

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Economics



Bachelor Thesis

Tobacco Industry Analysis in France

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BACHELOR THESIS ASSIGNMENT

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Business Administration

Thesis title

Tobacco Industry Analysis in France

Objectives of thesis

The objective of this thesis is to show the evolution of the tobacco industry market in the world and more specifically in France.

The first part presents the evolution of the tobacco market in the world and more precisely in France. Secondly, the objective will be to look at the current trends of the tobacco industry by focusing on policies from a European and French point of view. This will allow us to analyze precisely the tobacco industry. Finally, the third part focuses on future solutions against the harmful effects of tobacco and the future of the tobacco industry in France.

Methodology

To simplify the research for the development of this thesis topic, this study is based on academic research based on information collected from literature and internet sources.

The second time, my research is focused on an empirical axis mixing qualitative methods. This administration of questionnaires allowed more quantitative methods with the realization of a SWOT allowing to analyze the environment. Subsequently, a PEST and a model PORTER will be realized to have an overview of this topic.

The proposed extent of the thesis

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Tobacco production, Tobacco Industry, France, PESTEL, SWOT, European law, tobacco taxes, Seita

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Des comptes , Cour. Le Rapport Public Annuel 2016 – Tome II : La Lutte Contre Le Tabagisme : Une Politique à Consolider. vol. 2, Cour Des Comptes , 2016, pp. 325–356, Le Rapport Public Annuel 2016 – Tome II : La Lutte Contre Le Tabagisme : Une Politique à Consolider.

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Declaration

I declare that I have worked on my bachelor thesis titled "Tobacco Industry in France" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that this thesis does not break copyrights of any other person.

In Prague on 15/03/2019

Audrey
MOREL LE ROY D'ETIOLLES

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Analýza tabákového průmyslu ve Francii

Souhrn

Tato bakalářská práce se zabývá analýzou tabákového průmyslu. Teoretická část představuje cigaretový průmysl, následovaný obecnými charakteristikami ekonomické produkce a tabáku nejen ve Francii, ale v celém světě. Práce se zabývá problematikou tabákového průmyslu, popisem a hledáním řešení. Následně práce analyzuje strukturu průmyslu a hledá důvody k řešení jeho problémů. Praktická část je zaměřena na analýzu a hodnocení spotřeby tabáku ve Francii. Používá se jako kvantitativní dotazník, který poskytuje údaje pro analytickou část práce. Poslední část se pak zaměřuje na nové substituce tabáku na světě.

Klíčová slova: Výroba tabáku, Tabákový průmysl, Francie, PESTEL, SWOT, evropské právo, daně z tabáku, Seita.

Tobacco Industry Analysis in France

Abstract

This bachelor's thesis focuses on the analysis of the tobacco industry. The theoretical part presents the cigarette industry, followed by the general characteristics of economic production and tobacco in not only France, but in the whole world. The thesis deals with the problems of the tobacco industry, the description and the search for solutions. Subsequently, the thesis analyzes the structure of the industry and looks for reasons to solve its problems. The practical part focuses on the analysis and evaluation of tobacco consumption in France. It is used as a quantitative questionnaire that gives data for the analytic part of the thesis. Then, the final section focuses on new substitutions in the world against tobacco.

Keywords: Tobacco production, Tobacco Industry, France, PESTEL, SWOT, European law, tobacco taxes, Seita.

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Introduction

Tobacco and the tobacco industry are present in the media the number of news concerning the harmful effects of cigarettes is increasing. Information throughout this thesis will provide a greater understanding of the evolution of tobacco so it is possible to look at the problem on a global scale and see the utility of policies.

In 2018, tobacco consumption has slightly decreased in recent years and continues to kill, as we know one in two smokers die because of tobacco. Indeed, the tobacco industry is experiencing a decline, which can be explained in particular by tobacco control policies throughout the world. This is the case with the OMS Framework Convention on Tobacco Control. Unfortunately, efforts to reduce this consumption is futile since tobacco continues to be favored among young people who appear to be an easily accessible market for multinational firms.

Smoking is a public health problem, the economic dimension is omnipresent. The choice of smoking is indeed subject excessively constraints that the consumer accepts at his expense. The numbers on consumers are frightening, the total number of smokers on the planet is one billion people, which represents 4 000 billion cigarettes consumed each year worldwide according to Planetoscope. However, the state wants to counter this market, despite everything, the laws put in place may prove ineffective as to supremacy.

1. Objectives and Methodology

1.1. Objectives

The objective of this thesis is to show the evolution of the tobacco industry market in the world and more specifically in France.

The first part presents the evolution of the tobacco market in the world and more precisely in France.

Secondly, the objective will be to look at the current trends of the tobacco industry by focusing on policies from a European and French point of view. This will allow us to analyze precisely the tobacco industry.

Finally, the third part focuses on future solutions against the harmful effects of tobacco and the future of the tobacco industry in France.

1.2. Methodology

To simplify the research for the development of the thesis topic, information collected from literature and internet sources based on academic research.

The second time, the research on an empirical axis mixing qualitative methods. In fact, to determine the price of a pack of cigarettes, the formulas of taxes and customs duties will be used. To determine the correlations between the supply and demand of a cigarette, the formula of elasticity of supply and demand will be used. This administration of questionnaires allowed more quantitative methods with the realization of a SWOT allowing to analyze the environment. Subsequently, a PEST and a model PORTER to have an overview of this topic.

