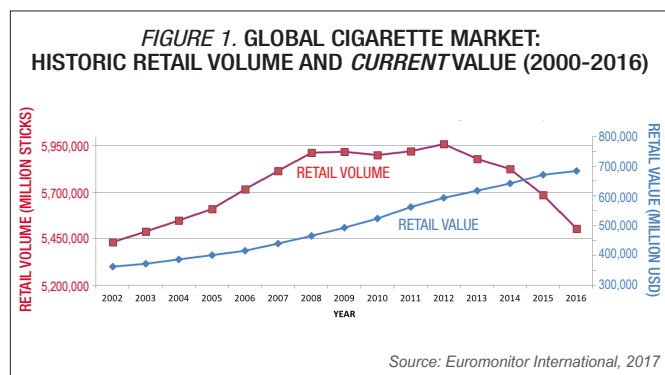


THE GLOBAL CIGARETTE INDUSTRY

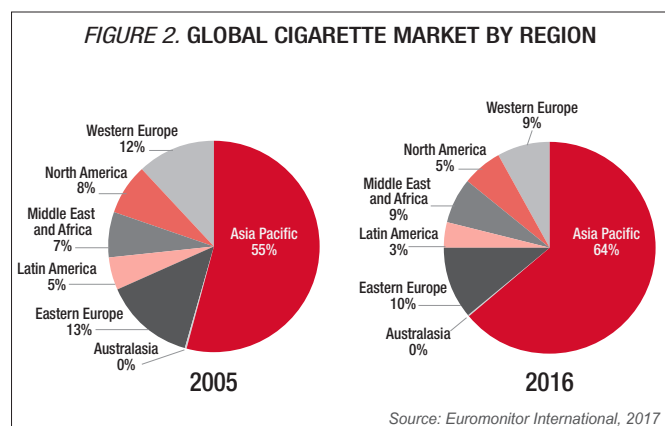
The global cigarette industry is one of the most profitable and deadly industries in the world.

- Cigarette retail values in 2016 were worth US\$683.4 billion.¹
- In 2016, over 5.5 trillion cigarettes were sold to more than one billion smokers worldwide.¹
- Between 2002 and 2016, global cigarette volume sales increased by 1.3% while real retail values increased by 27.6%.¹
- Industry analysts predict that by 2021 the global cigarette volume will decline by 8.2%, and real value will decline by 1.1%.¹



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

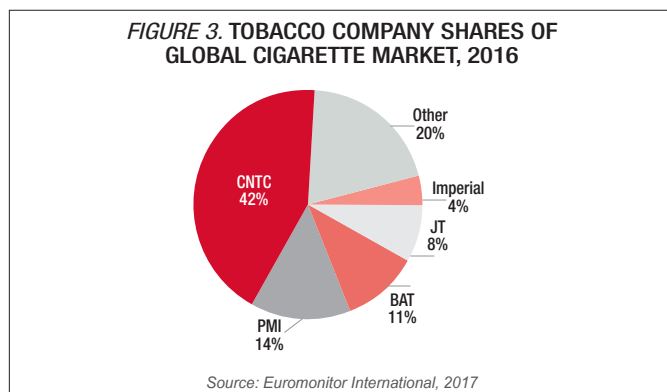
- Sales are shifting from developed markets, like those in Western Europe, where smoking prevalence is declining and where tobacco company operations are more restricted by government policies, to emerging markets, like those in Asia and Africa, where tobacco companies take full advantage of lax regulatory environments, growing populations and increasing incomes.²
- Between 2005 and 2016, cigarette sales in the Asia Pacific and Middle East and Africa regions have increased while all other regions have experienced declining sales (Figure 2).¹



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.^{3,4} If current consumption trends continue, approximately one billion people will die from tobacco use during the twenty-first century.⁴

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).⁵ By 2016, 79.6% of the market was controlled by TTCs.¹ 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).¹



China National Tobacco Corporation (CNTC) is owned and operated by the Chinese government and is the world's single largest producer of cigarettes with 41.5% of the global market.¹ CNTC sells the majority of its product in China; just over 1% of cigarettes produced are exported to other countries.⁷ CNTC is increasing efforts to sell heritage brands such as RDG, Dubliss and Harmony internationally.⁷

