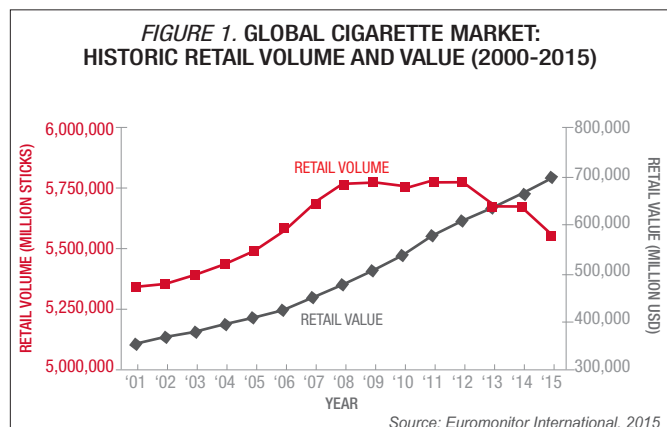


# THE GLOBAL CIGARETTE INDUSTRY

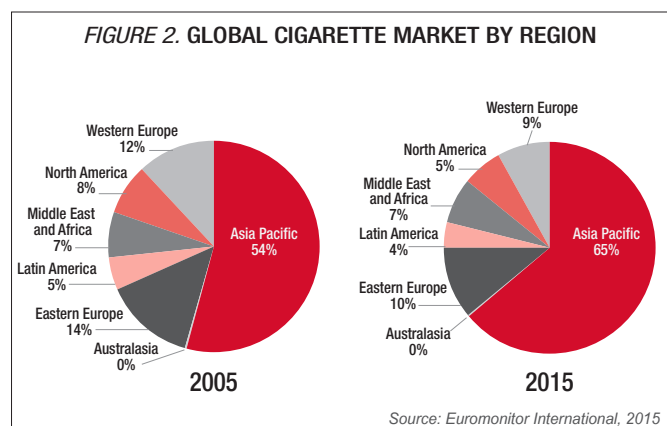
**The global cigarette industry is one of the most profitable and deadly industries in the world.**

- Cigarette retail values in 2015 were worth US\$698,541.7 billion.<sup>1</sup>
- In 2015, over 5.5 trillion cigarettes were sold to more than one billion smokers worldwide.<sup>2</sup>
- Between 2000 and 2015, global cigarette volume sales increased by 4.2% while retail values increased by 98.8% (Figure 1).<sup>1</sup>
- Industry analysts predict that over the next five years the global cigarette industry will continue to grow; retail value will increase by 37.3% while global volume sales are expected to decline by 4.8%.<sup>1</sup>



**Globally, cigarette consumption is growing in low- and middle-income countries and decreasing in high-income countries.**

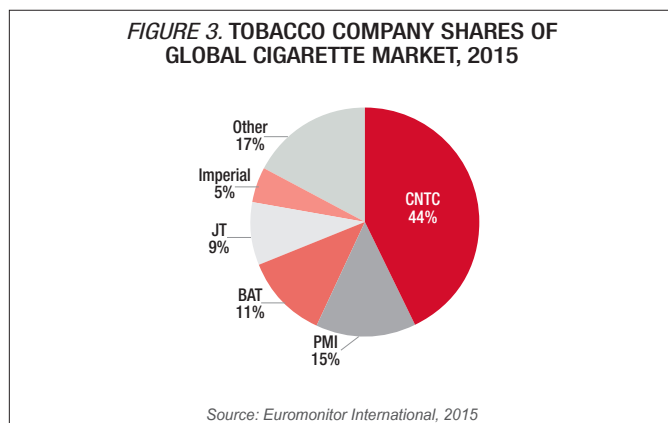
- Sales are shifting from developed markets, like those in Western Europe, where smoking prevalence is declining and where tobacco company operations are more restricted by government policies, to emerging markets, like those in Asia and Africa, where tobacco companies take full advantage of lax regulatory environments, growing populations and increasing incomes.<sup>3</sup>
- Between 2005 and 2015, cigarette sales in the Asia Pacific and Middle East and Africa regions have increased while all other regions have experienced declining sales (Figure 2).<sup>1</sup>



**More than 80% of the world's smokers live in low- and middle-income countries, and the tobacco industry is increasingly targeting these emerging markets.<sup>4,5</sup> If current consumption trends continue, approximately one billion people will die from tobacco use during the twenty-first century.<sup>5</sup>**

## TRANSNATIONAL TOBACCO COMPANIES

While cigarette sales are expanding to new markets, industry market shares are consolidating, and the market is increasingly controlled by a few international companies. In 2001, a little more than 43% of global market sales were controlled by the five leading transnational tobacco companies (TTC).<sup>6</sup> By 2014, 84% of the market was controlled by TTCs. Over the last decade, the international cigarette market has been dominated by five companies, China National Tobacco Corporation, Philip Morris International, British American Tobacco, Japan Tobacco Inc. and Imperial Tobacco (Figure 3).<sup>1</sup>



**China National Tobacco Corporation (CNTC)** is owned and operated by the Chinese government and is the world's single largest producer of cigarettes with 44% of the global market.<sup>1</sup> CNTC sells the majority of its product in China; just over 1% of cigarettes produced are exported to other countries.<sup>7</sup> CNTC is increasing efforts to sell brands such as RDG, Dubliss and Harmony internationally.<sup>8</sup>