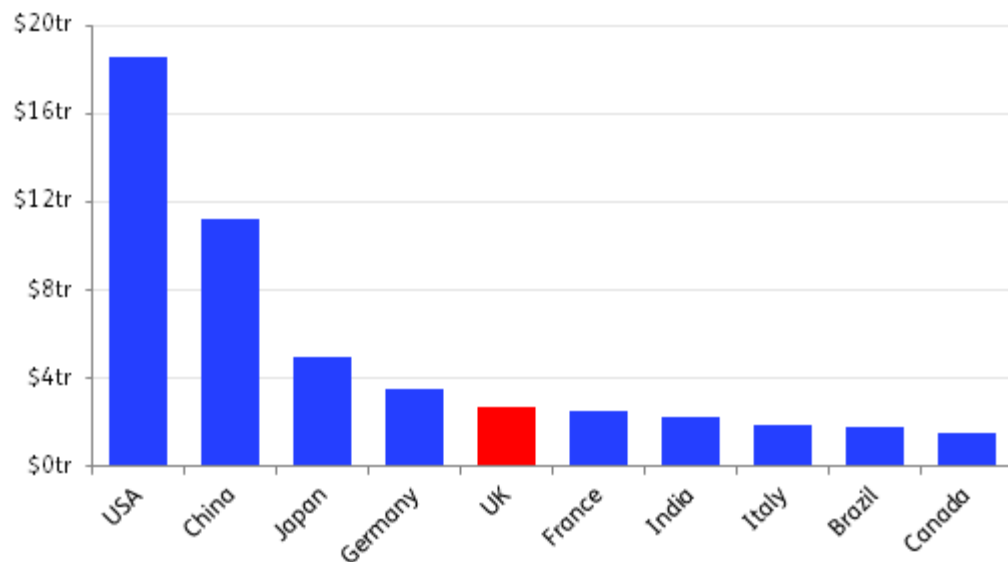
2. Theoretical substantiation of system analysis of the tobacco industry in France

2.1. The global French economy

2.1.1. GDP, two units

Gross Domestic Product (GDP) is a measure of wealth creation by all economic agents, it's households, businesses, governments and non-profit institutions, in the country. It is the total monetary value (value in money) of everything that has been produced by economic agents in a country with goods and services that have been manufactured or supplied. It gives a measure of production. This measure is the most used by economists around the world.

Figure 1 : The world's 10 biggest economies



Source: International Monetary Fund, World Economic Outlook, April 2017

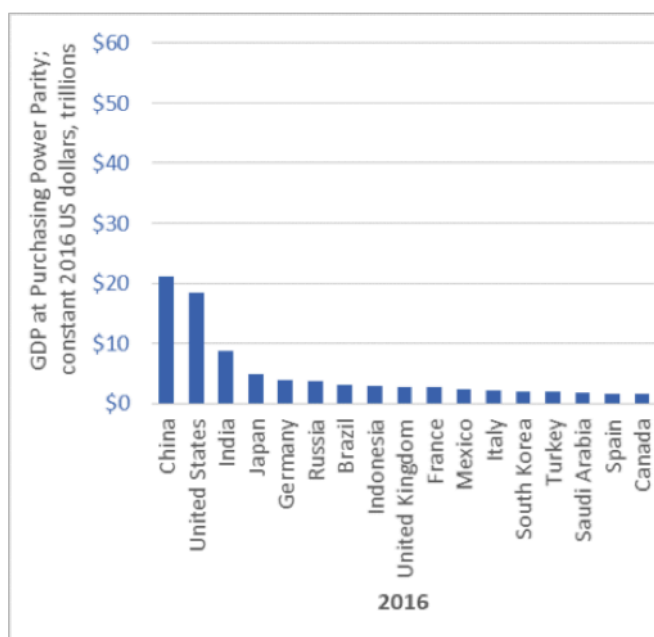
Equation 1 : Production approach

$$\text{GDP} = \text{gross value added at basic price} + \text{taxes on products} - \text{subsidies on products}$$

The GDP of an economy is not composed of only goods and services traded goods; it also includes non-traded goods.

When a country is poor, the more services it has and relative prices are low, therefore, its GDP in terms of purchasing power will be enhanced. For developed countries, estimates of GDP at the market rate and in terms of PPP are close. As a result, developing countries tend to have a much higher weight in the aggregation that uses the PPP rate.

Figure 2 : Size of the world's 17 largest economies in 2016



Source: Darrin Qualman, Everything must double: Economic growth to mid-century, October 2017

Though France is not one of the fifth largest powers in the world, it ranks tenth in terms of GDP on the basis of PPP (Purchasing Power Parity). France's share of GDP represents only 2.3% of global GDP in 2016.

2.1.2. Priority sectors of France

Luxury

It is difficult to give an exact definition of luxury because it brings together various sectors.

- ⇒ the textile industry
- ⇒ the food industry (champagnes, wines and spirits, caviar, foie gras etc.)
- ⇒ fashion
- ⇒ watchmaking jewelery
- ⇒ leather goods
- ⇒ the perfume shop

A product called "luxury" is often associated with notions of quality and inaccessibility. Indeed, they involve a certain know-how, a mastered craftsmanship and a technology or techniques superior to those of the common products.

Luxury brands are therefore not only "leading" brands on a particular market, but even more so; they are often the best.

Luxury gives rise to a dream, a pleasure, but it is above all a sector that represents an economic reality.

Nine French companies rank in the top 100 of the largest luxury companies in the world. Among it four companies are in the top 15. LVMH, L'Oreal, Kering or Hermes accounting for nearly a quarter of total sales of the Top According to the latest annual ranking published on Tuesday by consulting firm Deloitte.

