

An industry with deep roots

INTERVIEW WITH HENDRIK KELNER

VICE-CHAIRMAN, TABADOM HOLDING AND PESIDENT, PROCIGAR



HENDRIK KELNER graduated in Industrial Engineering from the Technical Institute of Monterrey in Mexico. He comes from a long line of tobacco merchants with Dutch origins, and was meant to have broken with family tradition (whereby all male family members dedicated their lives to tobacco in the Dominican Republic, Brazil and Paraguay) and followed a university career, but the pull of history was too strong; he took his first job in the tobacco business and never looked back. He hopes that his children will also follow in his footsteps.

Leaf it out: The cigar industry feels unfairly targeted by regulation aimed at cigarettes

How important is the tobacco sector, and the cigar industry in particular, to the Dominican Republic in economic terms - as a generator of export revenues, tax receipts and direct/indirect employment?

Tobacco is the product of agricultural origin that contributes the most to the Dominican economy, and of all contributions, the hand-made cigar plus the machine-made category represent more than 95 per cent, generating more than US\$600 million in exports, about 110,000 direct jobs and more than 200,000 indirect jobs throughout the cluster (agriculture, tobacco processors, cigar manufacturers, packaging, transportation, etc). Almost the entire industry is installed in a free zone, so the State receives almost no tax in this sector of exportation. The local cigarette manufacturing industry does have a high sales tax in the local market and is an important contributor to the national budget.

How would you characterise the industry's role in Dominican society and culture, both historically and today?

Tobacco is a pre-Columbian product. The native Indians used it in their religious ceremonies, social activities, and medicine. It was part of their culture before the discovery of America. During the Spanish

colonial period the growing of tobacco developed and Santo Domingo became the first exporter of tobacco.

Due to the characteristics of the crop, which made it possible to support a family with a small plot of land, it was around tobacco that a society of free men was born, so that for generations knowledge was transmitted from father to son – knowledge with tradition and culture. This outlined and formed the character of the Dominican people, which we still hold with pride and respect today. We defend it as the most valuable heritage we have.

What are the country's most important competitive advantages as a cultivator, manufacturer and exporter?

The culture and tradition of our growers: love, and passion passed down through the generations.

The skill of the Dominican hands and managerial ability to compete with the world. And, especially, the commitment that we all have to our tradition and culture of tobacco.

Which are your most important markets internationally, and which offer the greatest potential for growth?

The largest market is the United States, which is logical, as this market represents 60 per cent of the total global market. The United States accounts for 84 per cent of the export market of the Dominican Republic. The second is Germany; also important are Spain and Switzerland.

The biggest potential markets are China and Russia, but other smaller countries are also growing, like Poland and South Africa, as their economies also grow.

What trends are you seeing in consumer behaviour, both at an individual and a macro level (e.g. in major markets such as China)?

At the individual level, young people with a desire to acquire culture and social position are taking on the enjoyment of cigars. And cigarette



smokers for reasons of health preservation are passing from cigarettes to machine-made cigars and later to hand-made cigars, in search of the exquisite and distinguished pleasures of premium cigars.

At the macro level the countries of economic growth that are able to create a class with purchasing power are growing (Russia, China, etc).

What impact do you expect the recent thaw in US-Cuban relations to have on the sector?

I do not think that will affect the traditional tobacco countries very much. The first impact will be a demand generated by curiosity, which may even increase overall consumption, but Cuba is not able to supply a market as large as the United States without disregarding the European market. I think that it will ultimately benefit all those who maintain their quality and marketing capabilities.

The rise of the Dominican Republic as a world leader in cigar production coincided with the advent of the country's Free Zones programme in the late 1960s. How have these two phenomena fed into each other? What makes the Santiago Free Zone particularly competitive in this regard?

The Dominican Republic was not an exporter of cigars until free zones were created that offered the conditions for the transfer of production from other countries under more competitive conditions. The Dominican Republic was already a major exporter of raw materials (filler and binder tobaccos) for these productions and had its own tradition and culture. That was the beginning; then new productions were installed as the prestige of being "Made in the Dominican Republic" increased in market acceptance.

The Santiago Free Zone has the most complete cluster of tobacco in the world; this facilitates the operations of any business and makes it more competitive.

What are the main types and categories of Dominican cigar? What are the most important qualities that a consumer should bear in mind when choosing one?

Dominican cigars offer the widest variety of stimulations, aromas, and flavors by using different tobaccos from all producing countries. The knowledge of all their characteristics gives us the possibility of wider blends of different tobaccos.

Quality assurance is given by the brand; the most qualified companies express their commitment to quality through the brand. The cigar should be selected according to the available time and environment (e.g. a small, mild cigar for the morning and a bigger and stronger one when you have time to enjoy it).

How concerned are you about the increasing legislative burden on the tobacco industry worldwide and its impact on the cigar sector in particular?

Regulation of the consumption of tobacco is really aimed at reducing the habit of smoking cigarettes; but this has been dragged onto the cigar without considering that it is a very different type of product.

One that is not addictive.

That is consumed in moderation.

That is an occasional pleasure of adults.

And that is part of a culture of sensory moments of reflection and celebration, of tolerant and responsible people that generally obtain longevity due to their control of emotions, actions and reactions. **E**

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Rolled gold: The Dominican cigar industry generates more than US\$600 million in exports