

# The UK Tobacco Industry

## Global status

The international tobacco market is dominated by five companies: Philip Morris International, British American Tobacco, Japan Tobacco International and Imperial Tobacco, which together account for 40 per cent of the global market, and the China National Tobacco Corporation which has a 44% share.<sup>1</sup> British American Tobacco and Imperial Tobacco plc are based in the UK. Japan Tobacco International, the third largest global tobacco company (excluding China), owns the former UK-based multinational company Gallaher.

## UK market share

Top 10 selling UK cigarette brands: 2014 <sup>2</sup>				
Rank	Brand Name	2014 Sales (£m)	Year-on-Year % Change	Manufacturer
1	Sterling	1,526.8	6.3	JTI
2	Mayfair	1,314.0	-9.0	JTI
3	Lambert & Butler	1,203.4	-10.6	ITL
4	Richmond	993.6	-9.2	ITL
5	John Player Special	979.7	5.5	JTI
6	Marlboro	903.7	5.8	PMI
7	Windsor Blue	747.0	-6.7	ITL
8	Silk Cut	573.6	2.3	JTI
9	Benson & Hedges Gold	524.7	-1.1	JTI
10	Pall Mall	416.6	-15.6	BAT

The total value of cigarette sales in the UK in 2014 was £12.7bn.<sup>2</sup>

## UK market trends

The cigarette and tobacco market in the United Kingdom is dominated by two companies, Imperial Tobacco and Japan Tobacco International which between them control around 84% of the market.

Smoking peaked in the UK in 1974 and since then sales of cigarettes and other tobacco products have declined steadily. In 2014, overall sales of manufactured cigarettes fell by 2.2%.<sup>2</sup> In recent years there has been a decline in the sale of premium brands and a corresponding growth in economy-priced cigarettes, roll-your-own (RYO) and electronic cigarettes. Economy-priced cigarettes now account for more than half of all cigarettes sold in the UK.<sup>3</sup>

However, despite this decline in sales of manufactured cigarettes, the profits of the tobacco industry have not fallen. In fact, the profits made by the industry are huge. In 2009, the

combined UK profit of the four companies with 94 per cent of UK market share – Imperial Tobacco, JTI (Gallaher), Philip Morris International and British American Tobacco – was more than £1 billion.<sup>4</sup>

### Hand-rolled tobacco

Since 1990, there has been an increase in the proportion of smokers using hand-rolled tobacco (HRT) and now around 1 in 3 adults smokers mainly use hand-rolled.<sup>5</sup> According to industry estimates, hand-rolled tobacco accounts for about one third of the total UK tobacco market.<sup>6</sup> HM Revenue & Customs estimates that about 35% of all HRT smoked in the UK is smuggled (mid-point estimate). This is equivalent to £900 million a year in tax revenue losses.<sup>7</sup>

Top selling hand-rolled tobacco: 2013 <sup>2</sup>			
Brand Name	2014 Sales (£m)	Year-on-Year % Change	Manufacturer
Amber Leaf	744.0	14.1	JTI
Golden Virginia Classic	422.6	-1.3	ITL
Cutters Choice	192.6	2.1	BAT
Gold Leaf	159.1	31.5	ITL
Golden Virginia Smooth	158.8	22.8	ITL

### Electronic cigarettes

Sales of electronic cigarettes have risen dramatically in recent years in the UK and shop sales are currently estimated to be worth £126.8m.<sup>8</sup> For more information on electronic cigarettes see the ASH fact sheets on the [Use of e-cigarettes among adults in Great Britain](#) and [Use of e-cigarettes among children in Great Britain](#). All of the major tobacco companies have invested in the development of electronic cigarettes or similar nicotine delivery devices and all now have products on sale in the UK.<sup>9</sup>

### Company profiles

#### Imperial Tobacco Group Plc

Imperial Tobacco is the fourth largest global tobacco company and has an approximately 45% share of the UK cigarette market.<sup>10</sup> In 2014, the company reported overall operating profits of £3,026m, slightly lower than the 2013 figure of £3,180m.<sup>11</sup> The company operates in over 160 markets with 65% of its products sold in the emerging markets of Africa, Middle East and Eastern Europe and Asia.<sup>1</sup>

In 1997 Imperial Tobacco bought Rizla, the hand-rolling cigarette paper company. In 2002 it acquired the German tobacco company Reemtsma. Imperial also has a 43% stake in the Swedish snuff producer, Skruf, and in 2008 completed its acquisition of the French-Spanish tobacco company Altadis. Imperial entered the electronic cigarette market through its wholly-owned subsidiary Fontem Ventures.<sup>12</sup> The company developed its own brand of electronic cigarettes called Puritane in early 2014. By July 2014, Imperial had also purchased the Blu electronic cigarettes brand from Lorillard.<sup>9</sup>

#### Japan Tobacco International

Japan Tobacco International acquired Gallaher, the UK's third largest tobacco company, in 2007. JTI is the international division of Japan Tobacco and is the world's third largest international tobacco company (excluding China). Brands include Mild Seven and the former RJ Reynolds brands, Winston and Camel. In 2014, JTI sold 398.0 billion cigarettes, a 4.7% fall from 2013. The company reported an operating income of ¥ 379.5 bn from international tobacco sales.<sup>13</sup>