Thanks to these companies, France is consolidating its leading position in the sector.

Tourism

In 2017, France remained the most visited country in the world, with a record level of 87 million foreign tourist arrivals in France. In 2017, according to the WTTC study, tourists in France spent 44.3 billion Euros. A figure increasing by 50% more than the world average. In total, in 2017, the sector will have contributed to the French economy to the tune of 204.3 billion Euros. This means that 8.9% of France's GDP depends in one way or another on the travel and tourism sector. In 2017, 10% of all jobs related to the travel and tourism sector which equals 2.8 million jobs. A weight in total employment that will continue to grow.

In 2024, the Olympic Games will be held in the French capital, Paris ; having practically all the infrastructure already available, Paris has an advantage to accommodate all participants. The Olympic Games 2024 foresees the number of 15 to 20 million visitors only during the competition. The project aims at a maximum income of 10, 7 billion Euros and the creation between 119,000 to 247,000 jobs for the event¹. Moreover, Paris having two large airports, international and European, it will be able to strengthen its exchanges with Europe.

Global

All these different economies, such as luxury and tourism allow to have on the French soil a large number of tourism. These people will likely consume products from the tobacco industry.

¹ Estanguet, T. (2018). Génération 2024 Des Jeux pour durer. Paris: Paris 2024

2.1.3. France and Europe

"The sovereign nations of the past are no longer the place where the problems of the present can be solved. And the Community itself is only a step towards the forms of organization of the mode of tomorrow ."²

The European Coal and Steel Community (ECSC) emerged from the Paris Schuman Declaration, which in 1951 brought together Germany, Italy, France, Belgium, the Netherlands and Luxembourg. France and Germany substitute the solidarity of interests for rivalry and rancor, by pooling their production of coal and steel, only five years after the end of the war.

Six years after the creation of the ECSC, West Germany, Belgium, France, Italy, Luxembourg and the Netherlands signed treaties on the 25th of March, 1957 in Rome, later being the foundation of the European Union.

France is one of the six founding countries of the European Community. It is the largest area and one of the most populated of this group.

France has a political influence on a world scale because it is part of many international organizations, for example, France is a permanent member of the UN Security Council.

France has become a country with a medium economy; it is a rich country, but one that is struggling with high unemployment and low growth. However, there are still flagships in the French economy that are exported internationally such as aeronautics or luxury goods. However, France shares of world production tends to decrease. This is due to the international competition of developed countries, such as the United States, but also emerging countries such as the BRICS, which includes Brazil, China and India. The relocation of some companies to eastern Europe and Asia, linked to the reduced cost of labor, is leading to layoffs and unemployment in the country.

² Monnet, J. (1988). Jean Monnet Mémoires. Fayard.

2.2. The global tobacco industry

The tobacco industry refers to companies engaged in the production, marketing and distribution of tobacco products.

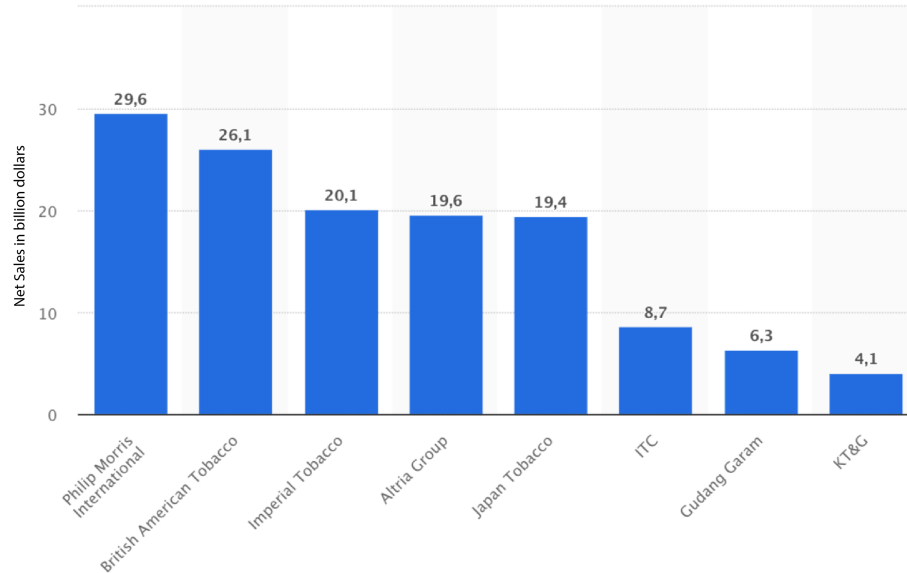
2.2.1. Global market

In one of the largest markets in the world, the tobacco industry has five major groups that stand out.

- **Philip Morris International**, Independent since 2008 of the Altria Group, Philip Morris International has established itself and has a large portfolio of cigarette brands: "Chesterfield", "Red&White", "Philip Morris" or "L&M" ... The brand of cigarettes the most sold in the world is Marlboro.
- **British American Tobacco**, innovates and proposes new ranges of products. The company includes the following five global brands: "Dunhill", "Kent", "Lucky Strike", "Pall Mall" and "Rothmans". Since 2017, British American Tobacco is the world's largest manufacturer of vapors.
- **Imperial Brands**, known as name Imperial Tobacco, is the largest tobacco manufacturer in the United Kingdom. To attract consumers the brand has been able to highlight the quality of the brands, such as: "JSP", "P&S", "Winston" "Gauloises" but also their new brand of e-cigarette "Blu".
- **Altria Group**, work in the tobacco industry only in the United States since the separation of Philip Morris International.
- **Japan Tobacco**, Tobacco brands among the best known in the world are "Winston", "Mevius", "Camel".

