

Big Tobacco is concerned for your health



Some tobacco companies are pushing for tough rules on e-cigarettes. Small e-cig firms say this could kill them

BY MARTINNE GELLER

NO SMOKING: Scientists say inhaling vapour is probably much safer than smoking tobacco, but no-one knows for sure. This person is "vaping" outside the offices of British e-cigarette manufacturer Totally Wicked. **REUTERS/PHIL NOBLE**

E-CIGARETTES BIG TOBACCO IS CONCERNED FOR YOUR HEALTH

LONDON, MARCH 23, 2015

The health warning on a MarkTen electronic cigarette package is 116 words long.

That's much longer than the warnings on traditional cigarette packs in the United States. Nicotine, the e-cigarette warning says, is "addictive and habit-forming, and it is very toxic by inhalation, in contact with the skin, or if swallowed." It is not intended for women who are pregnant or breast-feeding, or people ... who take medicine for depression or asthma. "Nicotine can increase your heart rate and blood pressure and cause dizziness, nausea and stomach pain," says MarkTen, a leading brand in the United States. The ingredients can be "poisonous."

MarkTen's parent company Altria, maker of Marlboro cigarettes, said the language seemed appropriate. There is no required health warning on electronic cigarettes in the United States, so "we had to do what we thought was right," said a spokesman for Altria Client Services.

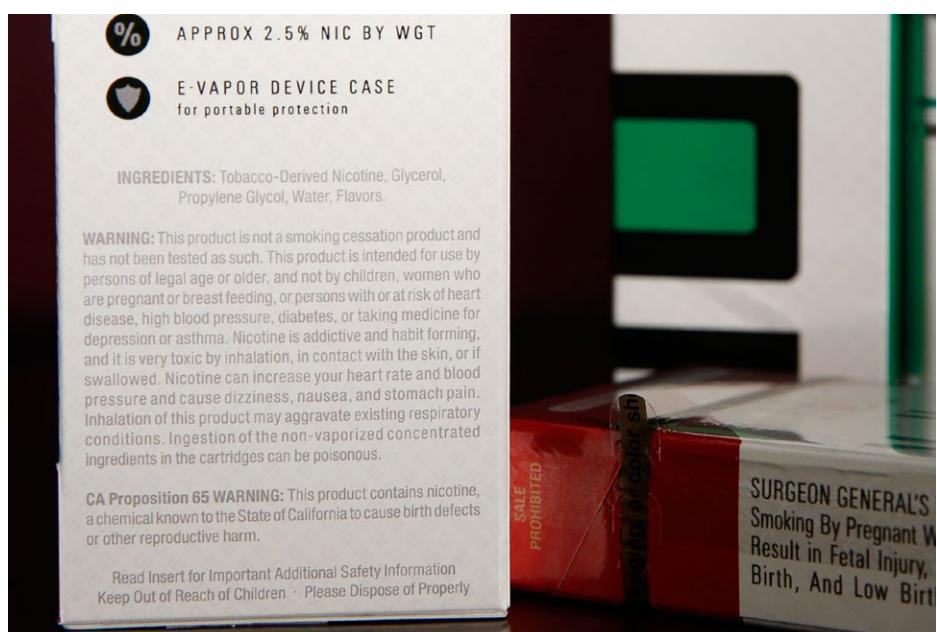
The company's frankness about the perils of nicotine dates back to the late 1990s, when it led a campaign for cigarettes to be regulated by the U.S. Food and Drug Administration (FDA). Small tobacco companies at the time said the big guys would use regulation to seal their dominance. Today, small e-cigarette makers are saying the same thing. Many argue that firms like Altria and Reynolds American want hefty rules to help neutralise the threat that e-cigarettes pose to their businesses. By accentuating the risks of 'vaping,' they say, big firms may deter smokers from trying the new devices, even though most scientists agree they are safer.

