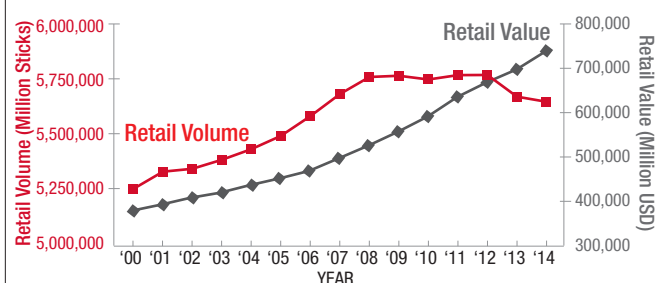


THE GLOBAL CIGARETTE INDUSTRY

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

- Cigarette retail values in 2014 were worth US\$744 billion.¹
- In 2014, over 5.6 trillion cigarettes were sold to more than one billion smokers worldwide.^{1,2}
- Between 2000 and 2014, global cigarette volume sales increased by 8% while retail values increased 121% (Figure 1). Industry analysts predict that over the next five years the global cigarette industry will continue to grow; volumes are predicted to increase by 0.9% and values by 29%.¹

FIGURE 1. GLOBAL CIGARETTE MARKET: HISTORIC RETAIL VOLUME AND VALUE (2000-2014)

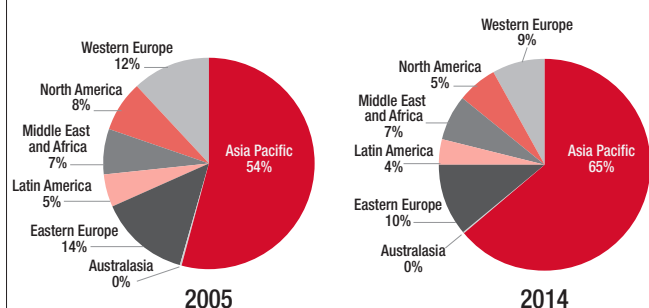


Source: Euromonitor International, 2014

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.⁴
- Between 2005 and 2014, cigarette sales in the Asian Pacific and in the Middle East and Africa region have increased while all other regions have experienced declining sales (Figure 2).¹

FIGURE 2. GLOBAL CIGARETTE MARKET BY REGION



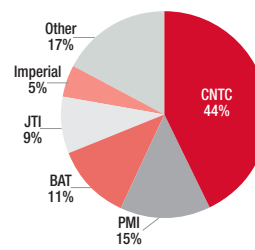
Source: Euromonitor International, 2014

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.^{2,3} If current consumption trends continue, approximately one billion people will die from tobacco use during the twenty-first century.³

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 50% of global market sales were controlled by transnational tobacco companies (TTC). 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 International and Imperial Tobacco (Figure 3).¹

FIGURE 3. TOBACCO COMPANY SHARES OF GLOBAL CIGARETTE MARKET, 2014



Source: Euromonitor International, 2014

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. CNTC sells the majority of its product in China; just over 1% of cigarettes produced are exported to other countries.⁵ CNTC is increasing efforts to sell brands such as RDG, Dubliss and Harmony internationally.⁶

Philip Morris International (PMI) is a publicly traded American company with headquarters in Lausanne, Switzerland.⁷ PMI controls an estimated 15% of the international cigarette market and is the most profitable tobacco company in the world.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 countries, and sells 6 of the top 15 brands, including Marlboro.⁷ Cigarette sales in Asia drive PMI's growth, and the company will continue to focus on growing sales in countries like Indonesia and the Philippines while also expanding its market shares in Bangladesh, China, India and Vietnam.⁸

THE GLOBAL CIGARETTE INDUSTRY

British American Tobacco (BAT) is a publicly traded company based in London. BAT operates in 200 countries, is the third largest in the global tobacco market and controls 11% of the international cigarette market.^{1,9} Top selling brands include Pall Mall, Kent, Lucky Strike and Dunhill, and 71% of BAT's volumes are distributed in emerging markets. The company is currently focusing on how to increase sales in Asian markets.¹⁰

Japan Tobacco International (JTI) is the international division of Japan Tobacco (JT) and is headquartered in Geneva, Switzerland.¹¹ The Japanese government holds a 33% stake in JT.¹² JTI operates in 120 countries, is the fourth largest tobacco company in the world and controls 9% of the global cigarette market.^{1,13} Top brands include Winston, Mervius (formally known as Mild Seven) and Camel. International tobacco sales account for more than 50% of JT profits. JTI continues to expand its presence in emerging markets, and recently acquired a tobacco company in Sudan.¹⁴

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.¹ Imperial operates in more than 160 markets, with 65% of its products sold in emerging markets in Africa, the Middle East, Eastern Europe and Asia.^{1,15} Top brands include Davidoff and Gauloises. Imperial is targeting emerging markets in Asia and Africa and the Middle East to further company growth internationally.¹⁶

LARGEST CIGARETTE MARKETS: TOBACCO INDUSTRY TARGETS

The five largest cigarette consuming nations—China, Russia, U.S., Japan and Indonesia—account for 63% of the volume of all cigarettes sold in 2014. Six of the ten largest cigarette markets in 2014 were emerging markets, three of which are Asian Pacific countries (Figure 4).¹

FIGURE 4. TOP 10 CIGARETTE MARKETS BY VOLUME

COUNTRY	RETAIL VOLUME, 2014 (MN STICKS)
China	2,542,891.9
Russia	316,512.1
USA	270,199.1
Indonesia*	238,867.2
Japan	187,456.1
India	95,930.2
Turkey	94,684.3
South Korea	89,517.1
Philippines	82,666.3
Germany	80,355.0

*excluding hand-rolled kreteks

Source: Euromonitor International, 2014

- **China** is the largest cigarette market in the world. The retail value of China's cigarette market in 2014 was US\$226 billion. By comparison, the retail value of the next largest cigarette market, Russia, was US\$28 billion in 2014.¹ Volume growth in China drives global market growth. Between 2012 and 2014, the global cigarette market decreased by 2.2%, but the global market declined even more (6.3%) when excluding China's volume gains.⁵
- Cigarette sales by volume have been declining in **Russia** since 2008—down 20% between 2008 and 2014. However, over the same time period, retail values have increased 65% from US\$17 billion to US\$28 billion. With a 34% market share, JTI is the market leader in Russia, but PMI, BAT and Imperial also have a presence.¹⁷
- The **Indonesia** cigarette market is unique because sales are dominated by kreteks (cigarettes made with a blend of tobacco, and cloves). Between 2013 and 2014, the Indonesian cigarette market grew nearly 8%.¹⁸ The leading tobacco company, Sampoerna, was acquired by PMI in 2005 and has steadily been gaining market share in Indonesia, outperforming domestically owned companies and other TTCs trying to make a profit in Indonesia.¹⁹
- **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).²⁰ While cigarettes are not the most popular tobacco product in India, nearly 96 billion cigarettes were sold in 2014, making the country an important target for international tobacco companies.²¹

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