With an income of nearly \$ 30 billion, Philippe Morris International is the largest tobacco producer in 2018

Figure 3 : Rankiing of the world's leading tobacco companies in 2018, based on net sales (billion dollars)

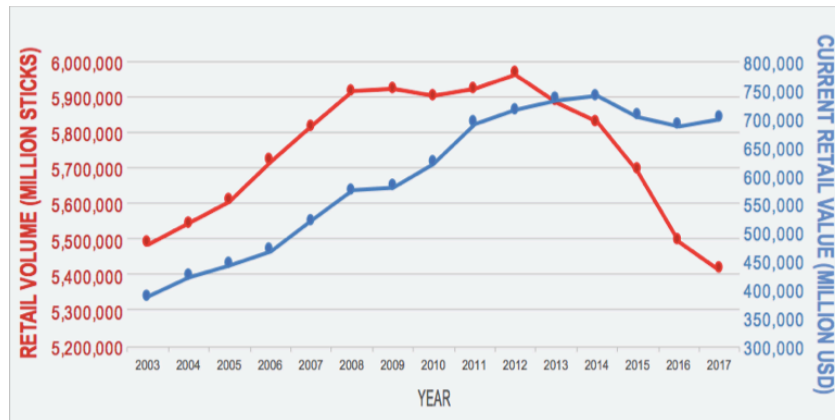


Source: Statista, 2019

These large groups share their turnovers have an impact both economic and political. Indeed, there is a lobbying of tobacco that allows this group to be favored and able to implement or delay implementation against tobacco. For example, in 2016, when a new law was announced for neutral tobacco packages, this lobbying delayed the law.

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

Figure 4 : Global cigarette market: Historic retail volume and current value (2003-2017)



Source Euromonitor International,

We can see that the retail value of cigarettes in 2017 this figure to 699 billion US dollars. In addition, in the same year, about 5.4 billion cigarettes were sold to more than one billion smokers worldwide.

A decline in volume sales is evident for several reasons. The first is the establishment of political restrictions in several countries in the world against smoking. This is part of a desire for better health in countries by reducing the nicotine product.

In a second time, the new product to vapor allows to have a substitute that is much less controlled, cheaper and more up-to-date. Indeed, the progression of sales in 2017 of these products is 36.8% against a decline of 1.4 for cigarettes.

The industrial cigarette, which dominated the tobacco market, is declining in many countries with the growth of rolling tobaccos, other smoking tobaccos, blends of tobacco and other plants as well as chewing tobacco. Tobacco companies are interested in all forms of traditional consumption of tobacco, sometimes even recreating very local traditions of consumption. However, businesses are growing with newer, more modern product lines. This explains why this market is expanding.

2.3. Tobacco in France

2.3.1. The beginning

The history of tobacco in France began in 1560, the French ambassador to Portugal, Jean Nicot, sent tobacco powder to the court of France to treat the migraines of King Francis II.

At that time tobacco was considered a universal miracle cure, it was even used as a prevention. King Francis II felt better thanks to this plant, so it was adopted by the entire royal court. Smoking spread throughout the French kingdom. Molière, a French comedian and playwright, mentions tobacco in one of his plays "Who lives without tobacco is unworthy of living"³. Children are also affected by the fashion of tobacco at this time. The famous song "I have good tobacco" attributed to the abbot of the Attendant, tells someone with a tabbaco and share with only friends. (*Appendix A*)

Tobacco having a great success in France during the reign of Louis XIV, the Minister of Finance, Jean-Baptiste Colbert, establishes the State monopoly of sale to which he added the monopoly of the manufacture of Tobacco in 1681.⁴

This monopoly is held by the East India Company.

2.3.2. Industrialization

Industrialization in Europe and more particularly in France brings many changes to the lives of the French. The most significant events of this era came from smoking as well as consumption by women.

³ Molière. (1682). Don Juan // le Festin de Pierre.

⁴ Éric, G. (2008). Le Tabac En France De 1940 à Nos Jours: Histoire D'un Marché. . PUPS.

We do not know the exact story of the appearance of the first cigarettes, but what is certain is that it was popularized by the Napoéliennes troops in France after 1809. At first, the cigarette was manufactured manually by the consumer himself. He had to roll it in a corn leaf or shredded tobacco, which was destined for the pipe.

It was not until 1843 that the French Le Maire made the first rolling machine, the "cigarettotype".

At the World's Fair in Paris in 1878, new industrial advances enabled Surini and Durant to exhibit a new machine that produced 3,600 cigarettes per hour. Five years later, James Bonsack improved the machine to produce 15,000 cigarettes per hour.

In 1926, the State created the Service of Industrial Exploitation of Tobacco and Matches (SEITA) which will be entrusted with the monopoly of tobacco culture.

During the two world wars, the government set up free distribution of cigarettes for all soldiers. This accounts for a total of 2 million soldiers for the First World War, which were addicted to cigarettes, particularly nicotine. Nicotine was discovered by Louis Nicolas Vauquelin, in 1809.⁵

2.3.3. Seita the last factory in France

Seita, known for its brands JPS, Royale or Gauloises, closed the last cigarette factory in mainland France, in Riom, Puy-de-Dôme in 2017.

According to Seita, the fight against smoking undertaken by Europe has reduced consumption throughout Europe. Between 2002 and 2015, the number of smokers dropped by 37%. In France, over the same period, "tobacco purchases fell by 44%". On the other hand, the use of electronic cigarette has developed and gain a place in this market.