"If you read that (warning) as a smoker, you might think 'Oh, I'll just stick with a cigarette,'" said Oliver Kershaw, a former 15-a-day-smoker who quit through e-cigarettes and founded websites that advocate them.

Big tobacco companies have pushed for a range of controls on e-cigarettes.



VAPOLOGY: Serious devotees often go for customisable 'vaping' equipment, which is frequently sold in specialist stores like the one above, in New York. Marlboro maker Altria Group, which also produces MarkTen e-cigarettes, decided a long warning is appropriate because the government has not yet stipulated health warnings for the products. **REUTERS/MIKE SEGAR, GARY CAMERON**



These include lengthy health warnings, reduced product ranges, restricted sales, and scientific testing requirements. Kershaw and others say such efforts risk squeezing small players. Too many rules would stifle

innovation and reduce the range of products to "a very simple, utilitarian e-cigarette," said Fraser Cropper, CEO of Totally Wicked, an independent e-cigarette company based in the UK.

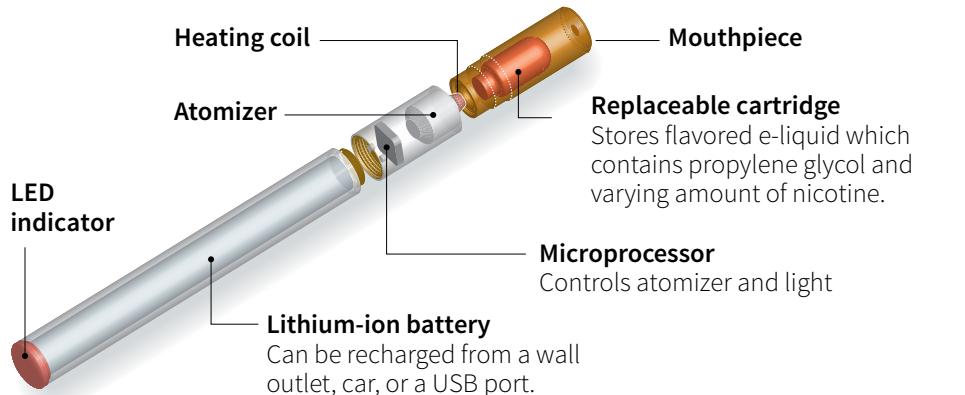
From cig-a-like to build your own

The e-cigarette industry has evolved as early models — designed to look like conventional cigarettes — did not always satisfy. New, modified models are known as ‘mods.’ Some can be personalized.

E-CIGARETTE OR “CIG-A-LIKE” (Resembles a real cigarette)

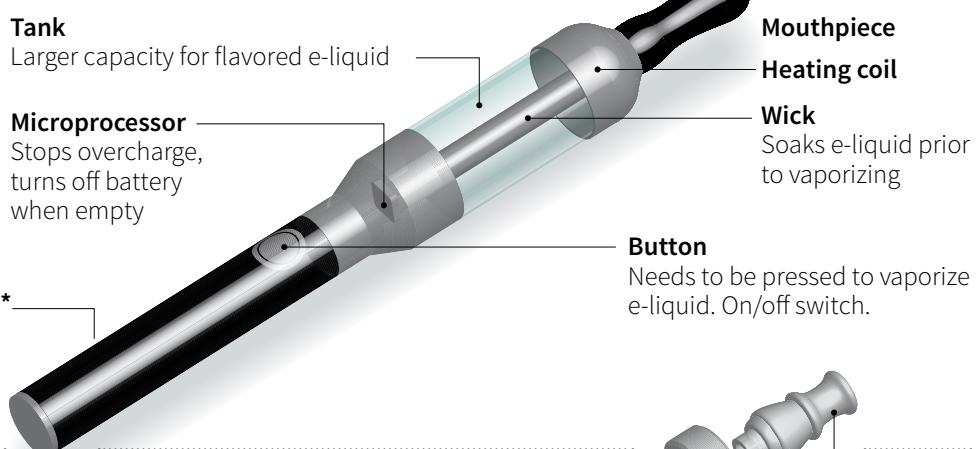
How it works

- 1 Device is activated when user inhales from the mouthpiece
- 2 Atomizer heats up liquid in cartridge
- 3 Vapor is produced.