In 2006, the last full year in which Gallaher operated as an independent company, Gallaher's share of the UK tobacco market was 38.7%. Under JTI it now stands at 39%.<sup>14</sup> During the 1990s Gallaher increased international sales in central and eastern Europe through its acquisition of Austria Tabak and Liggett-Ducat. In March 1999, Gallaher acquired the UK business of RJ Reynolds from RJR-Nabisco Corporation and acquired the UK distribution rights to Camel and More. International sales accounted for 90% of Gallaher's sales in 2006, up from 38% in 1998.<sup>15</sup>

In 1999, JTI bought the international tobacco operations of RJ Reynolds. Formerly a state-owned company, Japan Tobacco was privatised in 1985 and since then has diversified into pharmaceuticals and food production.

In late 2014, JTI acquired the UK electronic cigarette brand E-lites from the original owner Zandera Limited.<sup>9</sup>

### **British American Tobacco (BAT)**

British American Tobacco is the second largest tobacco company in the world (excluding China), operating in more than 200 markets.<sup>17</sup> The company is based in the UK but only has an 8% share of the UK cigarette market.<sup>18</sup> Most of BAT's global tobacco activities outside the USA, Brazil and Germany are controlled by BAT in the UK. Global cigarette brands include Dunhill, Kent, Pall Mall and Lucky Strike. In 2014, BAT produced 667 billion cigarettes worldwide (down -1.4% from 676 billion in 2013) and reported an operating profit of £4,546 million, a decrease of 17.7% from 2013.<sup>17</sup>

In 2008 BAT acquired the Turkish tobacco company Tekel for \$1.72 billion.<sup>19</sup> BAT also acquired Skandinavisk Tobakskompagni A/S (ST) in 2008. ST produces both cigarettes and snus (smokeless tobacco) and accounts for 60% of cigarette sales in Scandinavia. The acquisition included a 100% stake in snus manufacturers Fiedler & Lundgren AB.<sup>20</sup>

BAT, principally through its former US subsidiary Brown & Williamson, has been the subject of thousands of product liability cases for a number of years. However, BAT was dropped from a racketeering lawsuit following a ruling by the US Supreme Court that the United States is restricted from seeking liability from "what is essentially foreign activity".<sup>21</sup> In addition to pending US litigation, as at 31 December 2014, the company had active product liability claims filed against it in 15 countries.<sup>17</sup>

In 2013, BAT was the first international tobacco company to launch electronic cigarettes in the UK.<sup>22</sup> The Vype brand was initially only available online.<sup>23</sup> It was then subsequently sold via major retail stores and through a national pharmacy chain.<sup>24</sup>

### **Philip Morris International**

PMI is the largest tobacco company in the world (excluding the Chinese tobacco industry) with over one quarter of international market share.<sup>1</sup> PMI produces the world's leading brand, Marlboro. In 2008 Altria, the parent group of Philip Morris, split its tobacco operations with Altria retaining control of Philip Morris in the USA while Philip Morris International (PMI) became a separate company operating in countries outside the US. PMI has a 7% share of the UK market, largely through its Marlboro brand.<sup>18</sup>

### **UK Cigarette Consumption**

In the financial year 2014-2015, 32,661 million cigarettes were released in the UK for consumption, compared to 35,414 million in 2013-2014.<sup>25</sup>

For related information on tobacco see: [ASH Fact Sheet: The Economics of Tobacco](#) and [ASH Fact Sheet: The Illicit Trade in Tobacco](#).

## Employment

In the UK, the tobacco industry has been steadily reducing its workforce over several decades, largely as a result of mechanisation and rationalisation.<sup>26</sup> In 2014 both Imperial Tobacco and JTI Gallaher announced that they would be closing their factories which means that over the next 2–3 years all of the remaining production in the UK will be phased out.<sup>27 28</sup>

## Tobacco related organisations

The following organisations are directly funded or supported by the tobacco industry. In addition, the tobacco companies have many links with other organisations, some of which act as front groups for the tobacco industry. For further information see the ASH briefing [Tobacco Front Groups & Third Party Lobbying Tactics](#) and [The Smoke-filled Room](#), an ASH report which reveals the tactics used by the industry to try to undermine government health policies.

### **The Tobacco Manufacturers Association (TMA)**

The TMA is the trade association of companies manufacturing tobacco products in the UK. Its members are the major manufacturers: British American Tobacco, Gallaher Ltd. and Imperial Tobacco Ltd. The TMA provides information on subjects related to tobacco and plays a role on behalf of its members in discussions with the Government on matters such as tobacco taxation.

### **Tobacco Retailers Alliance**

The Tobacco Retailers Alliance is a campaigning group operating on behalf of retailers who sell tobacco products. The TRA is funded by the Tobacco Manufacturers Association which in turn is funded by the tobacco companies.

### **Freedom Organisation for the Right to Enjoy Smoking Tobacco (FOREST)**

FOREST is a lobbying group which campaigns against tobacco control activity. It is largely funded by tobacco companies.

### **Tobacco Workers Alliance**

A group supported by the tobacco industry and trade unions which represents workers in tobacco manufacturing.

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