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The U.S. Tobacco Industry in Domestic and World Markets

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Edward Knight
Specialist in Industrial Organization and Corporate Finance
Economics Division

Patricia C. Ayers
Head, Business Section
Congressional Reference Division

Gerald Mayer
Economic Analyst
Economics Division

ABSTRACT

This report examines the manufactured tobacco products industry in U.S. and world markets . It reviews the financial performance of the dominant U.S. cigarette companies. It also examines recent trends in world cigarette production, consumption, and exports. The report examines the potential for U.S. companies to expand cigarette sales in foreign markets . Finally, the report provides brief coverage of the smokeless tobacco and cigar industries. The report will be updated as new information or issues warrant.

The U.S. Tobacco Industry in Domestic and World Markets

Summary

This report examines the operations, production, and sales of the U.S. manufactured tobacco products industry, both domestically and abroad. Americans spent an estimated \$51.9 billion on tobacco products in 1997, or just under 1% of their disposable income. Of this amount, \$48.7 billion (or 94%) was spent on cigarettes, \$2.2 billion on smokeless and smoking tobacco, and \$0.9 billion on cigars.

Cigarette production in the United States is largely concentrated in the hands of three firms: Philip Morris, RJR Nabisco, and Brown & Williamson. These firms accounted for about 90% of total production in 1996. Domestic sales of major U.S. firms (namely, Philip Morris and RJR Nabisco) grew very little over the period 1992-1996. International sales, on the other hand, increased more rapidly during this period, indicating that these firms are giving high priority to increasing cigarette sales abroad, given the diminished growth potential of the U.S. market in recent years. Cigarette production in the United States registered only a slight gain (0.2%) over 1992-1997. However, cigarette consumption on a per capita basis declined by about 9%. The U.S. share of world production of cigarettes declined from 13.4% to 12.6% over the period 1992-1997. The U.S. share of world exports also declined from 26% to 21% in the same period.

China is by far the largest producer of cigarettes in the world; the second largest producer is the United States. In 1997 China produced an estimated 1.7 trillion pieces, almost two and one half times the 720 billion pieces produced in the United States. The United States is by far the largest cigarette exporting nation in the world, with exports in 1997 estimated about 217 billion pieces, or 21% of the world total. China is the largest consumer market in the world, with over 300 million smokers consuming 1.7 trillion cigarettes in 1997. Its market, however, is basically closed to foreign exporters. China's desire to become a member of the World Trade Organization, eventually could lead to an opening of its market to cigarette imports.

Like the cigarette industry, the smokeless tobacco industry (including the production of snuff and chewing tobacco) is highly concentrated among a few firms: U.S. Tobacco Company, Conwood Company, and Pinkerton Tobacco Company. In 1996 the companies accounted for about 83% of total industry sales. The production of chewing tobacco declined by 16% over the 1992-1997 period while the output of snuff products increased by 11%. This rise was due entirely to the increase in the output of moist snuff products. Consumption patterns were also similar in this period: the use of snuff products showed moderate gains of 7%, while chewing tobacco sharply declined by 25%. The annual consumption of smokeless products on a per capita basis is quite small compared to the use of cigarettes — about 1 pound for smokeless and 4 pounds for cigarettes.

The U.S. cigar industry is primarily composed of four companies. The production of cigars in the United States increased by almost 25% from 1992 to 1997. Imports of large cigars account for a relatively large share of U.S. consumption. Most imports of large cigars consist of premium cigars. This report will be updated as new information or issues warrant.

This report is a shortened version of CRS Report 98-506 E: The U.S. Tobacco Industry in Domestic and World Markets, by Edward Knight, et al. 41 p.

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The U.S. Tobacco Industry in Domestic and World Markets

This report examines the operations, production and sales of the U.S. manufactured tobacco products industry, both domestically and abroad. The analysis focuses mainly on the domestic cigarette industry, but also reviews the smokeless tobacco industry (which includes snuff and chewing tobacco) as well as the cigar industry. The information used in this report was obtained from readily available (published) government and private sources. The time periods analyzed vary, depending on the availability of data. A summary of the major findings is provided on pages 28-30.

In 1997, the U.S. tobacco industry produced an estimated 720 billion cigarettes, 3.8 billion cigars, and 121.3 million pounds of chewing tobacco and snuff. Americans spent an estimated \$51.9 billion on tobacco products in 1997, or just under 1% of their disposable income. Of this amount, \$48.7 billion (or 94%) was spent on an estimated 480 billion cigarettes, \$2.2 billion on smoking tobacco and smokeless tobacco, and \$0.9 billion on cigars.¹ This report is a shortened version of CRS Report 98-506 E: The U.S. Tobacco Industry in Domestic and World Markets, by Edward Knight, et. al. 41 p.

Composition and Performance of the Domestic Cigarette Industry

The domestic cigarette industry is highly concentrated. It is essentially composed of three major companies—Philip Morris, RJR Nabisco, and Brown & Williamson/BAT—with a combined domestic market share of 90%. Lorillard/Loews and the Liggett/Brooke Group hold a combined market share of less than 10%.

Major Producers

Philip Morris Companies Inc. is a holding company whose principal wholly owned subsidiaries engage in the manufacture and sale of consumer products. Philip Morris Inc. (PM Inc.) conducts the manufacture, marketing and sales of cigarettes in the United States. Its leading premier brands are Marlboro, Benson & Hedges, Merit, Virginia Slims, and Parliament; its discount brands are Basic and Cambridge. Philip Morris International Inc. (PMI) is the largest privately owned cigarette producer in the world. Its leading international brands are Marlboro, L&M, Philip Morris, Bond Street, Chesterfield, Lark, Parliament, Merit, and Virginia Slims.

¹ U.S. Department of Agriculture. Economic Research Service. Tobacco Briefing Room. Available on the Internet at <http://www.econ.ag.gov/briefing/tobacco> (as of May 7, 1998).

PMI Inc. employs 20,000, with nine manufacturing facilities in Kentucky, North Carolina and Virginia. PMI, employing 12,000 outside the United States, has ownership, leasing, or interest rights in 52 manufacturing facilities in 29 countries.

RJR Nabisco Holdings Corporation conducts its tobacco business through its wholly-owned subsidiaries, R. J. Reynolds Tobacco Company (RJRT) and R.J. Reynolds International (Reynolds Intl.). Its leading premier brands are Winston, Doral, Camel, Salem, and Vantage. Its discount brands include Monarch, More, Now, Best Value, Sterling, Magna and Century. The leading brands of Reynolds Intl. are Winston, Camel and Salem.

RJRT, with 9,000 employees, has manufacturing facilities in North Carolina. Reynolds Intl. employs 16,000 workers in 22 countries at wholly-owned or joint-venture manufacturing facilities and at another 20 locations through licensing agreements.

Brown & Williamson is a wholly owned U.S. subsidiary of the UK company BAT Industries PLC, a manufacturer of tobacco products and provider of financial services. Its premier brands include Lucky Strike, Carlton, and Kool. In 1994 BAT acquired American Brands' subsidiary American Tobacco, including its Lucky Strike and Pall Mall brands. In 1997, American Brands completed its divestiture of all tobacco interests by selling its UK-based Gallaher Group tobacco subsidiary to BAT.

Brown & Williamson employs 4,800, with manufacturing facilities in Kentucky and North Carolina. It also has offices in Hong Kong, Malaysia, Japan and the UK.

Lorillard Tobacco Company is a subsidiary of Loews Corporation. Its premier brands include Newport, Kent, Old Gold and True. In 1977, Lorillard sold the rights to its cigarette brands' trademarks outside the United States to BAT. Lorillard employs 3,500. Its manufacturing and research facilities are located in Greensboro, N.C.

Liggett Group Inc. is a subsidiary of Brooke Group Ltd. of Miami, Florida. Liggett's headquarters are located in Durham, North Carolina. Its brands include L&M, Eve, Chesterfield, and Lark. In 1978 Liggett sold the rights to its cigarette brands' trademarks outside the United States to Philip Morris Companies. Liggett has 570 employees with manufacturing facilities in Texas and North Carolina. As of 1996, Liggett had acquired 95% of the stock of Liggett-Ducat—a Russian joint stock company manufacturing cigarettes.

Domestic Market Shares of U.S. Cigarette Producers

As noted earlier, the domestic cigarette industry is largely dominated by three firms. Figure 1 shows that, in 1997, four U.S. cigarette makers held 98% of the U.S. cigarette market. The largest share was held by Philip Morris, at 49.1%, followed by RJR Nabisco (at 24.2%), Brown and Williamson/BAT (at 16.1%), and Lorillard (at 8.7%).

Table 1 below shows the market shares for U.S. producers over the period 1993-1997. The market share held by Philip Morris increased from 42.2% to 49.1% over this period. RJR Nabisco's share, on the other hand, declined from 30.6% to 24.2% of total U.S. retail sales. Brown & Williamson's share declined slightly, from 17.7% to 16.1%. The fourth largest producer, Lorillard, saw its share increase from 7.1% to 8.7%.

Figure 1. Domestic Market Shares of U.S. Cigarette Producers, 1997

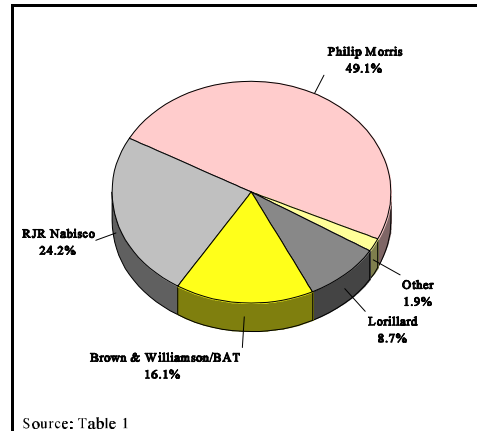


Table 1. Domestic Market Shares of U.S. Cigarette Producers, 1993-97
(Percent of total U.S. retail sales)

Company	1993	1994	1995	1996	1997
Philip Morris	42.2	44.8	46.1	47.8	49.1
RJR Nabisco	30.6	26.7	25.7	24.6	24.2
Brown & Williamson/BAT	17.7	18.7	18.0	17.2	16.1
Lorillard	7.1	7.5	8.0	8.4	8.7
Other	2.4	2.3	2.2	2.0	1.9
Total	100.0	100.0	100.0	100.0	100.0

Source: Standard and Poor's Industry Surveys, September 11, 1997. p. 5.

