A brief overview of the tobacco industry in the last 20 years

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ABSTRACT

Since the launch of Tobacco Control 20 years ago, there have been several changes in the tobacco industry worldwide. The goal of this commentary is to present some of the keys changes of the past two decades. This time is marked by mergers and acquisitions that led to the existence, today, of four major transnational tobacco companies: Philip Morris International, British American Tobacco, Japan Tobacco and Imperial Tobacco. The possible role of the China National Tobacco Corporation in the world tobacco market is also discussed. In addition, in the past decade there was an increase in tobacco companies' investment in non-cigarette forms of nicotine delivery. The impact of these changes for tobacco control policy is briefly discussed.

When *Tobacco Control* was launched in 1992, Philip Morris International's (PMI) global cigarette sales reached 400 billion sticks. Its volume has since more than doubled, reaching almost 900 billion sticks in 2010 (table 1).[1] There have been several other subsequent changes in the global tobacco market, besides volume growth. What remains unchanged is that the transnational tobacco companies (TTCs) continue now, as then, to pursue shareholder value, market freedom and social acceptability for their products, and for themselves. Despite significant advances in tobacco control, including the advent of the WHO Framework Convention on Tobacco Control (FCTC) in 2003, tobacco companies (both private and state-owned) continue to reliably post significant profits. The tobacco leaf business, while economically and socially challenging for the growers, continues to offer profits for the handful of transnational leaf buyers and processors as well.

The past two decades were marked by a large number of privatisations, mergers and acquisitions that served to strengthen the position of the four largest TTCs in the world market (table 1).[2 3] Other previously significant tobacco companies have been folded into one or another of the 'Big Four' (online supplementary table 1).

Notable mergers and acquisitions have included British American Tobacco (BAT) and Rothmans in 1999, UK-based Imperial Tobacco's acquisition of Germany's Reemtsma in 2002 plus Franco-Spanish Altadis and Commonwealth in the USA, both in 2007, and Japan Tobacco International's (JTI) acquisition of Gallaher, also in 2007 (after the latter had acquired several companies itself). This market consolidation translates to a very strong international presence by a handful of companies, challenging tobacco control advocates and policy makers to increase their level of coordination and collaboration in order to continue to implement the WHO FCTC.

Other changes in the USA market were designed to decrease the exposure of PMI and BAT assets to USA litigation. In 2003, United States' RJ Reynolds Tobacco Holdings and BAT's Brown & Williamson Tobacco Corp. combined their assets to create Reynolds American Inc, with BAT holding 42% of the shares of the new company. In 2008 Altria, until then the parent company of Philip Morris USA and PMI, spun off PMI, a separate legal entity.

Another significant development of the past two decades has been China's 2001 entry into the World Trade Organization. While China continues to be a desirable potential growth market for the TTCs, China's entry into the World Trade Organization did not immediately open doors to the Chinese market. The Chinese State Tobacco Monopoly Administration Association/China National Tobacco Corporation (CNTC), which in 2009 reportedly sold 2290 billion cigarettes (a 40% increase from 2002) making it the largest tobacco company in the world by volume,[4] remains state-owned. CNTC has undergone a series of reforms in the past decade to become more competitive, including restructuring cigarette production facilities and developing business partnerships with countries such as Brazil and Zimbabwe. Notwithstanding those measures, as well as some (relatively minor) joint venture and licensing agreements reached with some TTCs for the manufacturing and distribution of cigarettes in China[5 6] (online supplementary table 1), CNTC continues to firmly control the Chinese market. In addition, CNTC now focuses on a smaller number of brands, approximately 30 brands with high growth potential, with a slow phase-out of less lucrative brands.[7] Market research company, Euromonitor International, suggested this move is about scaling back domestic brands and 'grooming' a few brands into global flagship brands,[8] which may indicate that CNTC is planning to emerge on the international tobacco market.