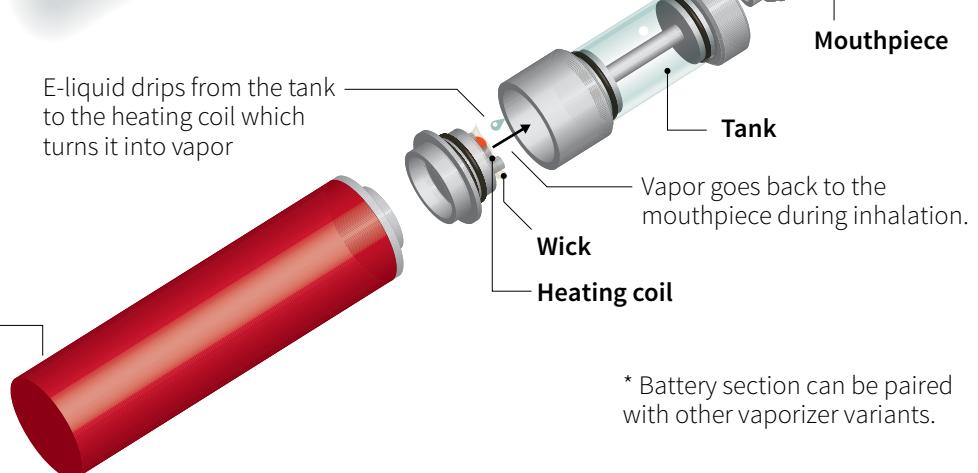
PERSONAL VAPORIZER (Also known as e-pen)

Bigger-stronger, user-operated battery; more powerful “throat-hit”



REBUILDABLE ATOMIZER (Dripper type)

More customizable; some users build their own. Can be easily taken apart to replace wicks and heating coils



Sources: Howstuffworks; Misthub.

* Battery section can be paired with other vaporizer variants.

Graphic: Chris Inton/Reuters Graphics

Big tobacco companies say their goal in pushing for firm control is not to hurt smaller competitors. Regulation will benefit consumers and e-cigarette companies alike by ensuring safety and quality standards and boosting confidence, they say. Small companies should not be exempt from responsible behaviour.

"Our stated goal is to get to e-vapour leadership, to have the strongest brands in the marketplace," said the Altria spokesman. He could not predict the impact of increased regulation on smaller firms. "I don't know how they run their businesses and what it would cost them to meet those requirements."

Most anti-tobacco campaigners agree that e-cigarettes should be regulated. But some believe they deserve a lighter touch than tobacco because they can help smokers quit, and may be less harmful than smoking.

Measures that make e-cigarettes less appealing or hard to come by may keep people smoking, these people say. Clive Bates, a former head of UK charity Action on Smoking and Health (ASH), thinks public health officials who advocate tough controls end up helping Big Tobacco's conventional brands.

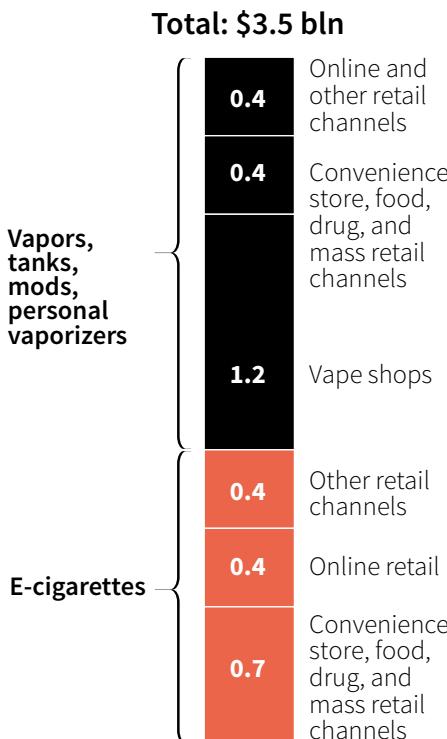
"They really are all doing their utmost to protect the cigarette trade," Bates said. "They just don't realise it." He thinks regulations should encourage smokers to quit, or switch.

