.4
Total No of Smokers	1,274.7	1,264.0	1,294.3	1,319.9	1,353.9	1,391.0

Source: Calculated using above % prevalence and Euromonitor International Country Population Data

- Smoking prevalence has remained stable at 16% of the legal smoking population since 2000 in spite of the rising costs of cigarettes, taxes and anti-smoking campaigns. The large youth population entering the legal smoking population is the main source for the stability of smoking prevalence amidst threats to the industry.
- Focusing on new consumers involved in the rising prevalence rates, the lifetime prevalence (first use) occurred in 46% of high school students and this effect was present in 58% of young people living in the Andean region, whilst in the Amazon it was 56%.
- Legislation has helped to reduce smoking prevalence amongst young people from middle- and high-income socioeconomic levels where educational programs have arrived to give smoking a negative image for the young people in those segments. But other control actions and advertisement banning have not proved to be so effective in massive terms. The main factor affecting smoking prevalence is the price, and sales of some brands (especially imported brands such as Lucky Strike) have suffered for that reason more than any other.
- Higher smoking rates are concentrated in rural areas and border cities such as Tulcan, Huaquillas and Esmeraldas. Prevalence in central cities is decreasing, but it is not enough to reflect an overall decrease in the country's smoking rates. Migration helps to raise the number of people who smoke, especially when students from provinces go to university in big cities, so internal migration is apparently a factor that contributes to increased smoking rates in big cities. Illicit trade also contributes to this phenomenon.
- The government has consistently engaged in public health campaigns. Those campaigns have been much more effective with young people than with adult consumers. However, since the campaigns are focused more on prevention than on promoting smoking alternatives or incentives to quit smoking, smokers are not influenced to stop buying as a result of being exposed to such campaigns. The Ministry of Health, in collaboration with other governmental

and private institutions, has recently launched a campaign designated as a “war against tobacco”, but its effectiveness with adult smokers so far remains doubtful, and it may be necessary to wait for a few years to see if any progress results from it.

- Social acceptance of smoking is clearly declining through most health-conscious and/or educated societal population segments and negative factors associated with smoking are continuously highlighted in press announcements. As a result, a high percentage of smokers accept that the smoking is unhealthy and increasingly not socially acceptable, but these are not sufficient reasons to force them to stop.
- Prevalence of female smokers in general follows the same trend as that of male smokers with a lesser degree of annual variation. Male prevalence was about 22% and female prevalence was close to 9% in 2010. Female rates have increased especially in the main Ecuadorian cities of Quito, Guayaquil and Cuenca, as women turn to smoking, which is traditionally viewed as a masculine habit, to express the growing equality which they currently enjoy in Ecuador.
- The market for nicotine replacement therapy (NRT) products is very small in Ecuador, and sales of such products are especially associated with high-income consumers who are mostly influenced by medical recommendations or aesthetic purposes. These products are also not widely accepted due to the fact that their unit prices are prohibitively expensive for the majority of Ecuadorian consumers and also because NRT products are not very well known in the country.
- Electronic cigarettes are becoming a small, but growing alternative to traditional cigarettes. However this trend is incipient and limited to small groups of upper income urban consumers who have the financial means and access to these products.
- Smoking rates will not significantly influence market size, which in Ecuador depends on other main factors such as price, illicit trade movement and even product developments, and taking into account that growing smoking prevalence is due directly to population factors. Cigarettes is expected to suffer a reduction in retail volume at a 2% CAGR during the forecast period, whilst increases in unit prices are expected to mitigate losses in sales value and profit as a result of the reduction in overall volume consumption of tobacco.

Tar Levels

- There is no actual legislation controlling or limiting tar levels in cigarettes in Ecuador, and INEN (Instituto Ecuatoriano de Normalización), the institution that provides guidelines for product presentations, has no specific regulations regarding tar levels either. Tobacco companies are not required to specify tar levels on their packaging, although they do follow international standards in terms of setting tar levels for the various different brands marketed.
- High-tar cigarettes is the most popular category of cigarettes in Ecuador, reflecting the local consumers' preference for a strong smoke. However, there is an increasing trend towards mid-tar cigarettes, low-tar cigarettes and ultra low-tar cigarettes due to consumers switching to less harmful cigarettes as health awareness rises.
- The most recently proposed anti-tobacco regulation did not include any restrictions on tar levels; this topic has not even been discussed, even by the anti-tobacco organisations. As most people do not know about the difference between tar levels, consciousness about this topic does not exist and tar levels are not expected to be considered or included in any new regulations.