Although the global tobacco market is now highly concentrated, limiting the opportunities for further mergers and acquisitions due to competition constraints,[3] there are still some expansion possibilities. The Japanese ruling party recently requested that its parliament consider selling off the government's 50% ownership of Japan Tobacco Inc, and announced in November 2011 the sales of 17% of its shares.[9] BAT and PMI have also shown interest in Egypt[10 11] where the market is currently controlled by Eastern Tobacco, 66% owned by the Egyptian government. Euromonitor International

Table 1 The four largest transnational tobacco companies by volume and market share, 2010 figures

Company	Volume (billions of cigarettes)	World market share
Philip Morris International (PMI)	899.9*	24.4%
British American Tobacco (BAT)	708	20.5%
Japan Tobacco/Japan Tobacco International (JT/JTI)	563†	16.2%
Imperial Tobacco	308.7	8.6%

Sources: PMI, BAT, JT/JTI and Imperial's 2010 annual reports (JT/JTI from March 2010 to March 2011) as available on each company's website.
*The 140.8 billion cigarettes sold by Philip Morris USA are not included, as it is a separate company from PMI.
†JT/JTI includes 134.6 billion of cigarettes sold in Japan's domestic market and 428.4 billion sold by JTI. Not included are the 3.5 billion cigarettes representing the volume of the JT China Division (including Hong Kong and Macau) and domestic duty free, separately reported by the company.

recently identified Egypt as a top growth tobacco market (by volume) in the next 40 years, and forecasts it to become the fifth biggest tobacco market in the world.[12] Furthermore, industry analyst Goldman Sachs has suggested that low debt levels, strong cash generation, below average valuations and a lack of organic growth among the TTCs, have created the right conditions for the 'Big Four' to become the 'Big Three', with Imperial Tobacco considered the most likely takeover target.[13]

However, with few acquisition options remaining in the cigarette sector, the TTCs' focus will probably continue to be on growing existing markets, as well as venturing into new commercial endeavours, exemplified by the last decade's increased emphasis on smokeless tobacco and more recently, pure nicotine products (figure 1).

In 2009 Reynolds American became the first tobacco company to acquire a pharmaceutical company, Swedish Niconovum, which develops and markets nicotine replacement therapy products. In April 2011 BAT launched a new company (Nicoventures) to commercialise non-tobacco nicotine products, shortly followed by PMI's announcement that it had acquired the patent for an aerosol-based nicotine delivery system. Despite BAT and PMI not yet selling pure nicotine products, these investments are inevitably tied up with the industry's survival. With growing regulatory pressure against cigarettes, particularly in the form of public smoking bans, tobacco companies seem to be reframing their business as maintaining nicotine addiction through other products, depending vastly on each market and the regulatory environment. Thus, it seems that now, as in 1963, tobacco companies remain firmly entrenched in "…the business of selling nicotine ….″[16]

While tobacco companies' involvement in the political process and in philanthropy are not new and have been researched, the past 2 decades have seen an increase in these companies' efforts to promote themselves as responsible corporate citizens as well as important partners in the development of legislation and regulation (a selection of papers can be found at http://www.library.ucsf.edu/tobacco/.docsbiblio). In 2002 BAT published its first Social Report in which it reported on economic, environmental and social dimensions of its activities.[17] Similar efforts gained particular emphasis when it became clear to the TTCs that the WHO FCTC was making progress and would eventually be approved. The general approach by the 'Big Four' (and some of the smaller ones) is very similar, although the degree to which they promote themselves and their role as regulatory partners varies by company and market. Companies tend to be less subtle, and often more aggressive, in markets where there is less political support for tobacco control. As new threats to industry profits appear, we see new industry strategies develop, such as the exploitation of bilateral trade agreements to oppose national tobacco control measures and implementation of the FCTC, as was recently seen with Australia's plain packaging legislation and Uruguay's health warnings.[18–20]

While the activities of BAT and PMI have been well researched and documented due to the availability of millions of internal tobacco industry documents released following litigation in the USA,[21] Imperial Tobacco and JTI have received