The image of e-cigarettes is already changing. The proportion of people in Britain who think vaping is just as harmful as smoking doubled last year to 15 percent, according to a survey by ASH. In the United States, a similar picture is emerging. The growth in U.S. sales of e-cigarettes slowed to 5 percent in the fourth quarter last year from 19 percent a year earlier, according to Wells Fargo analyst Bonnie Herzog. She attributes that partly to increased uncertainty about the products.

Derek Yach, a director at Vitality Institute, a health research company, doubts there is any "conspiratorial effort" to crush the new business. But he says that "if the dominant message is one of doubt, then

Expected 2015 U.S. vapor market

In billion dollars



Sources: Nielsen C-Store database, Wells Fargo Securities; LLC estimates, and other non-tracked channels.

the status quo gets maintained." Yach once headed tobacco control at the World Health Organization and worked at PepsiCo.

Japan Tobacco International, the world's third-largest tobacco company, thinks strict regulations could hurt young firms. "If you make it extremely hard (to comply), you would drive small companies out of business," said Ian Jones, JTI's head of scientific and regulatory affairs for emerging products. "You would lose the value of the category, you would lose the spark."

"OPEN SYSTEMS"

E-cigarettes came onto the market a decade ago promising a safer nicotine fix. The

devices heat nicotine-laced liquid to create an inhalable vapour, rather than burn tobacco. That gives smokers the traditional hand-to-mouth ritual without the deadly smoke.

The global vaping market, which could top \$7 billion this year, is evenly split between cigarette look-alikes, often sold by tobacco companies, and refillable "vapours, tanks and mods" – devices which users modify to suit their needs. These are often made by smaller firms. Demand for them is growing three times as fast as the overall market, as users say they find them more satisfying than early all-in-one models.

Serious devotees favour such refillable "open systems" that let them mix and match liquids and batteries to vary their nicotine intake. Open systems are often sold in vape shops and lend an edgy, do-it-yourself creativity to the vaping community. According to Wells Fargo, there are now around 8,500 vape shops in the United States and 19,400 globally. Vape shops account for about one-third of all U.S. sales, while the Internet accounts for another third.

In August, Reynolds – which does not produce mods – urged the FDA to "ban open system e-cigarettes, including all component parts." Such systems, Reynolds wrote, present a "unique risk for adulteration, tampering and quality control."

If the FDA does not want a ban, Reynolds suggested, it should regulate vape shops as manufacturers. That would subject them to FDA inspection, registration, manufacturing standards and product clearance requirements.

Vape shops often mix nicotine and flavouring, just as pharmacies compound drugs, said Richard Smith, communications manager at Reynolds. This means "the vape shop seller is a manufacturer under the applicable laws and regulations."

E-cigarette independents say such a move targets them; analysts note that the business model of big tobacco firms depends on mass production, not mix-and-match.

"I think they (Reynolds) probably want that snuffed out before it gains traction," said Philip Gorham, an Amsterdam-based tobacco analyst at Morningstar.

Reynolds says that's not true. "We fully support innovation in tobacco products, including vapour products," said Smith. The company wants "a level playing-field where all manufacturers are subject to equal treatment."

DOING THEIR DUTY

Shane MacGuill, a tobacco analyst at market research firm Euromonitor International, said Reynolds' move may seem zealous, but companies have a duty to shareholders: "It would be remiss ... of them not to try and push for the competitive environment that is as favourable to them as possible."

Steven Parrish, a former Altria executive who retired in 2008, said that as long as people are honest, there's nothing wrong with advocating to protect their interests. And embracing regulation can help the tobacco industry win trust.

