China National Tobacco Corporation and Philip Morris International’s Partnership

“The most important market that we are seeking to penetrate is of course China.”

Background
In 2005, the China National Tobacco Corporation (CNTC) and Philip Morris International (PMI) announced agreements allowing for the manufacturing/sale of Marlboro in China and the establishment of an international joint venture company.

Under the first agreement, Marlboro cigarettes would be produced under license at CNTC affiliate factories, and would be distributed by CNTC’s official distributors nationwide in China. In exchange, PMI and the China National Tobacco Import and Export Group Corp. (CNTIEGC) established a 50-50 joint venture to offer a range of Chinese brands on the global market, expand the export of tobacco products and tobacco materials from China and explore other business opportunities.

At the time, Euromonitor expected both companies to benefit stating that the joint venture was “a strategic move for both: PMI expects the (currently miniscule) sales of its brands in China to surge, while China expects the distribution network of PMI will help to promote Chinese tobacco brands and cigarette exports.”

Current Situation
According to Euromonitor, Marlboro held 0.1% of the cigarette market in China in 2008. Even with limited imports, Marlboro retail sales grew 153% from over 1 billion cigarettes to almost 3 billion cigarettes between 2003 and 2008. In August 2008, two factories began producing Marlboros and produced 700 million cigarettes by the end of the year.

In 2008, the PMI/CNTIEGC joint venture launched three Chinese heritage brands in six different markets including Central Europe, Eastern Europe and Latin America. The total sales volume of these brands reached nearly 900 million cigarettes in 2008. The three heritage brands are RGD, Dubliss (mid-priced segment), and Harmony (premium segment).

RGD (stands for Red Golden Dragon) is marketed within the “low-price” segment. It is currently being sold in the Czech Republic, Slovakia and Poland. Following a strong launch in the Czech Republic, the brand accounted for 2% of the total market share in 2008.

Dubliss is produced in Romania by Sinoroma Industry Com SRL, which is funded by Baoji Cigarette Factory under CNTC. In 2008, Dubliss was launched in Romania, Russia and Ukraine. Current market share is unknown.

Harmony was launched in Argentina in December 2008 by the PMI subsidiary Massalin Particulares SA. The brand is being marketed in the “premium price” segment and is priced the same as Marlboro. Current market share is unknown.