⁵ Catherine et Jacques Legrand dir. *Chronique de la Seconde Guerre mondiale*. Chronique, November 2002

Because of this declines in sales, Seita is in overcapacity, the company said that its European plants are operated "at 50% of their potential since, 2013", was no longer competitive in the market.⁶

Seita, therefore, refers to a "competitiveness deficit vis-à-vis its competitors, mainly located in the eastern countries where production costs are significantly lower."

The company, therefore, relocated the business by relocating to Germany and Poland, laying off about 239 jobs and leaving a loss of 1, 3 million tax revenue to the city. Seita France is not the only affected on the closure of the various factories, in 2015 a site in Spain and another in Great Britain in 2017. However, the surprising profitability of the tobacco industry at Seita with a net turnover of 8.3 billion Euros for the fiscal year 2015-2016, up 10% and a net profit of 2.7 billion Euros. As of today, only a small plant in Corsica for local demand is located in France.

⁶ Ch.L. Tabac: Seita ferme un centre de recherche dans le Loiret, November 2016

4. Analysis of the current state of the tobacco industry

4.1. European plan for tobacco control

Firstly, France has been committed in a legislation for 40 years. It is thought of by various laws for companies as well as people.

Everything begins in 1976 with a law which obliges the manufacturers of cigarettes has to register the mention " dangerous abuse " on everything packages. It regulates the advertising as well as the smoking ban in certain public place. It wasn't until 1991, that the law for no smoking in public places and no advertising for tobacco came out. It is because of this law that the government has increased the price of cigarettes.

The government is very strict concerning no respect to the law. There are two sorts of penalty.

The first one is against the smokers. Every person smoking in a public place subjected to one of the bans, is liable to a fine. This fine in a minimum of 68 Euros, and has a 450 Euros maximum. To fight against passive smoking, it is forbidden to all drivers to smoke in the presence of a child of 18 years or younger. If there is no compliance to this law one is therefore liable to a fine from 135 Euros to 750 Euros.

The second is against the employer. If the employer does not give a location in compliance with the smokers as well as not to set up road markings calling back the smoking ban. There is a fine from 135 Euros to 750 Euros.

A fight against tobacco, associations were also created. For example, the association "Alliance contre le tabac" it groups around thirty association leading a politics committed in the fight against smoking in France and on the international stage. It has for mission to create a free white to list quite the information on theme of the tobacco. It aims at pulling, it recommendations to improve effectively the control of the tobacco in France.⁷

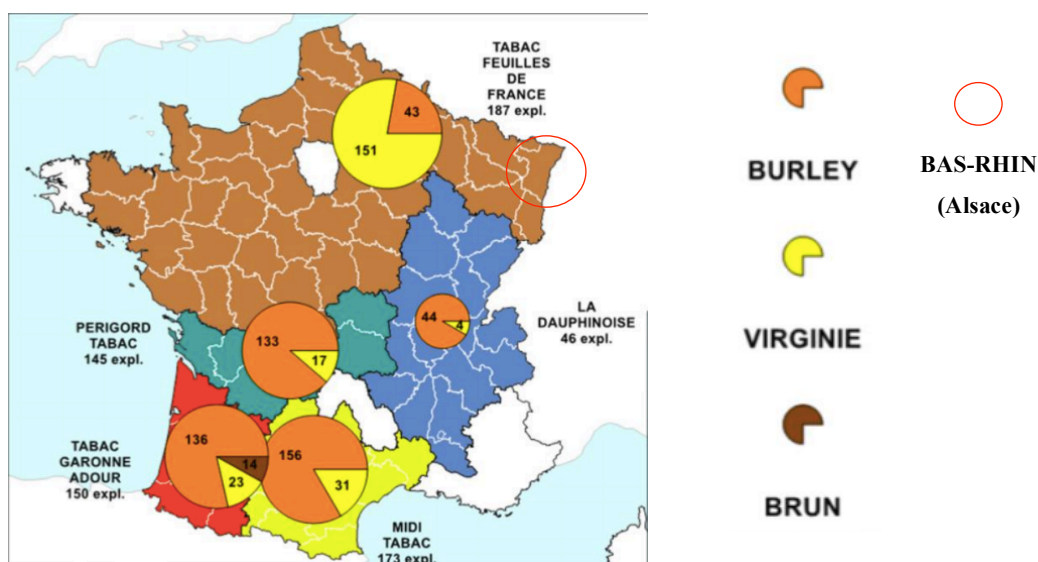
⁷ <https://www.service-public.fr/particuliers/vosdroits/F160>

4.2. Analysis of tobacco production

France produces 10,000 tons of tobacco a year. A production that has been halved in less than ten years. The French Tobacco Industry in 2017 represents 700 family farms spread over 45 departments, 6,000 jobs on these farms and a turnover of 30 million Euros.

In France Bas-Rhin is the largest tobacco producing department in France in terms of volume. This region owns one-fifth of the cultivated tobacco fields.⁸

Figure 5 : Tobacco farming in France



Source: Filière Tabac France, September 2017

In the region of Alsace, there are now about 80 tobacco producers in the region. Farmers in this region farm about 700 hectares, producing 2,500 tonnes of "Virginia tobacco" and 70 tonnes of "Burley" a year. Virginia Tobacco is a blond type of tobacco, which is exported 90% to the United States, the Maghreb and the Middle East to supply hookahs, shisha and other water pipes. Indeed, global demand continues to grow because French tobacco products are particularly appreciated for its quality.

