

THE GLOBAL CIGARETTE INDUSTRY

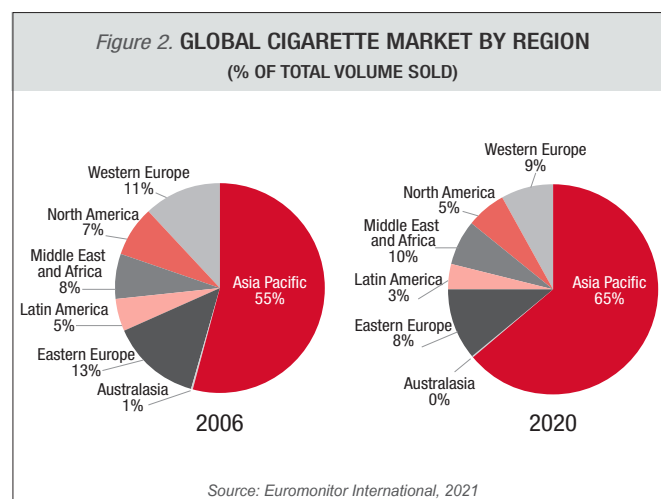
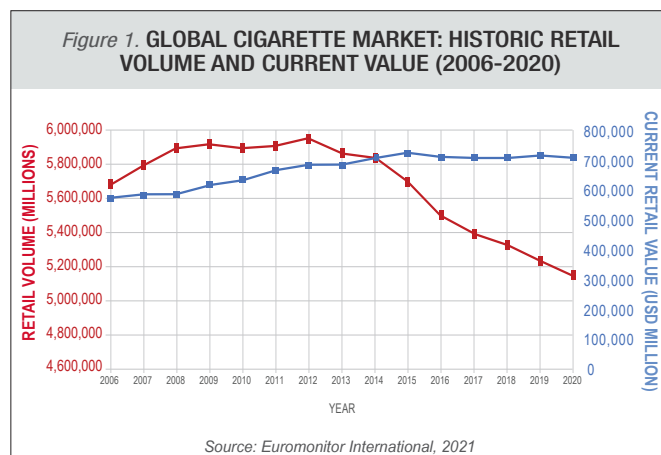
About 80% of the world's smokers live in low- and middle-income countries, and the tobacco industry is increasingly targeting these emerging markets.^{1,2} If current consumption trends continue, approximately one billion people will die from tobacco use during the twenty-first century.²

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

- Cigarette retail values in 2020 were worth US\$717.405 billion.¹
- In 2020, nearly 5.2 trillion cigarettes were sold to more than one billion smokers worldwide.²
- Between 2006 and 2020, global cigarette volume sales decreased by 3.5% while real retail values increased by 24.3%.
- Industry analysts predict that by 2025 the global cigarette volume will decline by 1.1% and real value will increase by 2.1%.

Globally, cigarette consumption is growing in low- and middle-income countries, where about 80% of the world's smokers live³, and decreasing in high-income countries.

- Developed markets, like those in Western Europe, continue to experience declines in smoking prevalence due to stronger government regulation of tobacco. Consequently, emerging markets, like those in Asia and Africa, are critical for the tobacco industry, which takes full advantage of lax regulatory environments, growing populations and increasing incomes.
- Between 2006 and 2020, the market share for cigarettes sold in the Asia Pacific and Middle East & Africa regions increased while all other regions experienced declines (Figure 2).¹
- Between 2006 and 2020, cigarette sales in the Asia Pacific region increased 7.5% to 235 billion sticks. For the Middle East and Africa region, sales increased 15.3% to 65.5 billion sticks for the same period.¹