Health Warnings

- The main warning included in cigarette packages and shown on all main brands is “Fumar causa cancer” (smoking causes cancer). These messages must occupy 40% of the back of the packaging. Additionally, they must be printed in size 28 Helvetica font for packs of 20 and size 26 Helvetica font for packs of 10. This message is chosen rather than others related to impotence or death legends.
- Packaging of cigarettes and other tobacco products are also required to display a general warning: “Venta prohibida a niños, niñas y adolescentes. Ministerio de Salud Publica del Ecuador”, which translates as “Sale prohibited to boys, girls and minors. Ecuadorian Ministry of Public Health”. The warning must be printed in capital letters, in size 10.8 Helvetica font, and must be printed using colours that contrast with the background colour of the packaging.
- In 2010 the Ministry of Health proposed advertising an additional warning that includes the image of a naked man, regretfully looking to the ground, with a hand down covering his genitals. The photograph is accompanied by phrases such as “smoking reduces your physical and sexual performance, “for you and your partner, stop smoking” or “smoking leaves you impotent.”. Consideration of this proposal was delayed until the end of the year and there are no clear perspectives about whether it will be included in the final legislation.
- For the moment there are no graphic images of diseased organs, etc on cigarette packs, but a proposal of 2009 delivered to the Assembly which is waiting for official discussion also advocates the use of such images along with the printed health warnings on cigarette packs.
- As previously stated, graphic images do not yet appear on cigarette packing, and reactions or results related to written health warning campaigns have not been so successful. However strong an impact such warnings may have on potential smokers or on the general society’s view of the product, long-time adult smokers’ consumption is strongly ingrained and is not affected by such warnings.
- New proposed warning images related to diseased organs tend to have a stronger impact on cigarette sales. Especially taking into account experiences in other countries and the psychological and marketing influence such images will have, they would be expected to be more effective than written messages.

Advertising & Sponsorship

Advertising through media (television, radio, billboards, consumer press, trade press, cinema, etc)

- The Health Ministry has been developing actions to control promotion of tobacco products in different media channels, especially on television. The organic law for consumer defence, La Ley Organica Reformatoria de Defensa al Consumidor or the Reformatory Organic Consumer Defence Law was amended in 2006. Written press still can show tobacco advertisements but only as long as the newspaper, magazine or other related media certifies that at least 75% of its readers are adult public.
- The regulations restricting the advertising of tobacco products in the media were issued in December 2008. The law prohibits radio advertising of tobacco products between six o’clock in the morning and nine o’clock in the evening and bans television advertising of tobacco products altogether. All radio advertising must clearly state the dangers of smoking. In addition, the law prohibits any sort of outdoor advertising for tobacco products within 200m of a school or other educational institution.

Advertising through retail point-of-sale

- Ecuadorian law does not specify any restrictions on advertising at points of sale. Independent small retailers are used to showing cigarettes on a little shelf over the cash till and this type of POS display has no restrictions apart from the requirement that there be a message stating that sales of tobacco products to underage people are prohibited; forecourt retailers have a similar structure including a few cigarette boxes next to the sweets places and sometimes small graphic advertisements with just the name of the brand – not including pictures or additional logos or images, just very simple papers. The required statement that selling tobacco products to minors must appear in all such outlets as well.
- Advertising of tobacco products in restaurants is almost non-existent; restaurants take much more care about publicising cigarettes or having product displays. Although there is still no regulation for this segment of public places, regulations pertaining to restaurants are considered in the new legislation that was sent to the Assembly. However, for the moment just some restaurants (mid- and high-income level) have voluntarily set aside separate areas for smokers. Regarding bars and that type of public place, prices are the principal factor to consider, and these are very high at such places – sometimes amounting to 200% of the original price. This is especially true of cigarettes sold in single units. Advertising in these places is more clear and unburdened by restrictions.