⁸ Filière Tabac France, September 2017, p5

On the 8th of August, 2018, Alliance One Rotag and France Tobacco / Union of Agricultural Cooperative Societies concluded an agreement on three aspects: the supply, processing and marketing of Virginia Tobacco. This new agreement allows tobacco producers to project themselves into a prosperous international future. Scott Burmeister, Europe Director of Alliance One announced: "Virginia, German and Polish Virginia tobaccos are recognized around the world for their quality and uniqueness; this agreement will enable us to meet the needs of a growing shisha market, while continuing to serve our traditional customers ".

Today demand for tobacco is more important than supply, which leads to the importation of tobacco from other countries. This can be detrimental to the quality of tobacco in France. In addition, we have seen that the number of operators has been halved because of the European reforms implemented. The aid from Brussels has been cut by two for the tobacco sector. This action has the effect of resulting in a significant decrease in the number of total operators in France. For the remaining operators, the difficulty of amortizing their investment requires them to partner with other community operators. However, even if all the public (government) and private (cooperative and customers) have contributed to the help of the operators, today it still lacks 1 € on 1kg of tobacco sold.

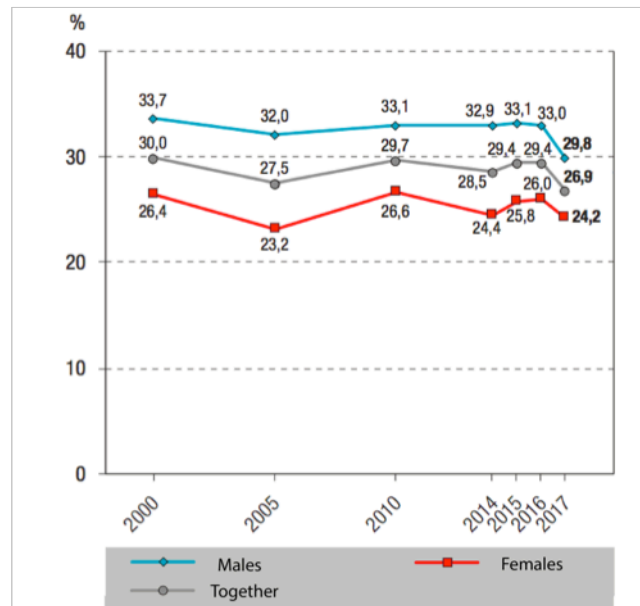
4.3. Consumption in France

4.3.1. Global consumption

According to the World Health Organization (WHO), France is in the 61st place of tobacco users in the world, with an average of 1,023 cigarettes consumed per adult each year.

In 2017, daily smokers consumed an average of 13.3 cigarettes (or equivalent) a day. On average, men smoked 14.2 cigarettes a day compared with 12.2 cigarettes a day for women. This quantity appears in very slight decline compared to the level of consumption of 2010. Among daily smokers, 18.8% smoked between 1 and 5 cigarettes per day on average, 33.2% between 5 and 10, 19.3% between 10 and 15, 17.4% between 15 and 20 and 11.2 % more than 20.⁹

Figure 6 : Prevalence of daily smoking by sex among the 18-75 years old, France 2000-2017



Source: Baromètres santé 2000, 2005, 2010, 2014, 2016 et 2017, Santé publique France. February 2017

⁹ : Santé publique France, Tobacco consumption in France: preliminary results from the 2017 health barometer, Mai 2018, p267-270

As a result of this chart, we can see a decline in consumers from 2016 for both sexes. This is due to the introduction of the anti-smoking policy in 2016, which represents an estimated 1.4 million fewer adult smokers (from 15.8 to 14.4 million). The prevalence of daily smoking decreased by 2.5 points (-8%) among 18-75 year old between 2016 and 2017, a decrease observed for men and women.

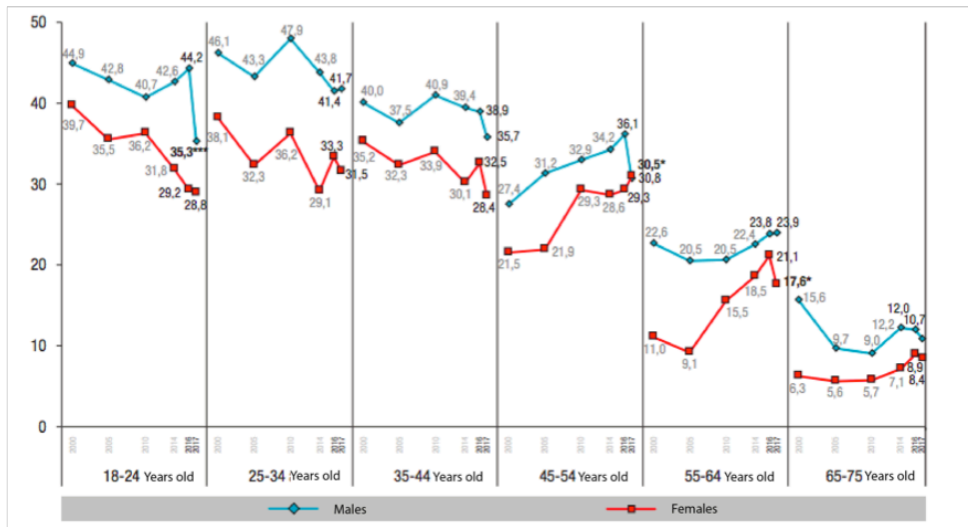
However, this observation is obvious: smuggling and counterfeiting of tobacco products are favored by high taxation and a growing differential with prices in neighboring countries.