Financial Performance of Major U.S. Cigarette Producers

Table 2 below contains data on sales and profits of the three major cigarette producers owned and operated in the United States. Brown & Williamson, the other major U.S. producer, is a wholly-owned subsidiary of BAT, a British company. Comparable data on this firm are not readily available.

Figures 2 and 3 show that, overall, Philip Morris Companies, Inc. registered impressive gains in sales and profits over the 1992-1997 period. Tobacco sales rose sharply from \$25.7 billion to \$39.8 billion (or 55%), while total operating profits increased by \$650 million (or 9%). This success, however, was driven solely by strong gains in sales by its international operations. Domestic sales increased modestly from \$12.0 billion to \$13.5 billion (or 12%), but domestic profits declined from \$5.2 billion to \$3.3 billion (a decrease of 37%). International tobacco sales, on the other hand, increased from \$13.7 billion in 1992 to \$26.3 billion (or 93%) in 1997. Likewise, profits from international sales rose sharply, increasing from \$2.0 billion to \$4.6 billion (or 128%).

Table 2. Financial Performance of Major U.S. Producers, 1992-97
(Millions of dollars)

Company	1992	1993	1994	1995	1996	1997
Philip Morris Companies, Inc.						
Sales:						
Domestic	12,010	10,227	11,110	11,493	12,462	13,485
International	13,667	15,746	17,561	20,823	24,087	26,339
Total	25,677	25,973	28,671	32,316	36,549	39,824
Operating Profits						
Domestic	5,185	2,808	3,302	3,740	4,206	3,267
International	2,018	2,360	2,877	3,453	4,078	4,592
Total	7,203	5,168	6,179	7,197	8,263	7,859
RJR Nabisco Holdings Corp.						
Sales						
R.J. Reynolds Tobacco	6,165	4,949	4,570	4,480	4,551	4,895
Reynolds International	2,862	3,130	3,097	3,234	3,623	3,428
Total	9,027	8,079	7,667	7,714	8,174	8,323
Operating Profits						
R.J. Reynolds Tobacco	1,704	453	1,085	954	1,084	na
Reynolds International	537	413	716	546	761	na
Total	2,241	866	1,801	1,500	1,845	1,023
Loews Corporation						
Lorillard						
Sales	2,185	1,909	1,916	2,081	2,239	2,417
Operating Profits	524	341	348	385	444	363

Notes: na = not available

Source: Recent annual reports of individual companies, and Moody's Industrial Manual, 1995 and 1997.

Figure 2. Philip Morris Sales, 1992-97

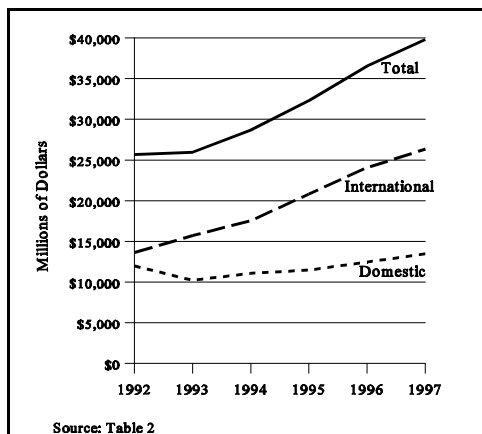
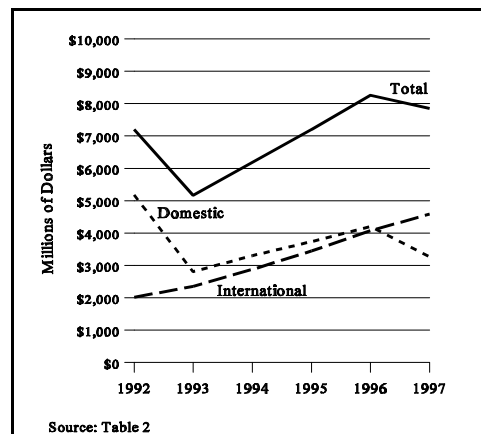


Figure 3. Philip Morris Profits, 1992-97



Figures 4 and 5 show that the sales and profits performance of the tobacco operations of RJR Nabisco Holding Corp. contrasted markedly with that of Philip Morris. Total domestic sales decreased from \$6.2 billion in 1992 to \$4.9 billion in 1997 (a drop of 21%). From 1992 to 1996, profits on domestic sales dropped from \$1.7 billion to \$1.1 billion (a decrease of 36%). International sales, on the other hand, increased from \$2.9 billion to \$3.4 billion (or 20%) between 1992 and 1997, while profits on international sales increased from \$537 million to \$761 million (or 42%) between 1992 and 1996. The gains on the international front, however, were not sufficient to offset the declines from domestic operations over the period. Consequently, total sales and profits from the tobacco operations of RJR were lower in 1997 than in 1992 (down by 8% and 54%, respectively).

Figure 4. RJR Nabisco Sales, 1992-97

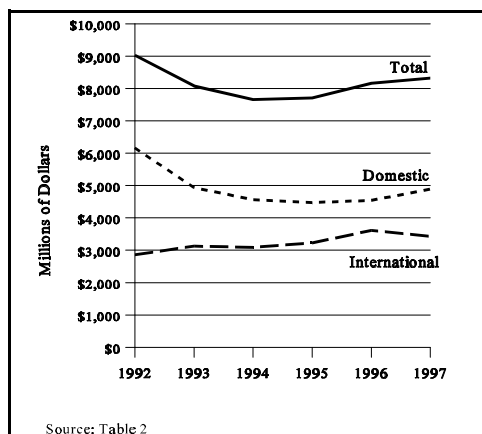
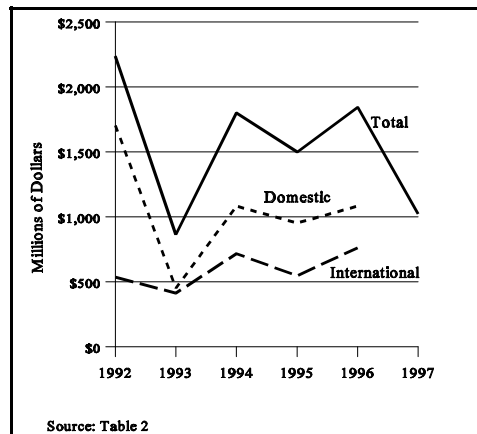


Figure 5. RJR Nabisco Profits, 1992-97



It is apparent from these data that both Philip Morris and RJR Nabisco are giving high priority to increasing cigarette sales abroad, given the diminishing growth potential of the U.S. market in recent years. This trend will be discussed in more detail below.

Lorillard Tobacco Company, the third company owned and operated in the United States, experienced only a slight gain in sales over the 1992-1997 period, from \$2.2 billion to \$2.4 billion (or 11%). Profits, on the other hand, decreased from \$524 million to \$363 million over the same period (a decline of 31%). As noted earlier, this company in the 1970s sold the foreign production rights of its cigarette brands' trademarks to a British firm, BAT Industries PLC.

Indicators of Cigarette Industry Performance

From statistics compiled by the U. S. Departments of Agriculture and Labor, one can obtain a relatively good understanding of cigarette industry performance, domestically and internationally, over the past several years. These indicators of industry performance offer interesting insights regarding patterns of growth in domestic production, consumption, employment, and earnings of workers. They also

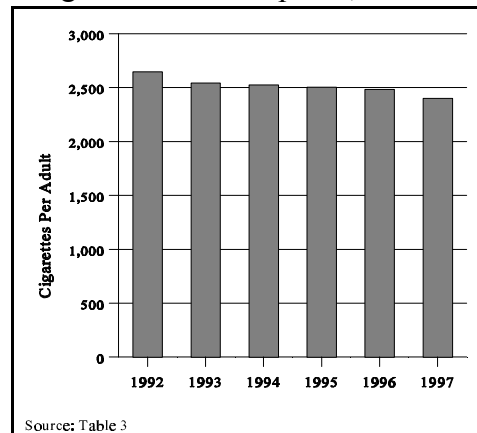
provide information on cigarette markets abroad relating to production, consumption and exports.

U.S. Markets

Table 3 below contains selected data on the performance of the cigarette industry over the period 1992-1997. The major characteristics of industry performance during this period are as follows:

- Cigarette production in the United States totaled 719.6 billion pieces in 1997, which is only 0.2% above the 718.5 billion pieces produced in 1992.² Hence, domestic production has grown very little over this period.
- Total cigarette consumption in the United States declined over this period, falling from 500 billion to 480 billion pieces (or 4%) from 1992 to 1997.
- On a per capita basis, consumption declined from 2,647 pieces in 1992 to 2,399 in 1997, representing a decline of 9.4%.³ This trend is shown in Figure 6.
- Consumer expenditures for cigarettes (after adjustment for inflation) remained largely unchanged over the period 1992 - 1997, averaging \$44.6 billion a year.
- Total employment of production workers in the industry experienced a steady decline from 33,600 in 1992 to 27,800 in 1997, a decline of 5,800 workers, or 17.3%. (According to one estimate, in 1995 there were 502,210 jobs directly involved in growing, manufacturing, and distributing tobacco products in the United States.⁴)
- Workers in the industry are well paid. Average hourly earnings (in current dollars) increased from \$20.67 in 1992 to \$24.76 in 1997, representing an increase of 20% over the period. During the same period such earnings for all production workers in the private nonfarm sector of the economy increased from \$10.57 to \$12.26, for an increase of about 16%.

Figure 6. U.S. Per Capita Cigarette Consumption, 1992-97



² The data on U.S. production include production of U.S. and foreign firms in the United States, as reported by the U.S. Department of Agriculture.

³ Calculations of per capita consumption of cigarettes are based on size of the adult population, 18 years and over.

⁴ Tobacco Dollars and Jobs. Tobacco Situation and Outlook TBS-39. September 1997. p. 41.

- From fiscal years 1992 to 1997, federal excise tax revenues from cigarette sales increased by 13.9%, from \$5,043 million to \$5,743 million. Over the same period, state excise tax revenues on cigarette sales increased by 20.4%, from \$5,924 to \$7,134 million. Overall, \$12.9 billion in revenues were obtained from federal and state excise taxes on cigarettes in 1997.