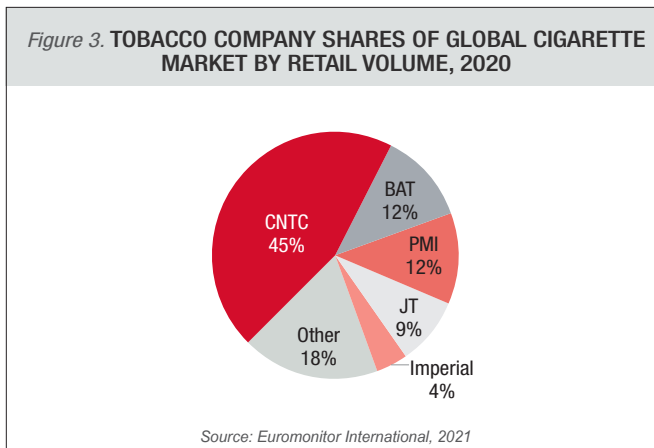
TRANSNATIONAL TOBACCO COMPANIES

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): China National Tobacco Corporation, Philip Morris International, British American Tobacco, Japan Tobacco Inc. and Imperial Tobacco.⁴ Today, In 2020, 82% of the market is controlled by TTCs (Figure 3).³

China National Tobacco Corporation (CNTC) is owned and operated by the Chinese government and is the world's single largest producer of cigarettes with 45% of the global market.³ CNTC sells most of its product in China; around 1% of cigarettes produced are exported to other countries.³ CNTC is increasing efforts to sell heritage brands such as RGD, Dubliss and Harmony internationally.⁵

Philip Morris International (PMI) is a publicly traded American company with headquarters in Lausanne, Switzerland. PMI controls an estimated 12% of the international cigarette market.³ 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 175 markets and sells 6 of the top 15 brands, including Marlboro, the world's top selling cigarette brand.⁶ Despite this leadership, PMI continued to experience declining cigarette volume sales in all regions between 2019–2020.³ PMI's next-generation tobacco and nicotine product such as IQOS and IQOS VEEV are increasing in importance to the company's bottom line. Almost 25% of company revenue in 2020 came from sales of new products.⁸

British American Tobacco (BAT) is a publicly traded company based in London. BAT operates in over 200 markets and is tied with PMI as the second largest company in the global tobacco market with 12% of the international cigarette market.³ Top selling brands include Pall Mall, Rothmans, Kent, Dunhill, and Lucky Strike, and these five brands account for over half of all BAT cigarette sales. Acquisitions in recent years have contributed to increases in the company's overall cigarette volume and revenue, but sales in BAT's Middle East and Africa region have trended downward from 19.7% in 2018 to 18.8% in 2019 to 16.8% in 2020.³



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 62% of JT's operating profit.⁷ With products available in 130 countries, JTI is the fourth largest tobacco company in the world and controls 8.8% of the global cigarette market.^{3,9} Top brands include Winston, Camel, Liggett Ducat (LD), and Mevius (formerly Mild Seven).³ Effective January 2022 JT will consolidate the international tobacco business (JTI) and the Japanese-domestic tobacco business into one to meet profit growth targets for combustibles and electronic nicotine delivery devices.⁹ The Japanese government holds 33.4% of JT's issued shares.⁹

Imperial Tobacco Group is a British company and the fifth largest company participating in the global tobacco market. It controls 3.7% of the international cigarette market.³ Imperial operates in more than 160 markets, and key growth markets for cigarettes are Italy, Russia, Japan, Taiwan, and Saudi Arabia.⁸ Top brands include Gauloises, Davidoff, West, and John Player Special.³

LARGEST CIGARETTE MARKETS: TOBACCO INDUSTRY TARGETS

The five largest cigarette consuming nations — China, Indonesia, U.S., Russia, and Turkey — account for 61.9% of the volume of all cigarettes sold in 2020 (Table 1).³