"I think one of the things the industry would like to see ... is a world in which the tobacco industry is much more like the pharmaceutical industry in terms of how it operates," he said: "Very heavily regulated and maybe not loved and admired, but at least acknowledged as a legitimate business."

That makes young people a particularly sensitive point of tension.

Most e-cigarette companies want tighter controls on who can buy, such as a minimum age. Altria's NuMark goes further. It says U.S. purchases should also be "clerk-assisted or conducted in an otherwise non-self-service environment."

Smaller e-cigarette makers say that would hand a big advantage to tobacco companies.

U.S. convenience stores are the main outlets for tobacco products. Tobacco firms offer the stores rich incentives to promote their brands, and according to Morningstar, tobacco can provide more than a third of stores' profit. Cigarettes can only be sold



ON THE WALL: Small e-cigarette firms say a measure that Altria has suggested to keep electronic cigarettes out of children's reach may force them to compete alongside tobacco products on display walls like this one. **REUTERS/LUCAS JACKSON**

\$7 billion
Possible size of the global vaping market in 2015

Source: Wells Fargo

behind the counter. They are displayed on heavily branded shelving which the tobacco firms often provide.

Putting e-cigarettes behind the counter would force the products to compete for consumer attention in space that tobacco firms influence, small companies say.

"As long as you say it has to be 12 feet from a child's hand at the counter, it guarantees (the e-cigarette) gets onto their wall," said Jan Verleur, CEO and co-founder of VMR, a Miami-based e-cigarette company.

Altria says retailers choose how and where to display products.