Table 3. Selected Statistics on Cigarette Production and Sales in the United States, 1992-97

	1992	1993	1994	1995	1996	1997
U.S. cigarette production (billions of pieces)	718.5	661.0	725.6	746.5	755.4	719.6
U.S. cigarette consumption (billions of pieces)	500	485	486	487	487	480
U.S. per capita cigarette consumption (cigarettes/adult)	2,647	2,543	2,524	2,505	2,482	2,399
U.S. consumer expenditures for cigarettes (billions of dollars):						
Current dollars:	45.8	46.2	44.5	45.8	47.2	48.7
Constant (1992) dollars: ^a	45.8	44.4	44.5	44.6	44.6	44.0
Employment (in thousands)	33.6	30.4	30.3	28.8	28.2	27.8
Average hourly earnings (current dollars)	20.67	21.04	23.38	24.46	24.64	24.76
Average hourly earnings for all production workers in the private nonfarm sector (current dollars)	10.57	10.83	11.12	11.43	11.81	12.26
World production of cigarettes (billions of pieces)	5,363	5,230	5,478	5,605	5,709	5,727
U.S. cigarette production as a percent of total world production (percent)	13.4	12.5	13.2	13.3	13.2	12.6
Federal cigarette excise tax revenues, fiscal years (millions of dollars)	5,043	5,528	5,600	5,717	5,679	5,743 ^b
State cigarette excise tax revenues, fiscal years (millions of dollars)	5,924	6,045	6,506	7,051	7,122	7,134

Notes: na = not available.

Sources: U.S. Department of Agriculture. Economic Research Service. Tobacco Situation and Outlook Report, recent issues; U.S. Department of Agriculture. Foreign Agriculture Service, Tobacco: World Markets and Trade, recent issues; U.S. Department of Agriculture. Economic Research Service. Tobacco Briefing Room. Available on the Internet at <http://www.econ.ag.gov/briefing/tobacco> (as of May 7, 1998); U.S. Department of Agriculture. Foreign Agriculture Service. E-mail to authors. May 11, 1998; U.S. Department of Labor. Bureau of Labor Statistics. Employment and Earnings, recent issues; and Tobacco Institute. The Tax Burden on Tobacco, v. 32, January 1998. p. 5, 8.

^a The current dollar amounts for consumer expenditures for cigarettes were deflated using the Consumer Price Index for all Urban Consumers (CPI-U) for tobacco products.

^b Estimated.

World Markets

Table 4 below provides selected data on world cigarette markets, covering the period 1992-1997. The major characteristics of these markets are as follows:

- World cigarette production grew at a moderate rate during this period, increasing from 5,363 billion pieces in 1992 to 5,727 billion pieces in 1997, a n increase of 6.8%.
- By comparison, U.S. cigarette production increased by only 0.2% over the period.
- Consequently, the U.S. share of world production declined slightly from 13.4% to 12.6% over the period. This trend is shown in Figure 7.
- From 1992 to 1997, world cigarette consumption increased by 192 billion cigarettes (or 3.8%), while U.S. consumption declined by 20 billion cigarettes (or 4.0%).
- Over the 5-year period, world exports increased by 30.7%, while U.S. exports grew by only 5.3%.
- The share of world cigarette exports accounted for by cigarettes produced by firms in the United States declined from 26% to 21% between 1992 and 1997. See Figure 7.

Figure 7. U.S. Cigarette Production and Exports as a Share of World Production and Exports, 1992-97

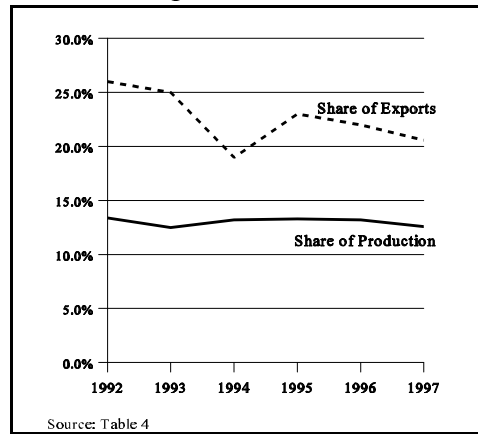


Table 4. Selected Statistics on World Cigarette Markets, 1992-97

	1992	1993	1994	1995	1996	1997
World cigarette production (billions of pieces)	5,363	5,230	5,478	5,605	5,709	5,727
U.S. cigarette production (billions of pieces)	718.5	661.0	725.6	746.5	755.4	719.6
U.S. share of world production (percent)	13.4	12.5	13.2	13.3	13.2	12.6
World Cigarette Consumption (billions of pieces)	5,104	5,122	5,184	5,254	5,292	5,296
U.S. Cigarette Consumption (billions of pieces)	500	485	486	487	487	480
World cigarette exports (billions of pieces)	804	780	1,157	988	1,093	1,051
U.S. cigarette exports (billions of pieces)	206	195	220	231	244	217
U.S. share of world cigarette exports (percent)	26	25	19	23	22	21
U.S. cigarette exports as share of U.S. production (percent)	29	30	30	31	32	30

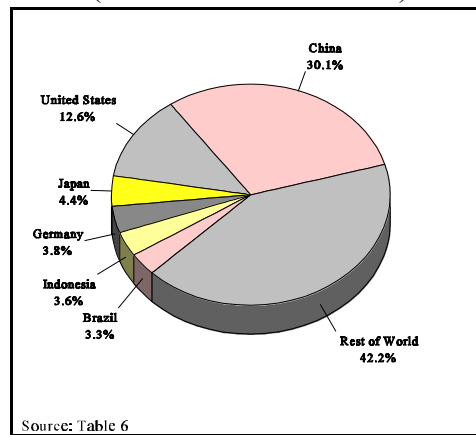
Source: U.S. Department of Agriculture. Economic Research Service. Tobacco Briefing Room. Available on the Internet at <http://www.econ.ag.gov/briefing/tobacco> (as of May 7, 1998); U.S. Department of Agriculture. Foreign Agriculture Service. E-mail to authors. May 11, 1998.

- From 1992 to 1996, U.S. cigarette exports as a percent of U.S. production increased from 29% to 32%, before dropping to 30% in 1997. This general trend indicates that domestic manufacturers are placing increasing emphasis on expanding their markets abroad. Exports increased from 206 billion pieces in 1992 to 217 billion pieces in 1997.

Tables 5-12 and Figures 8-11 below provide additional data on leading world cigarette markets on a country-by-country basis.

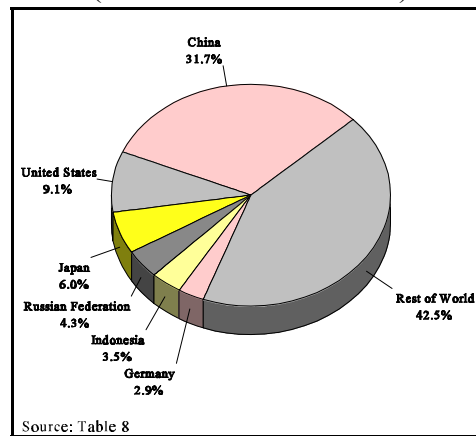
- The People's Republic of China is by far the largest producer of cigarettes in the world. In 1997 (see Table 5), China produced an estimated 1,722 billion cigarettes, almost two and one half times the level produced in the United States (720 billion cigarettes). Japan ranked a distant third at 255 billion pieces, followed closely by Germany, Indonesia, and Brazil. In 1997, these leading producing countries accounted for almost 60% of total world production (see Table 6), with China and the United States together producing by far the largest share: 43%; China's share was 30.1% and that for the United States was 12.6%. See Figure 8. As shown in Table 6, neither of these countries experienced any significant changes in their shares of world production over the 1992-1997 period.

Figure 8. World's Top Cigarette Producing Countries, 1997 (Percent of world total)



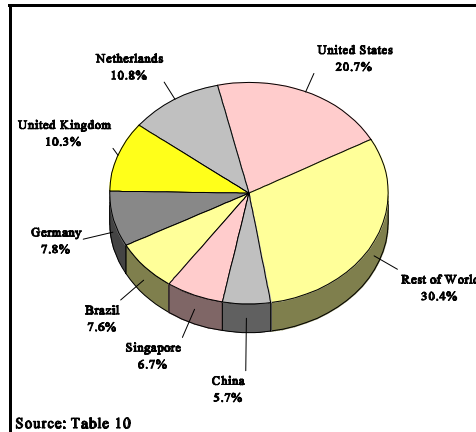
- China is also the largest consumer of cigarettes in the world. In 1997 (see Table 7), China consumed an estimated 1,679 billion cigarettes. China was followed by the United States (480 billion), Japan (316 billion), the Russian Federation (230 billion), Indonesia (188 billion), and Germany (151 billion). These countries consumed almost 58% of total world consumption. See Figure 9. Among these countries, from 1992 to 1997 the share of world consumption increased only in the Russian Federation and Indonesia. See Table 8.

Figure 9. World's Top Cigarette Consuming Countries, 1997 (Percent of world total)



- The United States is by far the largest cigarette exporting nation in the world, with exports in 1997 of 217 billion pieces, or 20.7% of the world total (see Figure 10). The other major exporters include the Netherlands, United Kingdom, Germany, Brazil, and Singapore. These six countries accounted for 64% of total world exports. Despite its dominant position as world producer, total exports from China in 1997 amounted to only an estimated 60 billion pieces, or about 5.7% of the world total (see Tables 9 and 10).

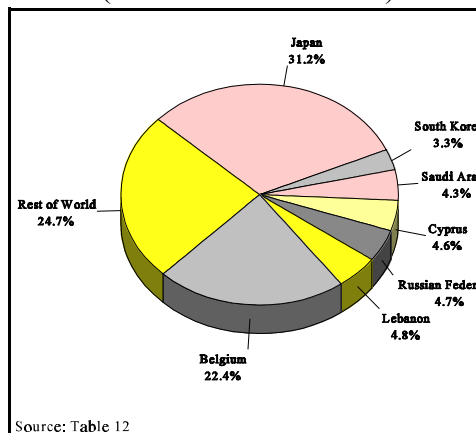
Figure 10. World's Top Cigarette Exporting Countries, 1997 (Percent of world total)



- The world market share of United States exports, despite its dominance as an exporter, has declined significantly from 26% in 1992 to 21% in 1997 (see Table 10).