Philip Morris International (PMI) is a publicly traded American company with headquarters in Lausanne, Switzerland.⁸ PMI controls an estimated 14.4% of the international cigarette market.¹ 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.⁸ 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 Japan and Italy.⁹

British American Tobacco (BAT) is a publicly traded company based in London. BAT operates in over 200 markets, is the third largest producer in the global tobacco market, and controls 11.4% of the international cigarette market.^{1,10} Top selling brands include Pall Mall, Rothmans, Kent, Dunhill, and Lucky Strike, and these five brands account for half of all BAT cigarette sales. In 2016, BAT cigarette sales grew strongly in several Eastern European countries, Bangladesh, and Vietnam.^{1,10}

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 66% of JT's revenue.¹¹ With JTI operations in over 120 countries, JT is the fourth largest tobacco company in the world, and controls 8.4% of the global cigarette market.^{1,12} The Japanese government holds 33.3% of JT's issued shares.¹² 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 Brazil, Egypt, Korea, Myanmar, and Philippines.^{1,13}

Imperial Tobacco Group is a British company. It is the fifth largest company participating in the global tobacco market and controls 3.9% of the international cigarette market.¹ Imperial operates in more than 160 markets.¹⁴ Key growth markets are in Greece, Italy, Russia, Saudi Arabia and Taiwan.¹⁴ Top brands include Davidoff, West and Gauloises.¹

LARGEST CIGARETTE MARKETS: TOBACCO INDUSTRY TARGETS

The five largest cigarette consuming nations—China, Indonesia, Russia, U.S. and Japan—account for 61.4% of the volume of all cigarettes sold in 2016.¹ Two of the ten largest cigarette markets in 2016 were emerging markets, and five are Bloomberg Initiative Priority Countries (*Figure 4*).¹⁵

FIGURE 4. TOP 10 CIGARETTE MARKETS BY VOLUME

COUNTRY	RETAIL VOLUME, 2016 (BN STICKS)
China	2,350.5
Indonesia*	316.1
Russia	278.4
USA	263.4
Japan	173.9
Turkey	105.5
Egypt	90.0
Bangladesh	86.1
India	84.9
Philippines	79.1

*excluding hand-rolled kreteks

Source: Euromonitor International, 2017

- **China** is the largest cigarette market in the world. The retail value of China's cigarette market in 2016 was US\$206.3 billion.¹ High tar cigarettes dominate the market. However, their sales are decreasing while sales of lower tar cigarettes are increasing.¹ In 2016, the volume sales of cigarettes declined by 5.6% compared to 2015, while real retail value decreased by 5.8%. Since the peak of cigarette volume sales in 2012, the global cigarette market volume has decreased by 7.6%, but the global market declined by more (9.8%) when excluding China's retail volume.¹
- In **Russia**, cigarette sales by volume has declined by almost 19.6% between 2013 and 2016.¹ Over the same time period, real retail values increased by 26.3% to US\$21.7 billion. Between 2015 and 2016 alone, retail volume fell by 4.8%, while real value of sales grew by 12.3%.¹ With a 33.5% market share, JTI is the market leader in Russia, but PMI, BAT and Imperial also have a presence.¹
- The **Indonesia** cigarette market is unique because sales are dominated by kreteks (cigarettes made with a blend of tobacco, and cloves). Between 2015 and 2016, the Indonesian cigarette market declined by 1.4%, marking the first decline in sales volume in nearly a decade.¹ One of the two leading tobacco companies, Sampoerna, was acquired by PMI in 2005 and outperforms all domestically owned companies and all other TTCs trying to make a profit in Indonesia.¹
- In **India**, smokeless tobacco and bidis (small, hand-rolled smoked products) are much more popular than cigarettes: About 75% of all tobacco users use smokeless tobacco, 27% smoke bidis, and only 14% of all tobacco users smoke cigarettes.¹⁶ While cigarettes are not the most popular tobacco product in India, approximately 84.9 billion cigarettes were sold in 2016, making the country an important target for international tobacco companies.¹

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