**Philip Morris International (PMI)** is a publicly traded American company with headquarters in Lausanne, Switzerland.<sup>9</sup> PMI controls an estimated 15% of the international cigarette market.<sup>1</sup> Since separating from its parent company, Altria, in 2008, PMI only sells its tobacco products outside of the United States. The company operates in more than 180 markets and sells 6 of the top 15 brands, including Marlboro the world's top selling brand.<sup>9</sup> Cigarette sales in Asia and the launch of IQOS, PMI's "reduced risk product", drive PMI's growth, with the company planning to focus on growing IQOS sales across the globe and capitalize on momentum in markets such as the E.U. and Turkey.<sup>10</sup>

# THE GLOBAL CIGARETTE INDUSTRY

**British American Tobacco (BAT)** is a publicly traded company based in London. BAT operates in 200 markets, is the third largest producer in the global tobacco market, and controls 11% of the international cigarette market.<sup>1,11</sup> Top selling brands include Pall Mall, Kent, Dunhill, and Lucky Strike and 71% of BAT's volumes are distributed in emerging markets. The company is focusing on how to increase sales in Asian markets.<sup>11</sup>

**Japan Tobacco, Inc. (JT)** is headquartered in Tokyo and the parent company to Japan Tobacco International (JTI), which is headquartered in Geneva, Switzerland. International tobacco sales account for more than 65% of JT's profits.<sup>12</sup> With JTI operations in 120 countries, JT is the fourth largest tobacco company in the world, and controls 9% of the global cigarette market.<sup>1</sup> The Japanese government holds 33.3% of JT's issued shares.<sup>13</sup> Top brands include Winston, Mervius (formally Mild Seven), Liggett Ducat and Camel. JTI continues to expand its presence in emerging markets, with the largest growth in Central Asia.<sup>14</sup>

**Imperial Tobacco Group** is a British company. It is the fifth largest company participating in the global tobacco market and controls 5% of the international cigarette market.<sup>1</sup> Imperial operates in more than 160 markets. Key growth markets are in Greece, Italy, Russia, Saudi Arabia and Taiwan. Growth markets include selected markets in the EU, Eastern Europe, Asia, and the Middle East.<sup>15</sup> Top brands include Davidoff and Gauloises.<sup>16</sup>

## LARGEST CIGARETTE MARKETS: TOBACCO INDUSTRY TARGETS

The five largest cigarette consuming nations—China, Russia, U.S., Indonesia and Japan—account for 63% of the volume of all cigarettes sold in 2015. Six of the ten largest cigarette markets in 2015 were emerging markets, four of which are Bloomberg Initiative Tier 1 Priority Countries (Figure 4).<sup>17</sup>

FIGURE 4. TOP 10 CIGARETTE MARKETS BY VOLUME

| COUNTRY     | RETAIL VOLUME, 2015 (MN STICKS) |
|-------------|---------------------------------|
| China       | 2,489,500.0                     |
| Russia      | 295,931.2                       |
| USA         | 269,466.1                       |
| Indonesia*  | 248,421.9                       |
| Japan       | 182,300.0                       |
| Turkey      | 104,900.0                       |
| Philippines | 90,315.0                        |
| India       | 88,057.5                        |
| Germany     | 80,028.6                        |
| Egypt       | 79,000.0                        |

\*excluding hand-rolled kreteks

Source: Euromonitor International, 2015

- **China** is the largest cigarette market in the world. The retail value of China's cigarette market in 2015 was US\$136,189.5 billion. Ultra-low-tar cigarettes drive retail market growth in China. In 2015, the volume sales of cigarettes declined by 3%, the first effective volume decline in a generation, while retail volume increased by 5%. Between 2012 and 2015, the global cigarette market decreased by 3.8%, but the global market declined by more (7.5%) when excluding China's retail volume.<sup>17</sup>
- In **Russia**, cigarette sales by volume has declined by almost 25% between 2008 and 2015.<sup>18</sup> Over the same time period, retail values increased by 17.8% from US\$17 billion to US\$20 billion. Excluding 2015, retail values increased each year during that time period, growing by 65% from 2008 to 2014. 2015 was the first year in which retail values actually decreased, falling by almost 29%.<sup>18</sup> With a 33% market share, JTI is the market leader in Russia, but PMI, BAT and Imperial also have a presence.<sup>18</sup>
- The **Indonesia** cigarette market is unique because sales are dominated by kreteks (cigarettes made with a blend of tobacco, and cloves). Between 2014 and 2015, the Indonesian cigarette market grew by 4%.<sup>19</sup> One of the two leading tobacco companies, Sampoerna, was acquired by PMI in 2005 and has steadily been gaining market share in Indonesia, outperforming most domestically owned companies and all other TTCs trying to make a profit in Indonesia.<sup>19</sup>
- **India's** tobacco market is dominated by smokeless tobacco sales (75%). Manufactured cigarettes are only 5% of the market, and 20% of tobacco users smoke bidis (small, thin, hand-rolled cigarettes).<sup>20</sup> While cigarettes are not the most popular tobacco product in India, approximately 88 billion cigarettes were sold in 2015, making the country an important target for international tobacco companies.<sup>21</sup>

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