- The largest destinations for U.S. exports are Japan (68 billion pieces) and Belgium (49 billion pieces).⁵ See Table 11. These two countries account for 54% of U.S. exports (see Figure 11). U.S. exports to China, which is by far the largest market for cigarettes, are negligible. In China, cigarettes are produced by a national monopoly and there are severe restrictions on cigarette imports. In 1997, China imported about 17 billion pieces or only 2.4% of total world imports.⁶

Figure 11. U.S. Cigarette Exports by Destination, 1997 (Percent of U.S. total)



- From 1992 to 1997, the increase in cigarette production in some countries was mainly for export (i.e., Brazil, United Kingdom, Netherlands, and Bulgaria). In other countries, the increase in production was primarily for domestic consumption (i.e., China, Indonesia, Russian Federation, Turkey, and India). See Tables 5, 7, and 9.

⁵ U.S. exports by destination provide an indication of how many U.S. produced cigarettes are shipped to each country. These figures do not show how many of these cigarettes are actually consumed in each country. Some may be subsequently shipped from these countries to other markets in the world.

⁶ World Tobacco. January 1998. p. 8.

Table 5. World's Top Cigarette Producing Countries, 1992-97
(Billions of pieces)

	1992	1993	1994	1995	1996	1997
China	1,644	1,675	1,710	1,735	1,721	1,722
United States	719	661	726	747	755	720
Japan	297	289	269	263	271	255
Germany	222	208	221	221	218	218
Indonesia	153	162	177	186	197	208
Brazil	154	149	164	174	182	190
Russian Federation	148	146	138	141	150	175
United Kingdom	127	117	115	156	170	170
Netherlands	81	84	88	101	111	115
Turkey	70	78	94	100	109	112
India	87	88	89	95	102	107
Poland	87	100	98	101	95	93
South Korea	97	97	91	88	93	93
SUBTOTAL	3,884	3,855	3,980	4,106	4,175	4,177
Other Countries ^a	1,478	1,445	1,498	1,500	1,533	1,550
WORLD TOTAL	5,363	5,300	5,478	5,605	5,709	5,727

See notes to table 6.

Table 6. World's Top Cigarette Producing Countries, 1992-97
(Percentages of world total)

Country	1992	1993	1994	1995	1996	1997 ^a
China	30.7%	31.6%	31.2%	31.0%	30.1%	30.1%
United States	13.4%	12.5%	13.2%	13.3%	13.2%	12.6%
Japan	5.5%	5.5%	4.9%	4.7%	4.7%	4.4%
Germany	4.1%	3.9%	4.0%	3.9%	3.8%	3.8%
Indonesia	2.9%	3.1%	3.2%	3.3%	3.5%	3.6%
Brazil	2.9%	2.8%	3.0%	3.1%	3.2%	3.3%
Russian Federation	2.8%	2.8%	2.5%	2.5%	2.6%	3.1%
United Kingdom	2.4%	2.2%	2.1%	2.8%	3.0%	3.0%
Netherlands	1.5%	1.6%	1.6%	1.8%	1.9%	2.0%
Turkey	1.3%	1.5%	1.7%	1.8%	1.9%	2.0%
India	1.6%	1.7%	1.6%	1.7%	1.8%	1.9%
Poland	1.6%	1.9%	1.8%	1.8%	1.7%	1.6%
South Korea	1.8%	1.8%	1.7%	1.6%	1.6%	1.6%
SUBTOTAL	72.4%	72.7%	72.7%	73.2%	73.1%	72.9%
Other Countries ^a	27.6%	27.3%	27.3%	26.8%	26.9%	27.1%
WORLD TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Note: Sorted by 1997 production.

Source: U.S. Department of Agriculture. Economic Research Service. Tobacco Briefing Room Available on the Internet at <http://www.econ.ag.gov/briefing/tobacco> (as of May 7, 1998); U.S. Department of Agriculture. Foreign Agriculture Service. E-mail to authors. May 11, 1998. Percentages in Table 6 were calculated by CRS from Table 5.

Table 7. World's Top Cigarette Consuming Countries, 1992-97
(Billions of pieces)

	1992	1993	1994	1995	1996	1997
China	1,622	1,643	1,656	1,686	1,680	1,679
United States	500	485	486	487	487	480
Japan	340	333	321	317	337	316
Russian Federation	193	185	177	211	207	230
Indonesia	130	140	161	165	178	188
Germany	153	146	150	152	151	151
Brazil	128	119	109	119	119	110
India	85	86	88	94	101	106
South Korea	102	103	98	99	103	103
Turkey	75	83	95	97	99	100
Italy	88	92	97	88	87	93
Poland	96	104	95	101	92	89
United Kingdom	89	95	95	91	89	88
SUBTOTAL	3,601	3,613	3,628	3,707	3,730	3,732
Other Countries ^a	1,502	1,509	1,556	1,547	1,562	1,564
WORLD TOTAL	5,104	5,122	5,184	5,254	5,292	5,296

See notes to table 8.

Table 8. World's Top Cigarette Consuming Countries, 1992-97
(Percentages of world total)

	1992	1993	1994	1995	1996	1997
China	31.8%	32.1%	31.9%	32.1%	31.7%	31.7%
United States	9.8%	9.5%	9.4%	9.3%	9.2%	9.1%
Japan	6.7%	6.5%	6.2%	6.0%	6.4%	6.0%
Russian Federation	3.8%	3.6%	3.4%	4.0%	3.9%	4.3%
Indonesia	2.6%	2.7%	3.1%	3.1%	3.4%	3.5%
Germany	3.0%	2.8%	2.9%	2.9%	2.9%	2.9%
Brazil	2.5%	2.3%	2.1%	2.3%	2.2%	2.1%
India	1.7%	1.7%	1.7%	1.8%	1.9%	2.0%
South Korea	2.0%	2.0%	1.9%	1.9%	1.9%	1.9%
Turkey	1.5%	1.6%	1.8%	1.8%	1.9%	1.9%
Italy	1.7%	1.8%	1.9%	1.7%	1.6%	1.8%
Poland	1.9%	2.0%	1.8%	1.9%	1.7%	1.7%
United Kingdom	1.7%	1.9%	1.8%	1.7%	1.7%	1.7%
SUBTOTAL	70.6%	70.5%	70.0%	70.6%	70.5%	70.5%
Other Countries ^a	29.4%	29.5%	30.0%	29.4%	29.5%	29.5%
WORLD TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Note: Sorted by 1997 consumption.

Source: U.S. Department of Agriculture. Economic Research Service. Tobacco Briefing Room. Available on the Internet at <http://www.econ.ag.gov/briefing/tobacco> (as of May 7, 1998); U.S. Department of Agriculture. Foreign Agriculture Service. E-mail to authors. May 11, 1998. Percentages in Table 8 were calculated by CRS from Table 7.

Table 9. Top Cigarette Exporting Countries, 1992-97
(Billions of pieces)

Country	1992	1993	1994	1995	1996	1997
United States	206	195	220	231	244	217
Netherlands	74	73	80	82	111	113
United Kingdom	56	49	310	85	137	108
Germany	78	71	84	85	82	82
Brazil	26	30	55	54	63	80
Singapore	36	54	54	50	59	70
China	30	42	54	63	59	60
Bulgaria	39	23	40	61	44	55
Hong Kong	90	78	82	74	80	46
Switzerland	18	18	24	27	27	23
Indonesia	23	23	16	21	19	20
France	8	6	8	9	12	15
Venezuela	11	12	15	18	15	15
Japan	14	15	15	17	12	12
Turkey	2	4	0	3	11	12
SUBTOTAL	710	691	1,058	881	973	929
Other Countries	94	89	99	107	120	122
WORLD TOTAL	804	780	1,157	988	1,093	1,051

See notes to table 10.

Table 10. Top Cigarette Exporting Countries, 1992-97
(Percentages of world total)

Country	1992	1993	1994	1995	1996	1997
United States	25.6%	25.0%	19.0%	23.4%	22.3%	20.7%
Netherlands	9.2%	9.4%	6.9%	8.3%	10.2%	10.8%
United Kingdom	6.9%	6.2%	26.8%	8.6%	12.5%	10.3%
Germany	9.6%	9.1%	7.2%	8.6%	7.5%	7.8%
Brazil	3.2%	3.8%	4.7%	5.5%	5.8%	7.6%
Singapore	4.5%	6.9%	4.7%	5.1%	5.4%	6.7%
China	3.8%	5.4%	4.7%	6.3%	5.4%	5.7%
Bulgaria	4.9%	2.9%	3.5%	6.2%	4.0%	5.2%
Hong Kong	11.2%	10.0%	7.1%	7.5%	7.3%	4.4%
Switzerland	2.3%	2.3%	2.1%	2.7%	2.5%	2.2%
Indonesia	2.9%	2.9%	1.4%	2.1%	1.8%	1.9%
France	1.0%	0.7%	0.7%	0.9%	1.1%	1.4%
Venezuela	1.3%	1.5%	1.3%	1.8%	1.4%	1.4%
Japan	1.7%	2.0%	1.3%	1.8%	1.1%	1.2%
Turkey	0.3%	0.5%	0.0%	0.3%	1.0%	1.1%
SUBTOTAL	88.3%	88.7%	91.4%	89.2%	89.0%	88.4%
Other Countries	11.7%	11.3%	8.6%	10.8%	11.0%	11.6%
WORLD TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Note: Sorted by 1997 exports.

Source: U.S. Department of Agriculture. Economic Research Service. Tobacco Briefing Room. Available on the Internet at <http://www.econ.ag.gov/briefing/tobacco> (as of May 7, 1998); U.S. Department of Agriculture. Foreign Agriculture Service. E-mail to authors. May 11, 1998. Percentages in Table 10 were calculated by CRS from Table 9.

Table 11. U.S. Cigarette Exports by Destination, 1992-97
(Billions of pieces)

Country	1992	1993	1994	1995	1996	1997
Japan	58	56	57	62	68	68
Belgium	53	51	72	71	62	49
Lebanon	6	5	9	10	12	10
Russian Federation	9	5	7	4	17	10
Cyprus	4	2	7	7	9	10
Saudi Arabia	8	10	9	10	9	9
Korea, South	4	4	5	7	6	7
Singapore	4	7	7	7	8	6
Turkey	8	6	1	0	3	6
Hong Kong	18	11	7	7	6	4
Ukraine	1	0	0	0	2	3
Israel	2	2	3	4	3	3
Taiwan	3	3	3	2	2	3
Malaysia	0	0	0	0	0	2
Panama	1	1	2	2	2	2
Paraguay	2	3	2	2	2	2
Kuwait	1	2	2	2	2	2
United Arab Emirates	7	8	4	3	2	2
Morocco	2	2	2	2	2	2
SUBTOTAL	190	178	199	202	218	201
Other Countries	16	17	21	30	26	16
WORLD TOTAL	206	195	220	231	244	217

See notes to table 12.