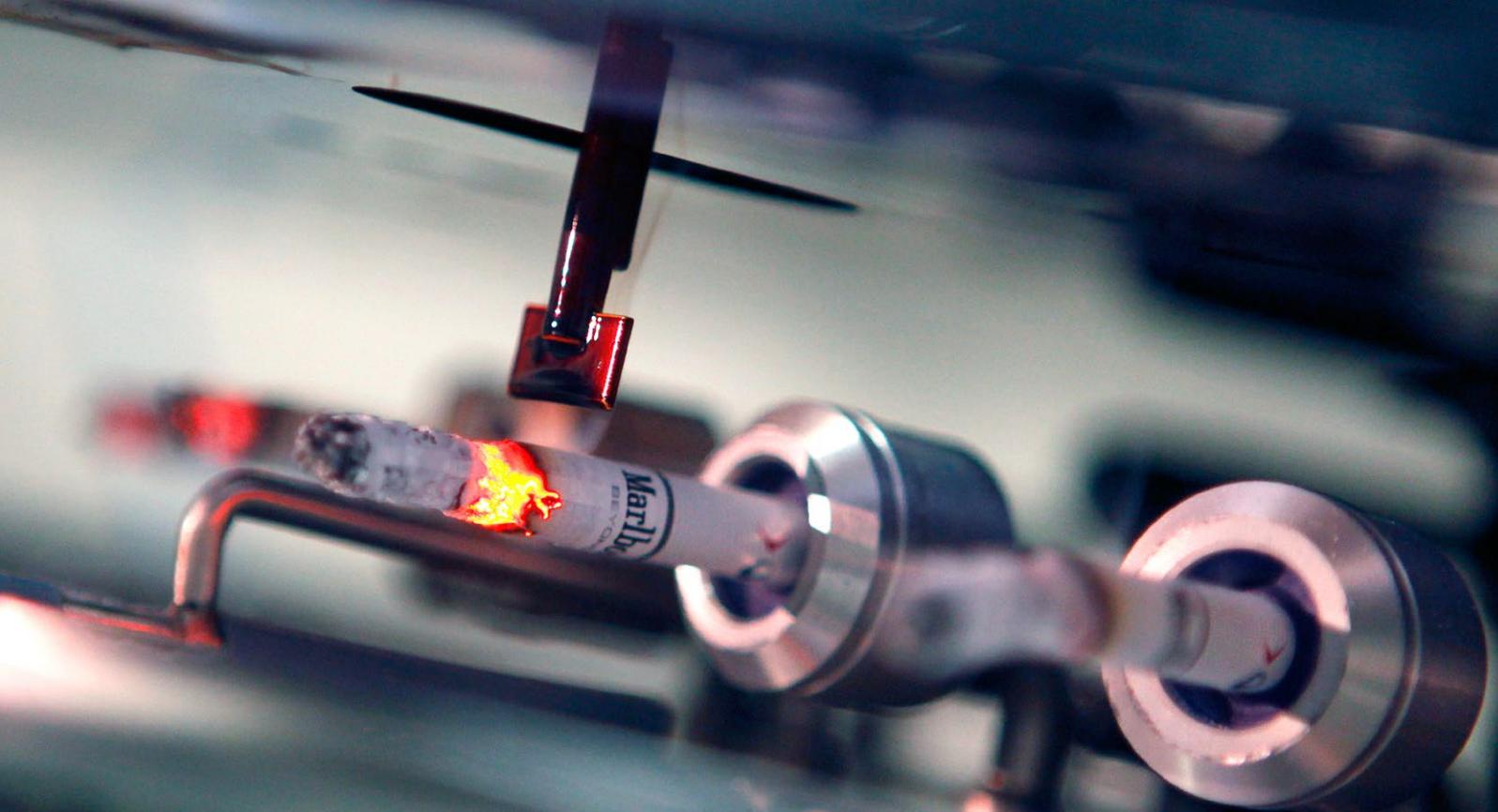
EARLY WARNINGS

Some small e-cig firms are pushing back. Totally Wicked is challenging Europe's Tobacco Products Directive (TPD), which was adopted in 2014 and comes into force in 2016.

It's up to member states to apply the EU rules in their own way, but the directive says manufacturers must tell regulators what's in a new product six months before launch. Producers will have to list ingredients, emissions, toxicological data, nicotine doses and uptake, as well as health effects. A new notification is required for every big change.

Totally Wicked is fighting the TPD in the EU Court of Justice in Luxembourg. Such detailed reporting is more onerous even than for traditional cigarettes, the company argues. It says it is disproportionate, considering that e-cigarettes are probably less harmful. Its CEO says the six-month notification would slow innovation in an industry where manufacturers can move from concept to shelf in 10 weeks.

British American Tobacco's



TESTING TIMES: Big Tobacco firms like Marlboro maker Philip Morris International have invested heavily in 'reduced risk' products which can deliver nicotine without the toxins found in smoke. They did not originally include electronic cigarettes in their strategy. **REUTERS/PETR JOSEK**

Nicoventures unit agrees with Totally Wicked that the six-month notice period "runs the risk of stifling innovation," according to a spokeswoman.

But global tobacco leader Philip Morris International – which used to be part of Altria – said it thinks this kind of advance notification is appropriate to ensure standards. Its own tests already go beyond the TPD rules, a spokeswoman said. Robust scientific research is "something we believe in as the core of our work in this new product category."

In the United States, the FDA aims to deliver its final ruling on e-cigarettes in June. E-cigarette firms there say anything that requires lengthy and costly trials could

be manageable for big business but may hurt smaller companies. "The more science that's required, the more expensive it becomes," said Sanjiv Desai, general counsel of U.S. e-cigarette firm VMR.

A spokesman for the FDA said it was weighing the burden on everyone, including small manufacturers. It plans to help small companies by phasing in new rules. The European Union also plans to give firms time to adapt. It has said clear rules will help smaller firms; it plans to assess the costs of notification.

For Yach, the former WHO tobacco official, regulators should remember that e-cigarettes are more than a new business. "A heavy smoker has a 20 times greater

risk of lung cancer," Yach said. "Switch to e-cigarettes and that risk is virtually going to zero."

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