Sponsorship of sporting/music events

- Cigarettes can be advertised through the print media, but only in adult content magazines, the sale of which is already restricted in Ecuador to those above 18 years of age. In addition, cigarettes can be advertised at concerts and other events, but only if there is an age limit imposed on entry, with attendees required to be at least 18 years old.
- Tobacco products' sponsorship for any type of sports, educational or cultural event in Ecuador is prohibited. Also, external publicity for tobacco products on streets and in residential zones is prohibited.

Distribution of tobacco branded gifts (eg cigarette branded lighters, pens, etc)

- There are not many branded gifts offered, in general, during events or inside public places. This practice is not common anymore in the country, although brands like Lark used to do this in major ways in the past, especially at concerts or mass events.
- Aside from discarding the practice of distributing branded gifts, Ecuadorian companies do not pursue any other direct tobacco marketing strategies either, mainly due to the social concern about the habit.

Point-of-sale Display Bans

- Tobacco advertising at points of sale continues to be common in Ecuador. Forecourt retailers, bars and restaurants are the typical points of sale to be sponsored by tobacco companies. Many retailers charge tobacco companies an annual fee to display advertising material inside their establishments. Independent small grocers also receive a large amount of free tobacco advertising material and tobacco brand displays, particularly the smaller operators in the channel. Tobacco companies tend to be focusing their advertising campaigns more on points of sale as regulations towards mass media advertising become tougher and more restrictive.

Smoking in Public Places

- La Ley Organica Reformatoria de Defensa al Consumidor or the Reformatory Organic Consumer Defence Law, which was amended in 2006, prohibits smoking in all public places,

including restaurants, airports, theatres, elevators, stadiums, public offices, banks, supermarkets, hospitals, schools, shopping malls, public transportation and places of worship, among others. The only public places currently exempt from this law are bars, nightclubs and casinos. While airports and other transport terminals are allowed to provide designated smoking areas, provided that these have separate ventilation so that non-smokers are not forced to breathe second-hand or residual cigarette smoke, this option is not available to other public locations.

- All places defined as smoke free areas must place graphic and verbal signs clearly stating they are 100% smoke free.
- Any violation of the restriction on smoking in public places will incur a fine equivalent to the minimum monthly wage. A second offence will incur a fixed penalty of US\$436.
- The prohibition on smoking in public places has had a positive impact in terms of reducing the consumption of cigarettes in Ecuador. The prevalence of smoking has fallen in Ecuador as smokers have fewer places in which to light up.
- There have been attempts to ban cigarettes from bars and nightclubs in Ecuador. However, smoking has remained legal in these types of establishments as many bars and clubs make significant profits on the sale of packs of cigarettes by selling them for up to 400% higher than the suggested retail price.
- It will take bars and other such places a considerable amount of time to adapt to the new regulations coming in 2011. The main obstacle, or the most difficult factor related to the tighter restrictions on smoking in public places is getting customers into the frame of mind to obey the order and listen to public recommendations. So first the owners will take some time to accept this and then they must convince their customers to follow the rules as well, without having disagreements.

Low Ignition Propensity (lip) Regulation

- There are no laws in Ecuador regarding low ignition propensity nor is any proposal to implement LIP in the country on the horizon.

Electronic Cigarettes

- Electronic cigarettes arrived in Ecuador in 2008, and have been increasingly accepted by the mid-high and high-income population segment, especially in retail channels such as pharmacies, in bazaars and through the internet, where importers of these products offer them directly to companies' employers via corporate accounts. The kit you can find on the Ecuadorian market costs US\$110 and can last for 150 blasts.

Litigation

- There has been no litigation directed against tobacco companies so far in the Ecuadoran legal jurisdiction. Ecuadorans generally believe that consumers are responsible for their own purchasing decisions and as such tend not to blame tobacco companies for the illnesses or diseases suffered by smokers as a result of their habits. It is unlikely that this perception will change over the forecast period, making the threat of private legal action against tobacco companies insignificant.
- There was no attempted or threatened litigation against tobacco companies in Ecuador during the review period. As tobacco in Ecuador is dominated by only one company group, Tabacalera Andina SA, a subsidiary of Philip Morris International Inc, it is likely that Andina would be the target of any possible class action litigation. However, it is considered highly

unlikely that any litigation against Andina or any other tobacco company will take place over the forecast period.