Table 12. U.S. Cigarette Exports by Destination, 1992-97
(Percentages of world total)

Country	1992	1993	1994	1995	1996	1997
Japan	28.1%	28.4%	25.8%	26.7%	27.8%	31.2%
Belgium	25.9%	26.2%	32.6%	30.9%	25.3%	22.4%
Lebanon	2.8%	2.7%	3.9%	4.4%	4.8%	4.8%
Russian Federation	4.3%	2.7%	3.3%	1.6%	7.0%	4.7%
Cyprus	1.9%	1.1%	3.0%	3.2%	3.9%	4.6%
Saudi Arabia	3.7%	4.9%	4.1%	4.2%	3.8%	4.3%
Korea, South	1.9%	2.3%	2.2%	2.9%	2.6%	3.3%
Singapore	1.9%	3.3%	3.4%	3.2%	3.3%	2.7%
Turkey	3.7%	3.1%	0.3%	0.0%	1.1%	2.7%
Hong Kong	8.6%	5.6%	3.3%	2.9%	2.5%	2.0%
Ukraine	0.4%	0.1%	0.0%	0.0%	0.8%	1.6%
Israel	1.1%	1.3%	1.5%	1.6%	1.3%	1.5%
Taiwan	1.4%	1.5%	1.4%	0.7%	0.9%	1.3%
Malaysia	0.2%	0.1%	0.1%	0.1%	0.1%	1.1%
Panama	0.7%	0.7%	0.7%	0.8%	1.0%	1.1%
Paraguay	1.1%	1.3%	0.9%	1.0%	0.8%	1.0%
Kuwait	0.7%	0.9%	0.8%	0.8%	0.8%	0.9%
United Arab Emirates	3.3%	4.0%	2.0%	1.4%	0.7%	0.8%
Morocco	0.8%	0.9%	1.1%	0.8%	0.7%	0.8%
SUBTOTAL	92.3%	91.3%	90.5%	87.2%	89.2%	92.8%
Other countries	7.7%	8.7%	9.5%	12.8%	10.8%	7.2%
WORLD TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Note: Sorted by 1997 exports.

Source: U.S. Department of Agriculture. Foreign Agricultural Service. E-mail to authors. March 6, 1998. Percentages in Table 12 were calculated by CRS from Table 11.

Involvement of Major Cigarette Manufacturers in World Markets

As shown above, the consumption of cigarettes in the United States has declined in recent years, while consumption worldwide has increased. Therefore, the financial prospects for U.S. cigarette producers may depend, in part, on their ability to increase cigarette sales abroad. This section examines the world cigarette market and reviews efforts of the two largest U.S. cigarette producers—Philip Morris Companies, Inc. (PM) and RJR Nabisco (RJR)—to increase foreign production and sales.

The world cigarette market can be described in terms of mature markets—Western Europe and North America—and emerging or developing markets—Asia and the Pacific, Central and Eastern Europe, Latin America and the Caribbean, and Africa, the Middle East and Central and South America (AMESCA). According to industry analyst J. Jessup of the British brokerage firm UBS Limited,

... mature cigarette markets are characterized by stable pricing, high consumer spending power, high manufacturing efficiencies, few competitors, high regulation but low litigation risks, and declining consumption.... The key features of the highest margin markets of North America and Western Europe are high consumer spending power and relative price stability.

...Developing markets offer a competitive pricing environment, low consumer spending, uneven manufacturing capabilities, many competitors, a mixed regulatory response but with low litigation risks, and a high consumption rate.

In the near future, Jessup suggests that a “pluralistic market” will emerge

...in many Eastern European and Asian markets, with the four multinationals [RJR, PMI, BAT and Rothmans] having substantial but not dominant positions, and a number of smaller players also competing aggressively for market share.⁷

Current Setting

Table 13 shows that both Philip Morris and RJR Nabisco have a well-established presence in world markets. RJR dominates the North American market, while PM has a large presence in both North America and Western Europe. PM, RJR, and BAT compete on a relatively equal basis in Central and Eastern Europe, while BAT and Rothmans have large shares in the AMESCA region. Rothmans holds the largest share in the Asia Pacific market, while BAT is the largest player in the Latin America market. BAT has recently enhanced its position in the latter

Table 13. Percentages of Total Company Volume by Region, 1996

⁷ Jessup, J. (Dec. 1, 1997). British American Tobacco-A Review of Growth Prospects [Online]. Available: Dialog: File 563.

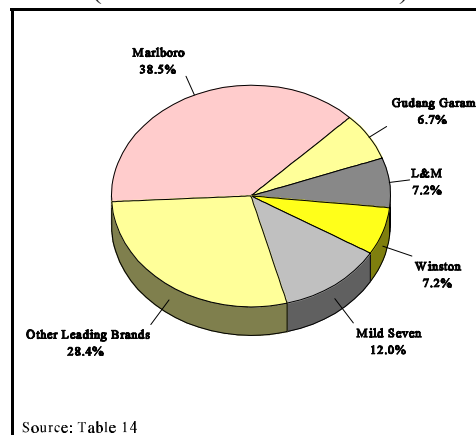
Region	BAT	Philip Morris	RJR Nabisco	Rothmans
North America	17%	27%	55%	10%
Western Europe	7%	25%	13%	35%
Central & Eastern Europe	11%	12%	13%	5%
Asia-Pacific	15%	16%	7%	25%
AMESCA	25%	12%	8%	24%
Latin America	25%	8%	4%	1%
Totals	100%	100%	100%	100%

Source: Jessup, J. (Dec. 1, 1997). British American Tobacco-A Review of Growth Prospects [Online]. Available: Dialog: File 563.

market with the acquisition of Cigarrera La Moderna, which has over 50% of the Mexican market.⁸

Cigarette Sales by Brand. Among premium brand cigarettes, Marlboro, produced by Philip Morris, was the leading brand sold worldwide in 1996. It represented 38.5% of the total volume of 1,189 billion pieces accounted for by the 12 leading brands sold in the world market. See Figure 12.

Figure 12. Leading Cigarette Brands Worldwide, 1996 (Percent of world total)



As shown in Table 14 below, Philip Morris also has three other brand names—L&M, Prima, and Bond St.—in the top 12 leading brands, bringing its total market share to 53%. RJR Nabisco with two brands—Winston and Camel—holds a 12.5% share, bringing the U.S. market share of the premium brand market to over 65%. The British firm BAT Industries PLC claims a share of 11.4%. Together these three American and British firms account for about 77% of the world market for premium brand cigarettes.

Emerging and Potential Markets

Given their already dominant position in the U.S. market, the future prospects for PM and RJR may depend, in large part, on their ability to increase sales in foreign markets. Much of the potential for growth may lie in emerging markets.

Between 1992 and 1997, the largest increases in cigarette consumption occurred in Indonesia (an increase of 58 billion cigarettes), China (up 57 billion), the Russian Federation (up 37 billion), Turkey (up 25 billion), and India (up 21 billion). See Table 7 above.

⁸ Jessup, J. p. 13.

Table 14. Leading Cigarette Brands Worldwide by Volume, 1996

Brand Name	Volume (billions of sticks) and Percentage of Volume	Main Manufacturer	Ranking
Marlboro	458 (38.5%)	Philip Morris	1
Mild Seven	143 (12.0%)	Japan Tobacco	2
Winston	86 (7.2%)	RJR Nabisco	3
L&M	85 (7.2%)	Philip Morris	4
Gudang Garam	80 (6.7%)	Gudang Garam	5
Camel	63 (5.3%)	RJR Nabisco	6
Derby	55 (4.6%)	BAT	7
Prima	54 (4.6%)	Philip Morris	8
Cleopatra	47 (3.9%)	Eastern Tobacco	9
Benson & Hedges	45 (3.8%)	BAT/Gallaher/PM	10
Bond St.	37 (3.1%)	Phillip Morris	11
State Express 555	36 (3.0%)	BAT	12
Total	1,189 (100%)	—	—

Source: Jessup, J. (Dec. 1, 1997). British American Tobacco-A Review of Growth Prospects [Online]. Available: Dialog: File 563.

China: The World's Leading Consumer of Cigarettes. China is the world's largest consumer market for cigarettes, with over 300 million smokers consuming 1.7 trillion cigarettes in 1997. Its market, however, is "formally closed to foreign tobacco companies, but growing pressure...and China's likely accession to the World Trade Organization could open the market."⁹ Consequently, if this large market should open to foreign imports of cigarettes, it could offer substantial potential for U.S. and other foreign firms to expand their markets in China.

The state-owned tobacco company, China National Tobacco Corporation (CNTC), employs 10 million Chinese farmers in growing leaf tobacco, over 500,000 industrial workers, and 3 million retailers.¹⁰ Both RJR and Philip Morris, through joint ventures established in 1988 and 1993 respectively, have a very small portion of the China market, which they would like to expand as the domestic demand for Western brands continues to grow. There are also "informal channels" through which independent traders purchase premium brands of the major international manufacturers and smuggle them into the country. "Estimates put the number of smuggled cigarettes at 50 billion annually, compared with an official import quota of 700 million."¹¹ Allowed foreign imports are assessed a 65% tax per pack of cigarettes.

The potential for market expansion in China is considered to be immense, despite existing barriers. China is planning to restructure its tobacco industry by closing or

⁹ Financial Times, July 3, 1997, p. 36.

¹⁰ The Independent [a British newspaper], Aug. 26, 1997, p. 8.

¹¹ The Independent, October 19, 1997, p. 1.

merging about 70 small tobacco companies over the next five years.¹² This proposed consolidation is equivalent to 40% of the state-owned tobacco businesses. China has recently boosted exports, doubling their volume from 30 billion pieces in 1992 to 60 billion in 1997 (see Table 9 above). China is seeking assistance from international leaf tobacco merchants to improve their leaf quality. Based on our discussions with U.S. Department of Agriculture officials, there are several factors affecting the quality of cigarette tobacco in China. These include: handling and curing processes, as well as weather and soil conditions. As China improves the quality of its cigarettes by upgrading its manufacturing and tobacco leaf growing and curing processes, it will be better positioned to compete against potential foreign competition in its domestic cigarette market and in international markets.

Other Markets. On a smaller scale, other developing markets offer a potential for increased cigarette sales by U.S. producers. As noted above, in recent years cigarette consumption has increased noticeably in Indonesia, the Russian Federation, Turkey, and India. Other large consumers of cigarettes include Japan, Brazil, South Korea, Italy, and Poland (see Table 7 above).