Rising prices did not bring down the number of smokers, but instead increased the drop in sales, which was offset by the rise in the black market.

4.3.2. Demographic consumption

The proportion of smokers decreases sharply with age for both sexes. The number of current tobacco smokers decreases sharply from the age of 30 and in particular beyond the age of 50. As in 2005, there is a significant gap between men and women aged 26-34, probably related in part to pregnancies and the presence of young children in households, which are opportunities to abandon the smoking habit which concerns more women. There is also an awareness of excessive smoking and these effects. The increase in cancer mortality and the introduction of the reimbursement of tobacco substitutes led to a 5.6% decrease in consumption between 2014 and 2017 for those aged 45-54 years old.

Figure 7 : Average (in %) of daily smoking by age and sex, aged 18-75, France, 2000-2017

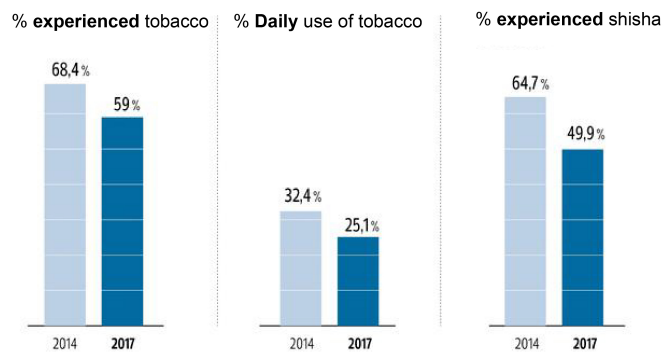


Source: Baromètres santé 2000, 2005, 2010, 2014, 2016 et 2017, Santé publique France. February 2017

4.3.3. Smoking among people under 17 years old

The success of adolescent tobacco control can be seen today. Smoking continues to decline in this age group conducive to tobacco experimentation. In 2017, 6 out of 10 young people confess to have already tried cigarettes against nearly 8 out of 10 in 2014. In addition, 1 out of 2 tried the shisha last year when they were nearly 2 out of 3 in 2014. The Current high school students smoke less than their elders: between 2014 and 2017, daily smoking among young people under 17 decreased by 23%. Today, 1 in 4 teenagers smoke every day.

Figure 8 : Smoking among people under 17 years old



Source: Santé Publique France. February 2017

However, to continue to roll back teen smoking awareness and prevention efforts are still needed. This awareness must be particularly present in disadvantaged social groups. According to one study, students in technical or vocational high schools are less affected by the dangers of smoking than students in general education. They are also initiated earlier to tobacco.¹⁰

¹⁰ bulletin épidémiologique hebdomadaire

4.4. The tobacco industry in France

4.4.1. Reminder of numbers

How to determine the price of tobacco

To determine the price of tobacco there are several factors that come into play, customs duties, the right to consumption and the remuneration of manufacturers as well as debtors.

CUSTOMS LAW

Customs law: corresponds to a tax levied on an imported good when crossing the border.¹¹

Customs law is calculated on different elements, with a specific formula.

Equation 2: Customs law

$\text{price} \times \text{the applicable customs rate} \times \text{the number of products}$

The price includes the price paid for the products, the insurance taken out, the cost of freight or the price of the packaging.

VAT

Value Added Tax (VAT): is a general indirect tax included in the selling prices of goods or services and paid by consumers.¹²

The rate of Value Added Tax (VAT) is based on the retail selling price of tobacco. This tax must be paid by the supplier.

Equation 3: Rate of VAT

$\frac{R}{1+R}$ <p>R: Rate of VAT</p>

¹¹ <https://www.glossaire-international.com>

¹² Droit des Finances : <https://droit-finances.commentcamarche.com/faq/22722-taxe-sur-la-valeur-ajoutee-tva-definition-et-calcul>

We are talking about VAT "within". With a VAT rate currently at 20%, this VAT rate is deducted from 16.66%.

THE RIGHT TO CONSUMPTION

The consumption duty on tobacco is an indirect tax. The product is used to finance the social security budget. It consists of three elements:

- a proportionate share of the retail selling price
- a specific excise duty on quantities, so the tax on tobacco is to take X Euros per number of cigarettes sold.
- a minimum of perception which is the role of a minimum tax expressed in Euros for 1,000 cigarettes or 1,000 grams. The total amount of the consumption tax (proportional share + specific share) cannot be lower than this minimum of perception.

REMUNERATION OF MANUFACTURERS AND DEBITERS

Manufacturers:

Tobacco manufacturers themselves choose the margin they want to obtain on these different tobacco product lines.

- do not sell at a loss
- the tariffs must be approved by the government, which ensures that they are not lower than the cost price and all taxes.

Debtors:

Tobacco debtors are remunerated by a discount on the selling price. For all tobacco products the discount rate for France excluding Corsica is 9.94% and in Corsica is 13.25%. In practice, however, a direct discount is applied at a rate of 7.8% on the supplier's invoice. The second rebates of 2.14% are granted directly by the supplier to the administration which uses this sum as a license fee and pension contribution.

Debtors may be recipients of compensatory assistance to compensate for the loss of remuneration. It is eligible for debtors who are located in a department in difficulty or border with a declining annual turnover.

A second aid can be awarded which is the activity diversification bonus. To be granted the debtor must submit an offer of at least five different services.