Death by Cause

- In Ecuador main diseases related to tobacco consumption are directly related to the whole respiratory system and include throat afflictions and lung diseases. It is estimated that the main cause of at least 4,000 deaths per year in Ecuador can be directly attributed to tobacco. Heart diseases resulting in death increasing in 2010, and it is necessary to know that bad alimentary customs are directly associated with this phenomenon. Heart disease, along with the lung cancer, deaths from which also increased in 2010, are the main consequences of smoking as it relates to people less than 60 years of age.
- Death by cause growth could be taken as directly related to the proportional trend of the smoking population movement, except for the respiratory diseases index, which is seeing lower numbers perhaps because of declining consumption frequency. Death rates for diseases of cancer doubled in 29 years. According to the National Tumor Registry of the Society against Cancer (Solca), in 1980 there were only 6% of cancer deaths in Ecuador, whilst in 2009, the year for which figures are the latest statistics, 14% of deaths were associated with cancer.
- Presence of smokeless tobacco in Ecuador is too insignificant to have any impact on the rate of respiratory diseases or deaths caused by such diseases.

Table 3 Deaths by Cause 2005-2010

Deaths per 100,000 inhabitants	2005	2006	2007	2008	2009	2010
Deaths from respiratory diseases	36.9	36.2	36.3	35.7	35.5	34.2
Deaths from heart disease	19.2	19.1	19.21	19.4	19.4	19.5
Deaths from lung cancer	4.7	4.7	4.8	4.9	4.9	5.0
TOTAL	60.7	60.0	60.3	60.0	59.9	58.7

Source: Official statistics

TAXATION AND PRICING

Duty Paid Packet Marks

- There is no duty paid packet registered in Ecuador.

Taxation Rates

- Tobacco products in Ecuador are included in the special consumption basket that is a tax classification for non-essential products massively purchased such as alcoholic beverages, cars, segments of clothes, etc. Through 2010 all such products must pay an ICE (Impuesto a los Consumos Especiales) or special consumption tax of 150% calculated on the basis of a reference price taken from the most sold brand in the country. Servicio de Rentas Internas (SRI) is the taxing authority that establishes these parameters, and the agency reviews the rule approximately every three years. A presumptive margin of 25% is then added to the base price in order to account for the commercial price premium, creating the taxation base price to which the 150% special consumption tax is applied. If the commercialisation margin is in fact

higher than 25%, the taxation base price should be calculated by deducting the sales taxes and special sales tax from the base taxation price, and then adding the 150% consumption tax.

- Tobacco products also are assessed an IVA (value-added) tax of constant 12% based on the final price (Tax Inclusive Retail Sales Price or TIRSP), which is a standard category of tax that tobacco products must pay on retail price consideration. There is no maximum unit price set in Ecuador; the market competitiveness determines prices. However, since in Ecuador the company group affiliated with Philip Morris owns a monopoly of the main brands there is no a competitive landscape to consider when it comes to pricing.
- Tax reviews are based mainly on government needs; the tax authority has not established a period of standard reviews for the taxes, especially for ICE. General considerations about ICE are directly related to economic policies proposed by the Ministry and are subjected to other sectors (for example, the health sector) where the amount of taxes is inverted, so tax reviews are not always related to the tobacco market movement or addressed by law, but related to public welfare purposes.
- The impact of tax (thus price) increases has been the most important of all factors that have influenced the tobacco market; the continuous price growth in recent years of the review period have produced the market exit of some imported brands such as Kool, Lucky Strike, and others considered traditionally accepted before, especially in restaurants and bars where the price increases have been felt deeper. The impact also has been seen in new smokers trends and changes of preference related to price platforms, where people that used to smoke Marlboro changed to the Líder brand, for example.
- Taxes on cigarettes are higher in Ecuador than they are in neighbouring countries. The ICE charge on a pack of cigarettes in Ecuador comes to US\$0.91 whilst in Colombia and Peru it is US\$0.41 and US\$0.50, respectively. With the new tax increase, the ICE charge would be \$1.40 per pack, so this clearly a tax increase that could easily stimulate illicit trade on Ecuador. It is estimated that the country illicit trade accounted for 31% of cigarette volume sales in 2010, mainly coming from the two border countries.
- As result of the price rising and the tax growth over certain periods the most common consequence is that consumers change consumption habits from high price platform to mid-priced and economy brands, and brands like Lark, Líder and one of the newest in Ecuador – Philip Morris –have benefited from this trend.
- In the last months of 2010 a new tax charge for ICE was proposed by some government sectors in order to help finance the health budget as public policy. If the proposal were adopted it would mean an increase in the price amounting to US\$0.07 per cigarette stick, representing an increase of 63.3% per stick for brands such as Líder and up to 200% for the lowest priced brand, which corresponds to an increase of US\$0.03 per cigarette. The intention is to establish an additional straight ICE tax of US\$0.07 per stick sold instead of having a continuous percentage proportional base for tax calculation.
- This new proposal has been discussed by the government bureau and the tax authorities and was expected to be approved by March 2011 and immediately applied because it will be the main source of finance for the upcoming health plan development, the need for which was declared an emergency some time ago.