For several reasons, U.S. cigarette manufacturers may be able to expand sales in foreign markets. In some countries, rising incomes have increased the demand for cigarettes. In certain developing areas, there is a relatively high per capita consumption of cigarettes. And the world demand for American-style cigarettes has increased. On the other hand, in several countries, the tobacco industry is predominantly state-owned (e.g., Indonesia, South Korea, Turkey, Italy, Spain, Thailand, Cuba, and Vietnam). But as some of these industries are privatized and as barriers to trade are lowered, the investment and sales opportunities for American producers will likely expand.¹³

International Activities of Major U.S. Companies: Philip Morris and RJR Nabisco

This section provides information on the international sales and production of cigarettes by the international subsidiaries of two American Companies: Philip Morris Companies Inc. and RJR Nabisco Holding Corporation. The wholly-owned subsidiaries of these two companies are Philip Morris International and Reynolds International, respectively. Based on reviews of the 1996 and 1997 annual reports of both of these holding companies and their 10-K financial reports to the Securities and Exchange Commission (SEC) for 1997, it is apparent that both companies are interested in expanding their sales of cigarettes in markets abroad. Furthermore, available information indicates that, in recent years, Philip Morris has gained market share worldwide.

¹² South China Morning Post, August 22, 1997, p. B4.

¹³ Jessup has argued that, through direct investment, an increase in trade barriers would improve the position of the multinational producers, relative to smaller manufacturers. Jessup, *British American Tobacco-A Review of Growth Prospects*

In its 1997 Annual Report, Philip Morris states that it sold 711.5 billion cigarettes outside the United States in 1997, up 7.8% over 1996 (660 billion cigarettes). This total, however, includes both exports from the United States and shipments from its plants, affiliates, and licensees located abroad. An inquiry was made to Philip Morris to obtain data on exports to determine how many cigarettes were actually produced by its operations abroad. The company responded that they no longer publish this information. Nonetheless, according to an earlier Annual Report for 1995, Philip Morris International exported 164.1 billion cigarettes in 1995. When this amount is subtracted from its total international shipments of 593.2 billion in 1995, the total volume of cigarettes produced and shipped outside the United States amounted to 429.1 billion. This amount was considerably above the total produced within the United States in 1995, which was 385.9 billion (221.8 billion in domestic shipments plus exports of 164.1 billion).

Exports accounted for 28% of Philip Morris's total international shipments of 593.2 billion units in 1995. The firm's total international shipments amounted to about 12% of the total world cigarette market (about 5 trillion cigarettes). In its 1997 Annual Report, Philip Morris reported that its international shipments in 1997 (711.5 billion cigarettes) accounted for about 13.6% of the world market (5.2 trillion cigarettes), which is 1.6 percentage points above the level achieved in 1995.

In its 1996 Annual Report, Philip Morris includes information on its market shares of cigarette sales in selected countries for 1996. These shares are shown in Table 15 below. According to these figures, it has market shares of 20% or more in 17 selected countries, including the United States. Its largest share is in Argentina (60.5%), followed by Hong Kong (56.9%), Italy (53.9%), United States (47.8%) and Switzerland (45.6%). This information was not included in its 1997 Annual Report.

A review of the recent annual reports of RJR Nabisco and the 1997 10-K report submitted to the SEC found no information on total international sales of the company on a unit basis for 1996 or 1997. The company did state, however, that its international volume of cigarette sales increased by 1% in 1997, compared to a 10% gain in 1996.¹⁴

In its latest annual report, RJR included information showing its 1997 market shares for cigarette sales in selected countries. These figures are shown in Table 16 below. Its market shares are considerably lower than those achieved by Philip Morris. RJR's largest market share is in Russia (21%), followed by Romania (19%) and Malaysia (17%).

In 1997, RJR's total international shipments minus its exports from the U.S. amounted to 162.4 billion cigarettes.¹⁵ This sales volume plus 35.6 billion in U.S. exports brings total international sales to 198 billion. When this figure is added to the company's total shipments of 117 billion pieces within the United States, total shipments by the firm in 1997 amounted to 315 billion pieces. Thus, in 1997, RJR

¹⁴ 1997 Annual Report, p. 21; 1996 Annual Report, p. 31.

¹⁵ Public Relations Department. RJ Reynolds. Fax to authors. May 8, 1998.

Table 15. Market Shares of Philip Morris Cigarette Sales
in Selected Countries, 1996

Country	Market Share
Argentina	60.5%
Hong Kong	56.9%
Italy	53.9%
United States	47.8%
Switzerland	45.6%
Germany	41.2%
Singapore	40.5%
Puerto Rico	36.7%
Belgium/Luxembourg	34.4%
Netherlands	31.9%
Hungary	30.2%
France	30.1%
Austria	26.5%
Phillippines	24.5%
Portugal	24.0%
Greece	23.1%
Spain	21.7%
Turkey	19.2%
Sweden	17.2%
Japan	16.6%
Malaysia	9.7%
Korea	6.3%

Source: Philip Morris: 1996 Annual Report p. 11.

Table 16. Market Shares of RJR Nabisco Cigarette Sales,
in Twelve Key Foreign Markets, 1997

Country	Market Share
Russia	21%
Romania	19%
Malaysia	17%
Canada	12%
Netherlands	12%
Japan (imports)	11%
Greece	10%
Turkey	9%
France	9%
Spain	9%
Switzerland	8%
Germany	5%

Source: RJR Nabisco: 1997 Annual Report p. 24.

shipped more cigarettes from its overseas operations (162.4 billion) than from its domestic operations (152.6 billion).

Moreover, according to its 1995 Annual Report, almost 80 percent of its total volume of international shipments was produced by its operations abroad. According to its 1997 Annual Report, this percentage had risen to 82 percent, indicating that RJR has expanded foreign operations in recent years. In its 1996 Annual Report, the company stated that it commanded about 4 percent of the world cigarette market in 1996. This is considerably below the 13.6 percent world market share claimed by Philip Morris in its 1997 Annual Report. RJR did not include a figure on its share of the world market for 1997 in its 1997 Annual Report.

Other Tobacco Products

In addition to cigarettes, tobacco products include smokeless tobacco and cigars. This section provides an overview of these industries.

Smokeless Tobacco

Smokeless tobacco products include dry and moist snuff and chewing tobacco. Like the cigarette industry, this industry is quite concentrated. The firms that have the largest market shares in this industry are U.S. Tobacco Company (37.9%), Conwood Company L.P. (23.2%), and Pinkerton Tobacco Company (28.1%). These three firms together accounted for 83% of total U.S. production in the industry in 1996. Other firms in the industry include: National Tobacco Company (9.2% market share), Swisher International Group, Inc. (6.8%), Brown & Williamson (0.5%), and R.C. Owen Company of Tennessee, Inc. (0.4%).¹⁶ Brief descriptions of the principal firms in the industry follow.

U.S. Tobacco Company Inc. is the holding company for United States Tobacco Company (USTC) and through its subsidiaries manufactures and markets various consumer products and entertainment services. USTC is the world's leading producer of moist smokeless tobacco, with sales of 46 million pounds in 1996. USTC employed 4,467 workers in 1996 and has manufacturing facilities in Illinois, Kentucky and Tennessee.

Conwood Company L.P. is a limited partnership which manufactures moist and dry snuff and loose leaf, plug and twist chewing tobacco. Estimated 1996 sales were 28 million pounds. The firm reported 1,000 employees in 1997. Its manufacturing facilities are in Kentucky, North Carolina, and Tennessee.

Pinkerton Tobacco Company, Inc. is a Virginia subsidiary of Swedish Match North America, which is owned by Swedish Match, AB of Stockholm. Operations of Pinkerton and Swedish Match include the manufacture of chewing tobacco,

¹⁶ Information obtained from: Wheat, First Securities, Inc. The Smokeless Tobacco Industry in 1996, April 24, 1997. [Online] Available: Dialog: File 563.

smoking tobacco, and moist snuff. Pinkerton reported sales of 26 million pounds for 1996; total employment was 400.

National Tobacco Company, L. P. is a limited partnership engaged in manufacturing chewing tobacco. This former branch of Lorillard employs 270, with 1996 total sales of 11.2 million pounds.

Swisher International Group Inc. is a subsidiary of Hay Island Holding Corporation. It manufactures cigars, chewing tobacco, and snuff. Estimated 1996 sales were 8.2 million pounds. It has 1,050 employees and has manufacturing facilities in Florida and West Virginia.

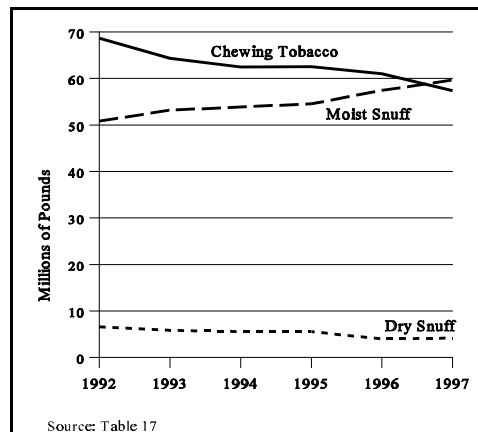
Brown & Williamson is a major U.S. producer of cigarettes, producing about 633 thousand pounds of smokeless tobacco products in 1996. (See page 2 above for more information on this firm.)

R.C. Owen Company of Tennessee, Inc. is a subsidiary of RCO Holding Company, which through its subsidiaries manufactures chewing and smoking tobacco and redrys and stores tobacco. Estimated 1996 sales for R.C. Owen were 487 thousand pounds; total employment was 80 workers.

Tables 17 and 18 below provide data on production and consumption figures for the industry over the period 1992-1997.

- The production of chewing tobacco declined from 68.7 million pounds in 1992 to an estimated 57.4 million pounds in 1997, or a decrease of about 16%. See Figure 13.
- Total production of snuff products increased over the period from 57.5 million pounds to 63.9 million pounds, for an increase of 11%. This increased production was due entirely to increased production of moist snuff. The production of dry snuff continued to decline in this period. See Figure 13.

Figure 13. U.S. Production of Smokeless Tobacco Products, 1992-97



- The consumption pattern for smokeless tobacco exhibited a mixed pattern over the period. The consumption of chewing tobacco among male adults declined sharply by 25%. See Figure 14 below. In contrast, per capita consumption of snuff products among all adults (calculations based on total number of persons 18 years and older) increased by 7%. See Figure 15 below.

