



# Passport

## **SMOKELESS TOBACCO AND VAPOUR PRODUCTS IN BELGIUM**

Euromonitor International

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# SMOKELESS TOBACCO AND VAPOUR PRODUCTS IN BELGIUM

## HEADLINES

- In 2016 vapour products records current value growth of 19% to reach sales of EUR49 million
- Sales driven by innovation in open vaping systems
- E-liquids the most dynamic category with current value growth of 25%
- The vapour products competitive landscape remains highly fragmented
- Legislative restrictions set to limit the category to a value CAGR of 5% at constant 2016 prices over the forecast period

## TRENDS

- Vapour products were introduced in Belgium around 2009. The category grew rapidly over the review period but remains a niche when compared to regular cigarettes. In 2016, sales amounted to around EUR49 million.
- Thanks to a high level of innovation and the entry of new consumers into the category, vapour products recorded strong current value growth of 19% in 2016. The prevalence of vaping among the adult population stood at around 9%.
- Open vaping systems accounted for the greatest share of sales in 2016 and posted current value growth of 20%. The main factor behind this performance was innovation, with new products launched every month. Open vaping systems represent the third generation of vapour products, with other products like disposable cig-a-likes gradually disappearing in Belgium.
- Most vapers in Belgium use nicotine-based liquids in their vapour devices, with this proportion estimated at 70%. It should be noted that the sale of nicotine-based e-liquids in any retail outlet except chemists/pharmacies was prohibited in Belgium up until May 2016.
- Although most vapour products in Belgium are imported from China, a high level of innovation drove up unit prices in 2016.
- Demand for fruit-flavoured and organic e-liquids grew in 2015 and 2016. In this sense, people who like vaping will likely continue to do so even if they stop consuming e-liquids containing nicotine.
- Although vapour products remains a very small category in Belgium, sales are set to rise over the forecast period due to increasing awareness of vapour products as a less offensive alternative to cigarettes and the ongoing rise in average unit price of cigarettes due to constant tax increases.
- Most vapers in Belgium use vapour products in order to stop smoking regular cigarettes. According to trade sources, some are able to entirely cease all nicotine intake within just a few months, while others continue using vapour products as they find that they like them and they are much less offensive than smoking regular cigarettes.
- Heated tobacco products were not available in Belgium in 2016. However, as multinationals such as Philip Morris are expected to launch heated tobacco products in the Netherlands at the beginning of the forecast period, it is highly likely that such products will also be introduced in Belgium over the next five years. Philip Morris' iQOS is set to be launched in the Netherlands in 2017.

- Belgium transposed the European Tobacco Products Directive (TPD2) into national legislation in March 2016. The State Council (Conseil d'état) suspended it in April 2016. The new piece of legislation finally entered into force in January 2017. The expected negative effects of the new law did not impact the category in 2016 but are likely to do so in 2017.
- Non cig-a-like closed systems were not available in Belgium in 2016. However, changing legislation, which is set to mostly affect open vaping systems, will likely encourage manufacturers to launch non cig-a-like closed systems in Belgium. According to trade sources, non cig-a-like closed systems would perfectly fit the requirements set down by the new legislation on vapour products.
- Following the implementation of the new legislation, several products in open vaping systems will be withdrawn from the market. Such uncertainty, coupled with the ban on advertising and online sales of vapour products, will likely prove to be a barrier to entry for new consumers.
- Manufacturers and retailers, however, are likely to react quickly to the changing environment and launch products adapted to the new rules. In the short term, the category is expected to see a slowdown. In 2017, vapour products is expected to record value growth of just 3% at constant 2016 prices, although growth will then strengthen from 2018.

## VAPOUR PRODUCTS LEGISLATION

- Since 2013, the ban on public smoking has been extended to include vapour products on the basis that the vapour generated by these products may result in second-hand smoke and the similarity with combustible cigarettes can potentially attract non-smokers.
- The legislation relating to the sale of vapour products in Belgium was previously fairly unclear. While vapour kits were available in a rising number of specialist stores and via e-commerce websites, vapour products containing nicotine were previously only legally available in chemists/pharmacies, although the vast majority of specialist stores also sold nicotine e-liquids "under the counter".
- Belgium transposed the European Tobacco Products Directive (TPD2) into national legislation in March 2016, although the State Council (Conseil d'état) suspended it in April 2016. It finally came into force in January 2017.
- European legislation implies that players in the category need a licence to sell vapour products in Belgium and this applies to the manufacturers of cig-a-likes and tank system charging and vapourising devices as well as e-liquids. The cost of the licence to sell these items is set at EUR4,000 per product. Another new rule is that any tank incorporated into a vapour device cannot exceed 2ml in volume, while any refilling e-liquid sold separately cannot exceed 10ml. Health warnings must also be present on the packaging of all vapour devices and vapour kits. Furthermore, the message "The nicotine contained in this is highly addictive. Its use by non-smokers is not recommended" must be displayed in all of Belgium's national languages on the packaging. Belgium will also allow e-liquids containing nicotine to be sold legally in regular retail outlets.
- On the one hand, TPD2 is meant to provide better quality vapour products to consumers by forcing manufacturers to obtain licences. On the other hand, however, the directive essentially excludes small manufacturers from the category, only enabling large players to operate. The high licensing fee also has the potential to reduce the supply of vapour products and suppress innovation in the category.
- Belgium has gone one step further than TPD2 by banning all distance sales of vapour products, including e-liquids. In this sense, the internet retailing of vapour products became illegal in January 2017 in Belgium.