Table 4 Taxation and Duty Levies 2005-2010

	2005	2006	2007	2008	2009	2010
Specific consumption tax (% msp)	98.00	98.00	98.00	98.00	150.00	150.00

VAT/sales tax (%)	12.00	12.00	12.00	12.00	12.00	12.00
-------------------	-------	-------	-------	-------	-------	-------

Source: SRI (Servicio de Rentas Internas)

Average Cigarette Pack Price Breakdown

- Around 66% of the total price for each cigarette is made up of tax, considering 150% ICE applied to the msp and 12% VAT tax factored into the retail selling price.
- The original farmer that works directly with the agricultural commodity receives US\$2 per kilo sold of gross product, so it is estimated that farmers in general receive approximately 9% of the final price for which the cigarette is sold. Then the manufacturer receives a percentage of 18% after adding the final value on it, so the production percentage in total is about 27% of the final price.
- Usually manufacturers increase the price at the beginning of each year, arguing that incremental production cost increases and tax increases influence the market. Considering this, a usual price increment per year of about US\$0.20 for premium brands, US\$0.15 for mid-priced brands and US\$0.10 for economy brands has been the rule for last decade. It is also necessary to consider speculation, mainly from public entertainment places and small grocery stores that are used to putting their own prices on the market depending on what extra services or products they provide to the customer. In general, prices are inflated by these activities more than by the normal pricing strategies coming from the manufacturer.

Table 5 Average Cigarette Pack Price Breakdown: Brand Examples 2010

P = 'price' in US\$

	Price	Premium Marlboro %	Price	Mid- priced Lark %	Price	Economy Lider %
Manufacturer	0.72	28.8%	0.64	29.1%	0.50	29.4%
Distributor	0.07	2.8%	0.05	2.4%	0.03	2.0%
Retailer	0.09	3.7%	0.07	3.3%	0.05	2.7%
Retained	0.88	35.3%	0.76	34.7%	0.58	34.1%
Specific consumption tax (% msp)	1.35	54.0%	1.20	54.6%	0.94	55.2%
VAT/sales taxes	0.27	10.7%	0.24	10.7%	0.18	10.7%
Total tax	1.62	64.7%	1.44	65.3%	1.12	65.9%
Total	2.50	100.0%	2.20	100.00%	1.70	100.0%

Source: SRI (Servicio de Rentas Internas)

Notes: Based on a pack of 20 domestically produced cigarettes purchased in Quito in 2010. The specific consumption tax is applied as 150% of the taxable base (Manufacturer Selling Price (msp) marked up by the 25% Commercialization Margin). 12% VAT is applied to the total combined value of the retained value and specific consumption tax. Figures may not sum up to 100% due to rounding.