Table 17. U.S. Smokeless Tobacco Products:

Production by Category, 1992-97
(Millions of pounds)

Year	Chewing Tobacco	Snuff		
		Dry	Moist	Total
1992	68.7	6.6	50.9	57.5
1993	64.4	5.9	53.2	59.1
1994	62.5	5.6	53.9	59.5
1995	62.6	5.6	54.6	60.2
1996	61.1	4.0	57.5	61.5
1997 ^a	57.4	4.2	59.7	63.9

SOURCES: U.S. Department of Agriculture. Economic Research Service . Tobacco: Situation and Outlook Report TBS-239. USDA, Washington , September 1997. p. 8. U.S. Department of Agriculture. Economic Research Service. Supplemental Tables. Available on the Internet at: <http://mann77.mannlib.cornell.edu/reports/erssor/specialty/tbs-bb/1997> (as of March 23, 1998).

^a Estimated.

Table 18. U.S. Per Capita Consumption
of Tobacco Products, 1992-97
(Pounds)

Year	Males 18 Years and Over			Persons 18 Years and Over		
	Chewing Tobacco ^a	Smoking Tobacco ^a	Large Cigars and Cigarillos	Cigarettes ^b	Snuff ^a	All Tobacco Products
1992	0.8	0.2	0.4	4.6	0.29	5.3
1993	0.7	0.2	0.4	4.7	0.30	5.4
1994	0.7	0.2	0.4	4.2	0.32	4.9
1995	0.7	0.1	0.5	4.2	0.31	4.7
1996	0.6	0.1	0.5	4.2	0.31	4.7
1997 ^c	0.6	0.1	0.5	4.0	0.31	4.6

NOTES: The figures include U.S. overseas forces. Calculations of per capita consumption of cigarettes are based on size of the adult population, 18 years and over . Data are not compiled for persons under the age of 18.

SOURCES: U.S. Department of Agriculture. Economic Research Service. Tobacco: Situation and Outlook Report. TBS-239. USDA, Washington, September 1997. p. 5 . U.S. Department of Agriculture. Economic Research Service. Supplemental Tables. Available on the Internet at: <http://mann77.mannlib.cornell.edu/reports/erssor/specialty/tbs-bb/1997/> (as of March 23, 1998).

^a Finished product weight. Smoking tobacco consists mainly of pipe tobacco and tobacco for rolled cigarettes.

^b Unstemmed processing weight.

^c Preliminary.

Figure 14. U.S. Per Capita Consumption of Tobacco Products, Males 18 and Over, 1992-97

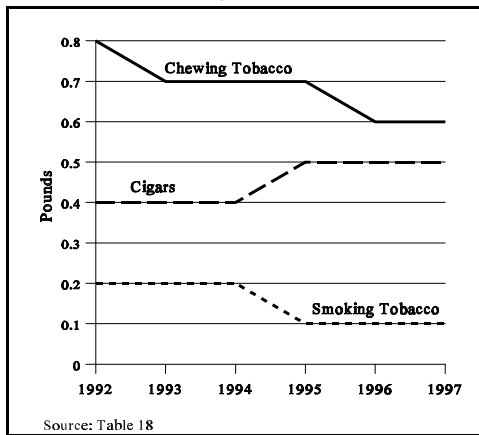
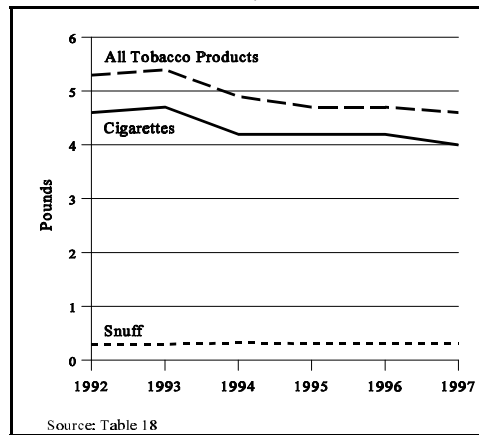


Figure 15. U.S. Per Capita Consumption of Tobacco Products, Persons 18 and Over, 1992-97



- Per capita consumption of smokeless tobacco products is smaller than per capita consumption of cigarettes. In 1997, the per capita consumption of chewing tobacco among adult males was 0.6 pounds, while the per capita consumption of snuff and cigarettes among all adults was 0.3 pounds and 4.0 pounds, respectively. See Figures 14 and 15.

Table 19 below shows that exports of smokeless tobacco products accounted for a very small share of total industry production in the United States during 1992-1997.

UST Inc., the dominant domestic producer of moist smokeless tobacco products, conducts only an insignificant amount of business outside of the United States, due mainly to low per-capita consumption levels for its products in most international markets. However, UST continues to consider diversification efforts abroad in its long-range plans.¹⁷ Based on the data shown in Table 19, exports of total smokeless tobacco products (including both chewing tobacco and snuff) exhibited a marked increase from 0.7 million pounds in 1992 to 2.3 million pounds in 1997. Despite this growth in exports, these amounts account for a very small share of total U.S. production of chewing tobacco and snuff.

Cigars

Cigars manufacturers produce three categories of cigars: premium cigars, large cigars, and little cigars. Premium cigars are hand-made of entirely natural, long filler tobacco with a natural leaf wrapper and retail for \$1 to more than \$25 dollars. Large cigars are machine-made with chopped filler tobacco and may have either a natural leaf or a reconstituted tobacco wrapper. These generally retail for under \$1 dollar.

¹⁷ S & P Industry Surveys, September 11, 1997, p. 11.

Table 19. U.S. Production and Exports
of Smokeless Tobacco, 1992-97

Year	Total Production of Chewing Tobacco and Snuff (millions of pounds)	Exports of Chewing Tobacco and Snuff (millions of pounds)	Exports as a Percent of Total Production
1992	126.2	0.7	0.5%
1993	123.5	0.8	0.6%
1994	122.0	1.5	1.2%
1995	122.8	1.9	1.5%
1996	122.6	1.9	1.6%
1997 ^a	121.3	2.3	1.9%

SOURCES: U.S. Department of Agriculture. Economic Research Service. Tobacco: Situation and Outlook Report. TBS-239. USDA, Washington, September 1997. p. 8. U.S. Department of Agriculture. Economic Research Service. Supplemental Tables. Available on the Internet at: <http://mann77.mannlib.cornell.edu/reports/erssor/specialty/tbs-bb/1997/> (as of March 23, 1998). U.S. Department of Agriculture. Foreign Agricultural Service. E-mail to authors. March 24, 1998.

^a Estimated.

Little (or small) cigars are machine-made from cut filler tobacco with a reconstituted tobacco wrapper and a filter; they weigh less than three pounds per thousand.¹⁸

In 1997, an estimated 3.8 billion cigars were produced in the United States. This volume represented an increase of almost 25% over 1992 production of 3.1 billion cigars. See Table 20 below. The United States produces more large (including premium) cigars than small cigars. In 1997, 61% of the cigars produced in the United States were large cigars. Only 4.3% of the large cigars produced were exported. By comparison, in 1997, 30% of the cigarettes produced in the United States were exported.

In contrast to cigarettes and smokeless tobacco, cigar imports account for a relatively large share of cigar consumption in the United States. In 1997, 16% of the large cigars consumed in the United States were imported. This percentage was up from 5% in 1992. Most of the increase in the volume of large cigar imports can be accounted for by a rise in demand for premium cigars. An estimated 99% of all premium cigars sold in the United States are handrolled outside the United States. Thus, the fast-growing demand for premium cigars is dependent on imports.¹⁹ The majority of premium cigar imports are from the Dominican Republic, Honduras,

¹⁸ Wheat, First Securities, Inc. The Cigar Industry in 1996, March 21, 1997. [Online] Available: Dialog: File 563.

¹⁹ Merrill Lynch Capital Markets. Tobacco/Cigar Industry, January 14, 1998. [Online] Available: Dialog: File 563.

Jamaica, Nicaragua, and Mexico, with the Dominican Republic and Honduras providing over 80% of all premium imports.²⁰

Table 20. The U.S. Cigar Market, 1992-97

Year	Small Cigars		Large/Premium Cigars				Exports as a Percent of Production
	Production	Imports	Production	Exports	Imports	Consumption	
	(Millions of cigars)						
1992	1,310	4.7	1,741	76	111	2,219	4.4%
1993	1,280	6.5	1,795	67	127	2,138	3.7%
1994	1,410	6.3	1,942	74	146	2,337	3.8%
1995	1,430	11.2	2,058	94	195	2,568	4.6%
1996	1,502	19.3	2,013	105	320	3,031	5.2%
1997 ^a	1,476	33.5	2,324	101	576	3,555	4.3%

Sources: U.S. Department of Agriculture. Economic Research Service. Tobacco Briefing Room. Available on the Internet at <http://www.econ.ag.gov/briefing/tobacco> (as of May 7, 1998). U.S. International Trade Commission. USITC Trade Database. Available on the Internet at <http://dataweb.usitc.gov> (as of May 22, 1998).

^a The figures for large cigars are estimates.

The outlook for the cigar industry, according to several industry analysts, is for continued growth, especially in the premium and large cigar sectors. Characteristics of a likely cigar purchaser, according to 1996 Mediamark Research data, are a white male, age 18-44, with a high school or college education. He would be employed full-time and have a household with children present. Cigar smokers would be found in all regions of the country, although slightly fewer in the South.²¹

The cigar industry is primarily composed of four companies with major market shares in the three cigar production categories (i.e., large, premium, and little cigars), and the balance spread among 13 smaller companies. The top four--Swisher International Group, Inc., General Cigar Holdings, Inc., Consolidated Cigar Holdings, Inc. and Havatampa, Inc.--account for approximately 80% of industry sales.²² Brief descriptions of these companies follow:

Swisher International Group, Inc. is a subsidiary of Hay Island Holdings Corporation, manufacturing cigars, chewing tobacco and snuff. Swisher dominates the little cigar market, with 46% of the 1997 market share; Swisher Sweets is the leading name brand little cigar. Swisher claims 26% of the market share of the large cigars domestic market and 6% of the premium market. Swisher manufactures more than five million large and little cigars daily at its Jacksonville, Florida facility which they believe "is the most automated cigar manufacturing facility in the United States."

²⁰ Wheat, The Cigar Industry,

²¹ Wheat, The Cigar Industry.

