

# ASH Briefing on Gallaher and Japan Tobacco International

December 2007

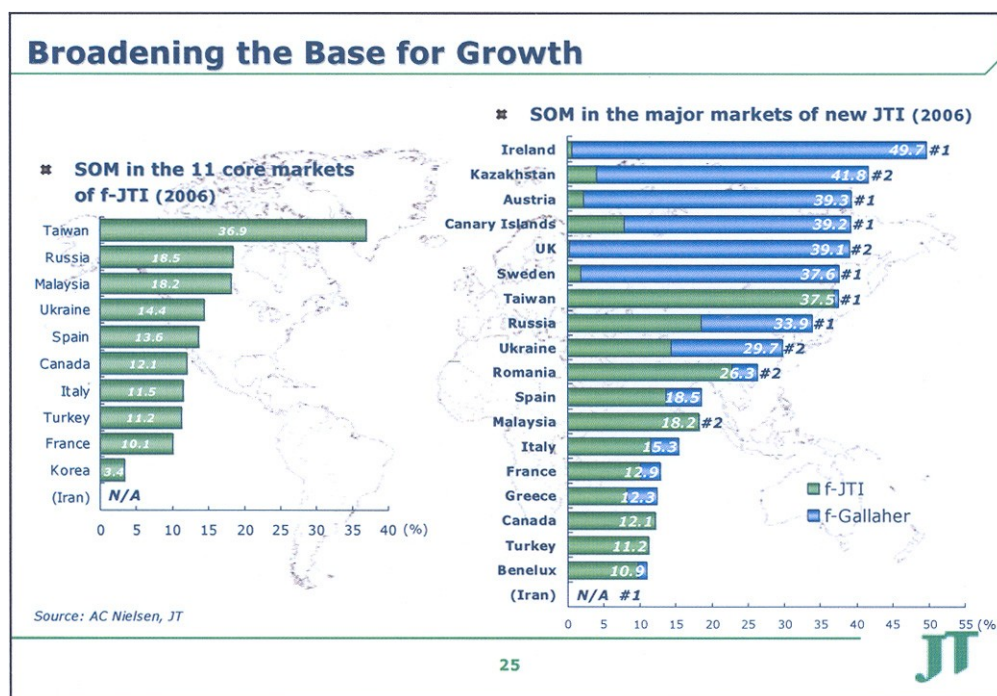
Gallaher, Britain's third largest tobacco (and 5<sup>th</sup> in the world), was acquired by Japan Tobacco International (JTI) in December 2006. JTI is the world's third largest global tobacco company, operating in more than 120 countries. With the acquisition of Gallaher, JTI's share of the global cigarette market is now 10.8%. <sup>1</sup> Full integration of the two companies is expected to be completed within 2 to 3 years.

## Company Profiles

	<b>Gallaher</b> (Info for 2006 - last full year as an independent co.)	<b>Japan Tobacco International</b>	<b>Impact of merged companies</b>
Type of business	Public limited company, solely focused on tobacco.	Partially privatised in 1985 but still 50% owned by Japanese government. Also has food and pharmaceutical interests.	
World ranking & % of world market share of cigarettes	5 <sup>th</sup> 3.3%	3 <sup>rd</sup> 7.5%	3 <sup>rd</sup> 10.8%
Share of UK cigarette market	38.7% (2006)	Nil (prior to Gallaher acquisition)	38.7%
Key Markets (see chart below)	Austria, Ireland, Kazakhstan, Russia, Sweden, UK.	Controls 70% of Japanese market. Operates in 120 countries.	The merged company will be market leader in much of Europe, Russia and Japan.
Total group cig sales (2006)	182.4 billion cigarettes	410 billion cigarettes. (approx 8% of world production)	Around 600 bn
Operating profit (yr end Mar 2006)	£692 million (approx US\$1.4bn)	Yen 3 billion (approx US\$2.6bn)	
Key brands	Benson & Hedges, Silk Cut (cigarettes), Amber Leaf, Old Holborn (Hand-rolling), Hamlet (cigars)	Mild Seven, Camel, Winston, Salem, Genghis Khan, Peace	

<sup>1</sup> JapanTobacco Inc positions itself for the future. Tobacco International, September 2007

The merging of Gallaher and JTI brings together brands that were formerly owned by the US company RJReynolds Inc. Following the break-up of the RJR-Nabisco Corporation in 1999, JTI bought the international tobacco operations of RJ Reynolds, acquiring brands such as Camel and Winston. At the same time, Gallaher took over the UK business of RJR and acquired the UK distribution rights to Camel and More.



Source: JTI, 2007. [http://www.jti.com/english/20070809\\_01.pdf](http://www.jti.com/english/20070809_01.pdf)

### Smoking trends

In most of the developed world smoking has been declining for several decades. Until the mid 1990's Japan was the principal exception but even here smoking is now falling, at least among men. A survey by JTI in May 2007 showed that overall adult smoking prevalence stood at 26%, down 0.3 percentage point from the previous year. The smoking rate for men fell 1.1 points to 40.2%, while that for women rose 0.3 point to 12.7%.<sup>1</sup>

### Smuggling

Tobacco smuggling is a global problem affecting all international tobacco companies. In the UK, the problem became acute following the easing of border controls within European community countries after the Single Market rules came into effect in 1992. Tobacco smuggling peaked in the late 1990s, at which time it was estimated that illegal cigarettes accounted for around one quarter of the UK market, resulting in an annual loss of revenue to the Government of some £3 billion.

The principal UK tobacco companies – Gallaher and Imperial Tobacco – were both implicated by facilitating the black market in tobacco. For more information on this see

the briefings on the ASH website at:

[http://www.newash.org.uk/ash\\_l9ibmw1p\\_archive.htm](http://www.newash.org.uk/ash_l9ibmw1p_archive.htm)

In 2000, the UK Government announced a major new initiative to crackdown on tobacco smuggling. As a result, the UK-based tobacco companies agreed to take steps to work with the Government to minimise the smuggling problem. The agreements or “Memoranda of Understanding” obligated the companies to improve the tracking of their products and to report any suspected wrong-doing to HM Revenue & Customs. However, the MoUs are not legally binding and rely on the good will of the tobacco companies. By contrast, a much more stringent and binding agreement was reached between Philip Morris International (PMI) and the European Commission to tackle the illegal importation of PMI brands into Europe. For further information on this agreement see: [http://www.newash.org.uk/ash\\_mj6wrl14.htm](http://www.newash.org.uk/ash_mj6wrl14.htm)

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<sup>1</sup> Japan's smoking rate hits record low. Japan Today, 18 Oct 2007  
<http://www.japantoday.com/jp/news/420220>