PRODUCTION/IMPORTS/EXPORTS

Table 6 Production/Imports/Exports 2005-2010

million sticks	2005	2006	2007	2008	2009	2010
Cigarettes - Production	3,479.0	3,534.0	3,547.0	3,393.0	3,325.0	3,098.0
Cigarettes - Import	104.5	123.0	173.1	96.5	117.0	101.6

Cigarettes - Export	87.8	90.0	231.2	160.1	177.6	144.7
---------------------	------	------	-------	-------	-------	-------

Source: Euromonitor International from national statistics

- According to Tanasa, the main manufacturer and buyer of tobacco in Ecuador, 2,200 hectares are cultivated in Ecuador, where 1,790 hectares are planted in Guayas, 320 in Los Ríos and 90 in El Oro. For every hectare of Burley tobacco planted between 2,100 and 2,200 kilos of tobacco are collected, with a price of US\$1.90 to US\$2.00 per kilo.
- Production for 2010 arrived at 3.0 billion cigarette sticks, representing a 12% decline compared to 2009 production. The relation between farmers and manufacturers is highly solid, giving stability to the prices.
- Local producer Tabacalera Andina, which is part of the Philip Morris group, produces popular brands such as Lider, Lark, Marlboro, Belmont, and Philip Morris, accounting for more than 90% of licit cigarettes in Ecuador. Philip Morris Group provides economic incentives and technical support to Ecuadorian tobacco growers, and in return the tobacco growers have an agreement with Philip Morris to provide tobacco crops at a fixed price.

Illicit Trade in Cigarettes

- Illicit trade in Ecuador is caused mainly by the higher prices in the national market, which increases demand for illicit products, and also by demand for imported but less expensive access to imported products such as Cuban cigars and different types of tobacco coming from Colombia and Central America. It is estimated that contraband accounts for approximately 31% of the total volume sales of cigarettes, with the border cities such as Tulcán in the north and Huaquillas in the south as entry points for these kinds of products. This percentage has only grown since the last tax reforms were adopted in the country. Contraband comes by land over borders where there is inefficient control, most often hidden on fruit trucks – especially those coming from Colombia.
- Tax hikes are the main reason for illicit trade growth in 2010 and with the scheduled tax review (and expected increase) in the first months of 2011 illicit trade is expected to increase more and people will be tempted to look for contraband cigarettes sold through illicit distribution channels such as open markets.
- Main efforts to control illicit trade are based on police operations and sometimes the customs house develops operatives to help prevent the illegal entrance of products, but to date such efforts have not been sufficient, for example, to control corrupt import operations, especially contraband coming into the country by land. There are no apparent plans in the works – governmental or otherwise – to improve these controls and change the actual situation.

MARKET INDICATORS

Table 7 Illicit Trade Estimate of Cigarettes by Volume 2005-2010

million sticks	2005	2006	2007	2008	2009	2010
Legal sales	3,307.1	3,116.9	2,749.0	2,931.8	2,872.9	2,822.5
Illicit trade	1,133.0	1,112.4	1,170.4	1,227.0	1,163.5	1,276.2
% penetration of illicit trade	25.5	26.3	29.9	29.5	28.8	31.1
Actual consumption	4,440.1	4,229.3	3,919.4	4,158.8	4,036.4	4,098.7

Source: Euromonitor International from official statistics, trade associations, trade interviews

MARKET DATA

Table 8 Sales of Tobacco by Category: Volume 2005-2010

	2005	2006	2007	2008	2009	2010
Cigarettes (million sticks)	3,307.1	3,116.9	2,749.0	2,931.8	2,872.9	2,822.5
Cigars (million units)	0.1	0.2	0.2	0.2	0.2	0.2
Smoking Tobacco (Tonnes)	0.6	0.6	0.6	0.6	0.6	0.6
Smokeless Tobacco (Tonnes)	-	-	-	-	-	-
Tobacco (Not calculable)	-	-	-	-	-	-

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

Table 9 Sales of Tobacco by Category: Value 2005-2010

US\$ million	2005	2006	2007	2008	2009	2010
Cigarettes	229.8	235.8	228.4	255.7	279.9	290.4
Cigars	0.3	0.3	0.3	0.4	0.4	0.4
Smoking Tobacco	0.2	0.2	0.2	0.2	0.2	0.2
Smokeless Tobacco	-	-	-	-	-	-
Cigarettes Including RYO Stick Equivalent	229.8	235.8	228.4	255.7	279.9	290.4
Tobacco	230.3	236.3	228.9	256.3	280.5	291.0