- China is the largest cigarette market in the world. The retail value of China’s cigarette market in 2020 was US\$232.8 billion.³ In 2020, the volume sales of cigarettes increased by 1.2% compared to 2019 where cigarette sales saw a 0.2% decrease.³ Cigarette retail value increased by 3.4%. Since the peak of global cigarette volume sales in 2012, the global cigarette market volume has decreased by 13%, but it declined by more (20%) when excluding China’s retail volume.³ In 2020, state-owned China National Tobacco Corporation (CNTC) controlled 98.7% of the cigarette market. PMI had 0.1% market share.
- The Indonesia cigarette market is unique because sales are dominated by kreteks (cigarettes made with a blend of tobacco and cloves). Between 2019 and 2020, the Indonesian cigarette market volume declined by 9.8%, marking the fifth consecutive year of decline in sales volume.³ One of the two leading tobacco companies, Sampoerna, was acquired by PMI in 2005 and until 2018, outperformed all domestically owned and transnational companies in terms of cigarette retail volume.³ In 2020, Gudang Garam led cigarette retail volume with 31.1% of cigarette sales, followed by Sampoerna with 24.3%.³
- In Turkey, cigarette retail volume fell by 3.8% between 2019-2020.³ Analysts attribute the 2020 cigarette retail value decline (21.9%) to pressures to economize in the face of rising unemployment and rising prices caused by the COVID-19 pandemic. As part of an overall effort to curb inflation, the government lowered the cigarette excise tax from 67% to 63% in December 2020, which could result in volume sales growth in 2021. PMI and BAT led the 2020 cigarette retail volume with 26.6%, and 26.5% of the market, respectively.³
- In Vietnam cigarette volume sales have increased 9.3% between 2015 and 2020, and value increased an astounding 43.5%. There was a .5% decline in sales between 2019 and 2020, but value increased 6.7%.³

Table 1. TOP 10 CIGARETTE MARKETS

COUNTRY	RETAIL VOLUME, 2020 (BN)
China	2,391.2
Indonesia (excluding hand-rolled kreteks)	276.6
USA	222.6
Russia	205.6
Turkey	115.2
Japan	102.7
Egypt	99.9
Vietnam	80.8
Germany	73.95
Bangladesh	73.94

Source: Euromonitor International, 2021

Sales growth in Vietnam is likely due to rising incomes. While sales of economy brands continued its pattern of decline after the COVID-19 outbreak, sales of mid-price and premium brands grew. The government-owned Vietnam National Tobacco Corporation holds 56.9% of the cigarette market share. BAT leads among international tobacco companies with 29.3% of market share, followed by Imperial Tobacco (7.3%), Philip Morris International (3.0%), and Japan Tobacco (1.9%).³

- In Bangladesh, cigarette retail volume declined by 12.5% between 2017–2020.³ Conversely, cigarette retail value increased by 9.6% during this same period.³ Market analysts attribute the 3.5% decline in cigarette retail value in 2020 to the home seclusion and financial constraints caused by the COVID-19 pandemic as well as public health campaigns and tobacco tax increases.³ BAT is the leading tobacco company in terms of cigarette retail volume, with a 71% market share in 2020, up from 65% in 2019. JTI follows at 18%.³ The government holds a 23% share in BAT Bangladesh.¹²

1. Euromonitor International [Internet database]. Cigarettes. Euromonitor International; c 2021. 2. WHO Report on the Global Tobacco Epidemic, 2021: Offer help to quit tobacco use. Geneva: World Health Organization; 2021. 3. World Health Organization (WHO). Tobacco Fact Sheet. July 2021. Available from: www.who.int/news-room/fact-sheets/detail/tobacco. 4. Mackay J and Eriksen M. The Tobacco Atlas (First Edition, 2002). Geneva: WHO; 2008. Available from: www.who.int/tobacco/resources/publications/tobacco_atlas/en/. 5. Fang, J, Lee, K, & Sejjpal, N. The China National Tobacco Corporation: From domestic to global dragon? Global Public Health. 2017;12(3):315-334. 6. PMI. Philip Morris International 2020 Annual Report. March 2021. 7. Japan Tobacco, Inc. Annual Report 2020. Available from: www.jti.com/about-us/our-business/investor-information/jti-annual-report. 8. Imperial Brands. Annual Report and Accounts 2020. Available from: www.imperialbrandsplc.com/Investors/Annual-report-accounts.html. 9. Euromonitor International. Cigarettes in Turkey [country report]. June 2021. 10. Euromonitor International. Cigarettes in Vietnam [country report]. June 2021. 11. Euromonitor International. Tobacco in Bangladesh [country report]. September 2020