²² Merrill Lynch, Tobacco/Cigar Industry.

Their premium brands are produced in the Dominican Republic, Honduras and Nicaragua. According to their 1997 10-K filing document, the company “is the leading exporter of American made cigars...estimates that its products are available in over 70 countries worldwide. During 1997, approximately 3.5% of the Company’s revenues were derived from export sales and royalties.” As of December 31, 1997, Swisher had approximately 1,340 full-time employees.²³

General Cigar Holdings, Inc., through its principal operating subsidiary General Cigar Co., is the largest U. S. manufacturer and marketer of brand name premium cigars with a 1996 sales volume of 41.6 million units. General Cigar “believes its Macanudo brand is the top selling premium cigar brand sold in the U.S.” They also manufacture large cigars, but do not compete in the little cigars sector. General Cigar employs approximately 6,000, plus an additional 1,000 seasonal workers, at its subsidiary Villazon & Company manufacturing facility in Tampa, Florida, as well as facilities in Honduras, Jamaica, and the Dominican Republic. While at present their international sales are “not material”, corporate plans are “to increase its international presence...focus its efforts in the United Kingdom, Germany, France, Spain, China, Russia and certain countries in South America, as well as duty free markets worldwide.” General Cigar has recently received approval to market and sell its products in China and has already “begun distributing premium and mass market cigars in China.”²⁴

Consolidated Cigar Holdings, Inc., which is itself a subsidiary of Mafco Consolidated Group, Inc., operates as a holding company for Consolidated Cigar Corporation of Ft. Lauderdale, Florida. Consolidated Cigar Corp. manufactures and distributes cigars, smoking pipe tobacco, and a variety of smokers’ accessories. It competes in all 3 sectors of the cigar industry with manufacturing facilities at its 6 subsidiaries in Florida, Puerto Rico, Honduras, the Dominican Republic, and Jamaica.

As of December 31, 1996, Consolidated Cigar reported approximately 4,000 employees.²⁵

Havatampa Inc. is a subsidiary of Tabacalera SA of Madrid, Spain, reported to be the world’s largest cigar manufacturer. The Tampa, Florida company competes in the large and little cigar sectors with a 24% and 10% market share, respectively. According to the executive vice president of Havatampa, Tommy Morgan, “the purchase by Spanish cigar manufacturer Tabacalera SA, finalized in early December [1977], will most likely result in Havatampa entering the premium and mid-range markets.”²⁶ Manufacturing facilities are in Florida and Alabama with approximately 800 employees.

²³ Swisher International Group, Inc., [Form 10-K for 1997 filed with the Securities & Exchange Commission] March 28, 1998. Available on the Internet at <http://sec.gov/edgarhp.htm>.

²⁴ General Cigar Holdings, Inc., [From 10-K for 1997 filed with the Securities & Exchange Commission] February 27, 1998. Available on the Internet at <http://sec.gov/edgarhp.htm>.

²⁵ Consolidated Cigar Holdings., 1st Quarter/1998. [Online] Available: Dialog: File 519.

²⁶ New Owner Has Havatampa Eyeing Premiums. US Distribution Journal. January 1998. p. 40.

Major Findings

This review and analysis of the domestic and international operations, production and sales of the U. S. tobacco industry over the period 1992-1997 has produced a number of significant findings. These include the following:

- Cigarette production in the United States is largely concentrated in the hands of three firms: Philip Morris, RJR Nabisco, and Brown & Williamson. These firms accounted for about 90% of total production in 1997.
- Domestic sales of major U.S. firms (namely, Philip Morris and RJR Nabisco) grew very little over the period 1992-1997. International sales, on the other hand, increased more rapidly during this period, indicating that these firms are giving high priority to increasing cigarette sales abroad, given the diminished growth potential of the U.S. market in recent years.
- The profit performance of three domestically owned and operated U.S. companies showed differing patterns during the period 1992-1997. For Philip Morris, profits from its cigarette operations increased by 9 percent, due entirely to an 128 percent increase in profits from its international operations which was offset by a 37 percent decline in domestic profits over this period. Profits from the cigarette operations of RJR Nabisco declined by 54 percent over the period, due entirely to a very substantial decline in profits on domestic sales. Lorillard also experienced a substantial decline in profits (down 31%) over this period.
- Cigarette production in the United States registered only a slight gain (0.2%) over 1992-1997. However, cigarette consumption on a per capita basis declined by about 9%.
- Total employment of production workers in the domestic cigarette manufacturing industry decreased by 5,800 workers, or 17.3% over 1992 - 1997.
- Despite these employment trends, workers in the industry are well paid. Average hourly earnings of workers in the industry amounted to \$24.76 in 1997, which is markedly above the \$12.26 average earned by all production workers in the private nonfarm sector of the economy.
- From fiscal years 1992 to 1997, federal excise tax revenues from cigarette sales increased by 13.9%, from \$5,043 million to \$5,743 million, while state excise tax revenues rose by 20.4%, from \$5,924 to \$7,134 million. Total revenues from these sources amounted to \$12.9 billion in 1997.
- The U.S. share of world production of cigarettes declined from 13.4% to 12.6% over the period 1992-1997. The U.S. share of world exports also declined from 26% to 21% in the same period. On the other hand, U.S. cigarette exports as a percent of U.S. production increased from 29% to 30%.

- A review of the annual reports of Philip Morris Companies Inc. and the RJR Nabisco Holding Corporation for 1996 and 1997 shows that the subsidiaries of these companies--Philip Morris International and Reynolds International--are both very interested in expanding their operations abroad. Philip Morris sold 711.5 billion cigarettes outside the United States in 1997, up 7.8 percent over 1996 (660 billion units). Moreover the amount of cigarettes produced outside the United States substantially exceeded the total cigarettes produced domestically. Reynolds International has reported that its sales outside the United States increased by 1% in 1997, compared to a 10 percent gain in 1996.
- The People's Republic of China is by far the largest producer of cigarettes in the world; the second largest producer is the United States. In 1997 China produced an estimated 1.7 trillion pieces, almost two and one half times the 720 billion pieces produced in the United States. Japan ranks a distant third at 255 billion pieces, followed closely by Germany, Indonesia, and Brazil. These leading producing countries in the same year accounted for close to 60% of total world production.
- Despite their dominance in the world market, neither China nor the United States experienced any significant changes in their shares of world production over the 1992-1997 period.
- The United States is by far the largest cigarette exporting nation in the world, with exports in 1997 estimated at about 217 billion pieces, or 21% of the world total. The other major exporters include the Netherlands, United Kingdom, Germany, Brazil, and Singapore.
- The largest markets for U.S. exports are Japan—68 billion pieces—and Belgium—49 billion pieces. These two countries accounted for about 54% of U.S. exports in 1997. U.S. exports to China, by far the world's largest market for cigarettes, are negligible.
- China is also the largest consumer market in the world, with over 300 million smokers consuming 1.7 trillion cigarettes in 1997. Its market, however, is basically closed to foreign exporters. China's desire to become a member of the World Trade Organization, eventually could lead to an opening of its market to cigarette imports. This could offer substantial potential for U.S. and other foreign firms to expand their markets in China. RJR and Philip Morris, through joint ventures established in 1988 and 1993 respectively, have a very small portion of the China market, which they would like to expand as the domestic demand for high quality Western brands continues to grow.
- On a smaller scale, other developing markets offer a potential for increased cigarette sales by U.S. producers. In recent years, cigarette consumption has increased noticeably in Indonesia, the Russian Federation, Turkey, and India. Other large consumers of cigarettes include Japan, Brazil, South Korea, Italy, and Poland.

- There are several reasons why major U.S. cigarette manufacturers are expanding their sales in the world market: the increasing world demand for American-style cigarettes, high per-capita cigarette consumption in developing markets, and rising incomes. Currently, both Philip Morris and RJR Nabisco have a well-established presence in world markets.
- In the premium brand market, the Marlboro brand, produced by Philip Morris is the leading cigarette brand sold worldwide. Other brands produced by this firm—L&M, Prima, and Bond St.—are also big sellers, giving Philip Morris about 53% of the market served by the 12 leading brands sold by U.S. and other foreign firms. Winston and Camel, produced by RJR Nabisco, hold 12.5% of the world market for leading brands, bringing the U.S. market share of the premium brand market to over 65%.
- Like the cigarette industry, the smokeless tobacco industry (including the production of snuff and chewing tobacco) is highly concentrated among a few firms: U.S. Tobacco Company, Conwood Company and Pinkerton Tobacco Company. In 1997 the companies accounted for about 83% of total industry sales.
- The production of chewing tobacco declined by 16% over the 1992-1997 period while the output of snuff products increased by 11%. This rise was due entirely to the increase in the output of moist snuff products. Consumption patterns were also similar in this period: the use of snuff products showed moderate gains of 7%, while chewing tobacco sharply declined by 25%. The annual consumption of smokeless products on a per-capita basis is quite small compared to the use of cigarettes—about 1 pound for smokeless and 4 pounds for cigarettes.
- Cigar production in the United States increased by almost 25% from 1992 to 1997. In contrast to cigarettes and smokeless tobacco, imports account for a relatively large share of cigar consumption in the United States. In 1997, 16% of the large cigars consumed in the United States were imported. Most of the increase in the volume of large cigar imports can be accounted for by a rise in demand for premium cigars. An estimated 99% of all premium cigars sold in the United States are handrolled outside the United States. The U.S. cigar industry is primarily composed of four companies with major market shares—Swisher International Group, Inc., General Cigar Holdings, Inc., Consolidated Cigar Holdings, Inc. and Havatampa, Inc.

Sources

The sources used in preparing this report include the following:

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U.S. Department of Labor. Bureau of Labor Statistics. Employment and Earnings.

Industry and corporate data and information were obtained from a variety of publically available resources, including: corporate annual reports and SEC filing documents, including latest 10-Ks.

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Dialog : Dun & Bradstreet Market Identifiers: 1998 file covering 14 million U.S. businesses, D&B Global Linkages: 1998 file with 4.2 million businesses.

Dialog: Files: U.S. and International Trademarkscan files.

Dialog: File 563: ICC International Business Research file—provides market research and brokerage reports.

U.S. International Trade Commission. USITC Trade Database. Available on the Internet at <http://dataweb.usitc.gov>.

In addition, news and industry publications were searched online via NEXIS and Dialog. NEXIS files included major national and international newspaper and wire services. Dialog covered 55 files with international newspaper and industry sources.