- There is an ongoing debate in Belgium about the real nature of e-cigarettes and other vapour products that also exist in other EU countries. Supporters argue that vapour products are significantly less toxic than combustible cigarettes as they do not contain any tobacco and, for this reason, they demand that these products be considered like any other consumer goods. Opponents, however, argue that they are being falsely marketed as a smoking cessation product when in fact they are merely an alternative to tobacco.

## COMPETITIVE LANDSCAPE

- Vapour products in Belgium is a highly fragmented category, with an ever growing number of manufacturers and retailers offering numerous brands at different price points. There is no clear leader in the category and even a well-established retailer such as Sedan, one of the first companies to introduce e-cigarettes in Belgium in 2007 and a leading player in the category up until 2011, is facing tough competition from e-commerce players. This high level of fragmentation has also adversely impacted profit margins in the category.
- There is currently no leading cigarette company active in vapour products in Belgium as cigarette companies are waiting for clarification of the legal framework before entering the category and because its current size does not justify heavy spending on research and development and new product launches. Companies such as Japan Tobacco and Philip Morris are developing their own versions of vapour products, which they are testing in key markets, although no retail launches are expected in Belgium in the near future. According to these large players, sales of vapour products in Belgium are still too small to attract their interest. On the other hand, these companies could launch heated tobacco products in the country over the forecast period.
- While most open vaping systems are produced in China, e-liquids come mostly from France or other European countries. There is also limited production of e-liquids in Belgium, with Sedan offering its own e-liquid. The domestic company Distrivaping launched its Whatafog line of e-liquids in 2016.
- New vapour product legislation, which came into force in January 2017, is set to favour large players at the expense of small ones. Thus, the category is likely to see the disappearance of some companies and become less fragmented over the forecast period.

## NEW PRODUCT DEVELOPMENTS

- Several vapour products were launched in 2016, particularly in open vaping systems. Most new launches focused on recruiting new consumers. Boxes and all-in-one kits such as Ego One, PockeX and Ego Aio Box were very successful thanks to being very user-friendly.
- On the other hand, technological development is another key feature of vapour products. In this sense, more sophisticated, powerful and ergonomic products were also launched in 2016. This was the case with UEG Holland's Smok Alien.
- With new legislation taking effect in January 2017, it is unclear whether models such as Smok Alien will remain on the market or have to be withdrawn. A wave of new launches, focused on compliance with the new regulations, will thus likely be seen in 2017.

### Summary 1 Smokeless Tobacco and Vapour Products: New Product Launches

Brand	Company	USP/Notes	Date
Whatafog	Distrivaping	E-liquid in two variants - Vanilla Ice (vanilla flavour) and	August 2016

		Ice Baby (mint flavour)	
Justfog C14	UEG Holland	Compared to its previous version, this vapourising device better protects the battery from leaks	2016
Smok Alien	UEG Holland	220W box mod with a Smok TFV8 Baby tank (3ml) and space for two 18650 batteries	2016
Ego One	JoyeTeam Belgium	All-in-one open vaping system aimed at new consumers	2016
Ego Aio Box	JoyeTeam Belgium	Open vaping system (all-in-one) aimed at new consumers, with a 2ml tank complying with new legislation	2016
PockeX	Shenzhen Eigate Technology Co Ltd	All-in-one kit aimed at new consumers	2016

Source: Euromonitor International from store checks

## DISTRIBUTION

- The retail distribution of nicotine-based vapour products was officially allowed only through chemists/pharmacies up until May 2016. Nevertheless, it has been estimated that prior to May 2016, 70% of vapour product users in Belgium were consuming nicotine-based e-liquids bought under the counter from specialist vaping stores or over the internet. However, since May 2016, it has been legal for nicotine-based e-liquids to be sold in any type of retail outlet.
- Numerous e-commerce websites have been created in Belgium in recent years by small entrepreneurs, with internet retailing accounting for a 15% share of vapour product retail value sales in 2016. However, sales of vapour products through the internet were banned at the beginning of 2017. This change is likely to create uncertainty and force e-retailers to close their activities or redirect them to their physical stores.
- Retailers such as New Smoke, with seven retail outlets in Brussels, are already in the process of implementing a franchise concept in order to expand even more quickly across Belgium. The Vapour Shop already has more than 20 outlets in Belgium.

## CATEGORY INDICATORS

Table 1 Vaping Prevalence in Adult Population 2011-2016

% adult population	2011	2012	2013	2014	2015	2016
Adult Male Population	4.0	5.1	6.6	7.2	8.0	9.0
Adult Female Population	4.0	5.1	6.6	7.2	8.0	9.0
Total Adult Population	4.0	5.1	6.6	7.2	8.0	9.0