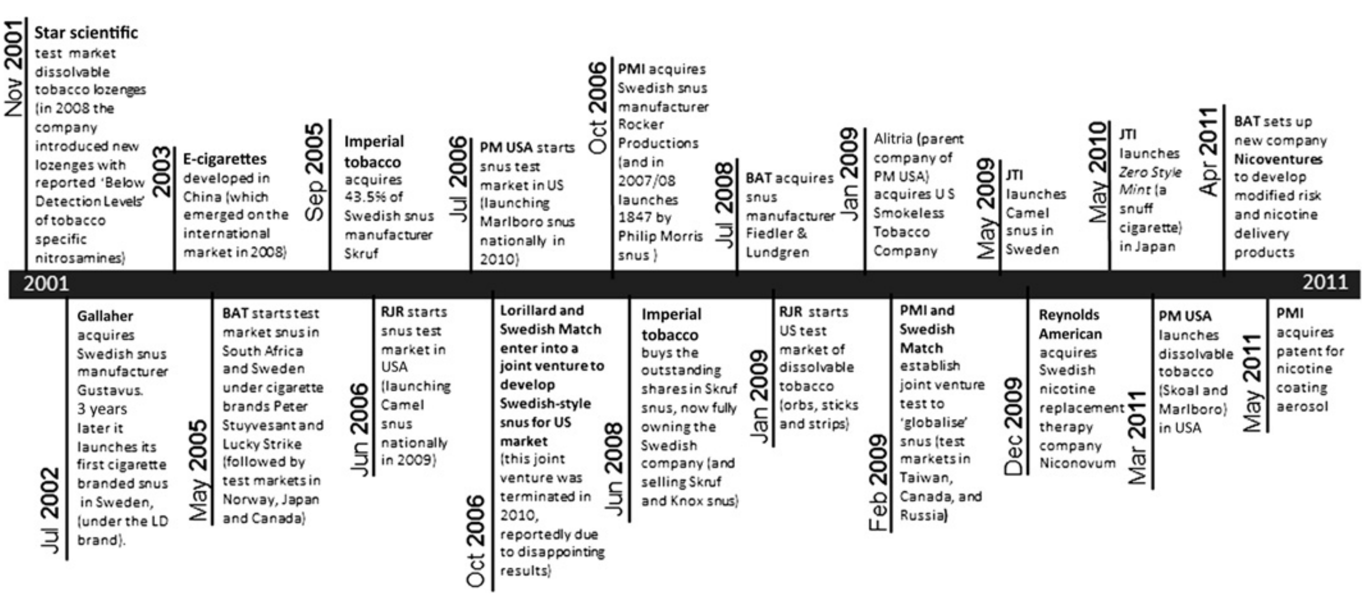

Figure 1 Timeline of key tobacco industry developments in smokeless tobacco and pure nicotine delivery products. This timeline presents a sample of key developments and does not aim to be fully comprehensive. BAT, British American Tobacco; JTI, Japan Tobacco International; LD, Liggett Ducat; PM, Philip Morris; PMI, Philip Morris International; RJR, RJ Reynolds Tobacco company. Sources: Peeters and Gilmore,[14] Euromonitor International,[12] Ayers *et al*,[15] Star Scientific website.

somewhat less attention, creating a gap in tobacco control knowledge that needs to be addressed. To help inform future tobacco control policy, new research should focus on the behaviour and strategies of Imperial and JTI as they continue to expand, particularly in North Africa, the Middle East, and Asia and should continue to explore the similarities and differences in how the four TTCs operate. While potential changes to the industry have been highlighted above, including a potential takeover of Imperial Tobacco, the emergence of CNTC on the world tobacco market and, if regulation in the cigarette market increases further, TTCs becoming nicotine rather than cigarette companies, it remains to be seen what the next 20 years will bring for both the tobacco industry and in turn tobacco control.

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Invited commentary

The tobacco industry continues to promote products that cause a loss of over 5 million lives globally each year. Of particular concern is that the tobacco industry is vigorously shifting its marketing focus from the West to developing nations in Africa and Asia.[1 2] This poses a challenge and a public health threat for these countries, which already have many competing priorities for the meagre resources to provide basic human needs.

Responding to this threat WHO has selected 'tobacco industry interference' as the theme of the 2012 World No Tobacco Day. The campaign aims to expose and counter the tobacco industry's increasingly sophisticated strategies that hinder meaningful tobacco control efforts and undermine the WHO Framework Convention on Tobacco Control. This campaign could not come at a better time. It is needed to shame the tobacco industry for turning children and young adults into walking billboards, particularly in developing countries, where many tobacco control policies are still filled with loopholes easily exploited by the tobacco industry. The limited awareness, particularly in developing countries, of what constitutes tobacco industry interference at the political and community levels further calls for more attention to the supply-side issues of the epidemic. Poverty in developing countries has given the tobacco industry an upper hand in promoting reliance on tobacco and it is marketing tobacco as a solution. The WHO theme recognises the work of the tobacco industry over the decades in deceiving and diverting attention from its activities, as well as acknowledging the enormous energy of the tobacco industry to protect its interests when threatened by the globalisation of public health.[3]

The preamble of the Framework Convention on Tobacco Control notes 'the need to be alert to any efforts by the tobacco industry to undermine or subvert tobacco control efforts and the need to be informed of activities of the tobacco industry that have a negative impact on tobacco control efforts.' The big question is whether developing countries have the capacity to assess, identify and address tobacco industry activities that have the potential to negate country specific tobacco control efforts. Scrutiny of industry tactics in the developing world is necessary to be able to address the specific needs of each country.