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

Table 10 Sales of Tobacco by Category: % Volume Growth 2005-2010

% volume growth	2009/10	2005-10 CAGR	2005/10 TOTAL
Cigarettes	-1.8	-3.1	-14.7
Cigars	-5.2	1.3	6.8
Smoking Tobacco	-0.4	-1.2	-5.8
Smokeless Tobacco	-	-	-
Tobacco	-	-	-

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

Table 11 Sales of Tobacco by Category: % Value Growth 2005-2010

% current value growth	2009/10	2005-10 CAGR	2005/10 TOTAL
Cigarettes	3.8	4.8	26.4
Cigars	1.2	7.1	40.9

Smoking Tobacco	1.1	3.7	19.9
Smokeless Tobacco	-	-	-
Cigarettes Including RYO Stick Equivalent Tobacco	3.8	4.8	26.4
Tobacco	3.8	4.8	26.4

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

Table 12 Forecast Sales of Tobacco by Category: Volume 2010-2015

	2010	2011	2012	2013	2014	2015
Cigarettes (million sticks)	2,822.5	2,700.6	2,630.1	2,571.7	2,535.5	2,501.7
Cigars (million units)	0.2	0.2	0.1	0.1	0.1	0.1
Smoking Tobacco (Tonnes)	0.6	0.6	0.6	0.6	0.6	0.5
Smokeless Tobacco (Tonnes)	-	-	-	-	-	-
Tobacco (Not calculable)	-	-	-	-	-	-

Source: Euromonitor International from trade associations, trade press, company research, trade interviews, trade sources

Table 13 Forecast Sales of Tobacco by Category: Value 2010-2015

US\$ million	2010	2011	2012	2013	2014	2015
Cigarettes	290.4	280.6	274.3	268.7	265.4	262.4
Cigars	0.4	0.4	0.4	0.4	0.4	0.4
Smoking Tobacco	0.2	0.2	0.2	0.2	0.2	0.2
Smokeless Tobacco	-	-	-	-	-	-
Cigarettes Including RYO Stick Equivalent Tobacco	290.4	280.6	274.3	268.7	265.4	262.4
Tobacco	291.0	281.2	274.9	269.3	266.0	263.0

Source: Euromonitor International from trade associations, trade press, company research, trade interviews, trade sources

Table 14 Forecast Sales of Tobacco by Category: % Volume Growth 2010-2015

% volume growth	2014/15	2010-15 CAGR	2010/15 TOTAL
Cigarettes	-1.3	-2.4	-11.4
Cigars	0.4	-1.2	-5.8
Smoking Tobacco	-0.9	-0.9	-4.5
Smokeless Tobacco	-	-	-
Tobacco	-	-	-

Source: Euromonitor International from trade associations, trade press, company research, trade interviews, trade sources

Table 15 Forecast Sales of Tobacco by Category: % Value Growth 2010-2015

% constant value growth

	2010-15 CAGR	2010/15 TOTAL
Cigarettes	-2.0	-9.7
Cigars	-1.0	-5.0
Smoking Tobacco	-0.7	-3.7
Smokeless Tobacco	-	-
Cigarettes Including RYO Stick Equivalent	-2.0	-9.7
Tobacco	-2.0	-9.6

Source: Euromonitor International from trade associations, trade press, company research, trade interviews, trade sources

DEFINITIONS

This report analyses the market for tobacco in Ecuador. For the purposes of the study, the market has been defined as follows:

- Cigarettes
- Cigars
- Smoking tobacco

Sources used during the research included the following:

Summary 2 Research Sources

Official Sources	Banco Central del Ecuador
	Congreso Nacional
	Consejo Nacional de Control de Sustancias Estupefacientes y Psicótropicas (Consep)
	Ministerio de Productividad
	Ministerio de Salud Pública del Ecuador
	Naciones Unidas
	Organizacion Panamericana de la Salud
	Servicio de Rentas Internas
	United States Department of Agriculture (USDA) Foreign Agricultural Service (FAS)
Trade Press	ADN Mundo
	Diario HOY
	El Comercio
	El Universo
	Explored
	Revista Vanguardia
	Tobacco Journal International

Source: Euromonitor International