Table 1: Example of the price structure of a pack of 20 cigarettes at 8€

Price structure	Rate / Share	Cigarettes
Retail price (for a pack of 20 cigarettes)		8€
Consumption tax including:		
• a proportionate share of the retail selling price	50,8 %	4,07 €
• a specific share for 1,000 cigarettes	59,90 € ¹³	1,20 €
• a minimum of perception	261,00 €	0,00 €
VAT on the retail price	16,6667 %	1,33 €
Tobacco retailer handover	9,64 %	0,77 €
Industrial		0,63 €

^A The specific portion per thousand units or one thousand grams shall be determined in accordance with Article 575a

^B The minimum charge referred to in Article 575 is set at € 261 per thousand cigarettes and € 143 per thousand cigars or cigarillos

In view of this table, we can analyze the exact percentage of the price for each actor. Indeed, the price of a cigarette is divided into four distinct parts.

- *Consumption tax* : $\frac{(4,07+1,20+0,0)\times 100}{8} = 65,85\%$
- *VAT on the retail price* : $\frac{1,33\times 100}{8} = 16,6\%$
- *Tobacco retailer handover* : $\frac{0,77 \times 100}{8} = 9,6\%$
- *Industrial* : $\frac{0,63\times 100}{8} = 7,87\%$

We can therefore conclude that about 65% of the price of a cigarette comes back to the consumption tax. Indeed, it shows that the price of tobacco is heavily taxed that it is not the industrial, 7,87 % of price and the retailer with the 9,6% of the price who fixes the price of the cigarette. Without these taxes, the price would be much more affordable.

¹³ Code général des impôts - Article 575 A

4.4.2. SWOT

Strength :

- Tobacco companies are financially important
- Companies benefit from all consumer image goods
- Large groups (British Morris Tobacco, Japan Tobacco International, and Imperial Tobacco) split the market.
- A lot of partnership with the cinema with product placements

Weakness :

- Sales are very controlled (legal age, a different component of the cigarette)
- Promotion and advertising are prohibited in France
- There is no production plant in France (so it favors importation)
- French and European legislation changes regularly

Opportunity :

- The growth of the tobacco market (chicha market)
- Strategic bridging of certain groups to expand their market share
- New project on other substitutes for cigarettes, (electronic cigarette, IQOS)

Threat :

- Associations fight for the fight against tobacco
- Awareness Policy / Tobacco Tax Increase
- Legislation of the government and Europe

4.4.3. PESTEL analysis

Political:

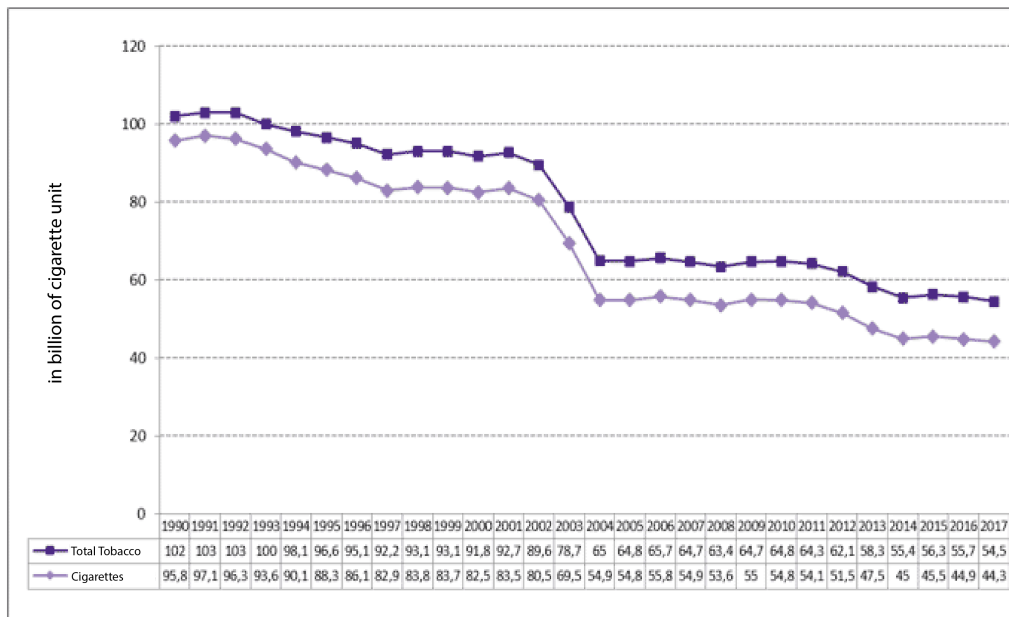
Several advertising spots and advertising posters have been created to raise awareness among the French population. However, the government wants to apply adapted policies that aim to:

- reduce the number of daily smokers by 10% in five years, or 1,340,000 by 2019. Today there are 13.4 million consumers.
- less than 20% of daily smokers in ten years, which would represent 3.9 million fewer daily smokers in 2024.
- make every effort to ensure that children born after 2014, an "adult without tobacco" generation.

Economic :

Tobacco affects public finances with a net deficit of around 15 billion Euros annually. Even taking into account the taxes amounting to 10.5 billion Euros. However, these taxes do not create any wealth, but are simple levies.

Figure 9 : Evolution of cigarette sales in France



Source: Direction Générale des douanes et des droits indirects, March 2017

In 2017, the downward trend in official tobacco sales in 2016 is due to price increases. Tobacco sales fell by 2.2% and for cigarettes, the decrease was 1,5%. This main drop is related to the rise of e-cigarette purchases, the decline in purchasing power, but also so-called parallel sales (abroad, on the internet, on the black market, etc.)

Social :

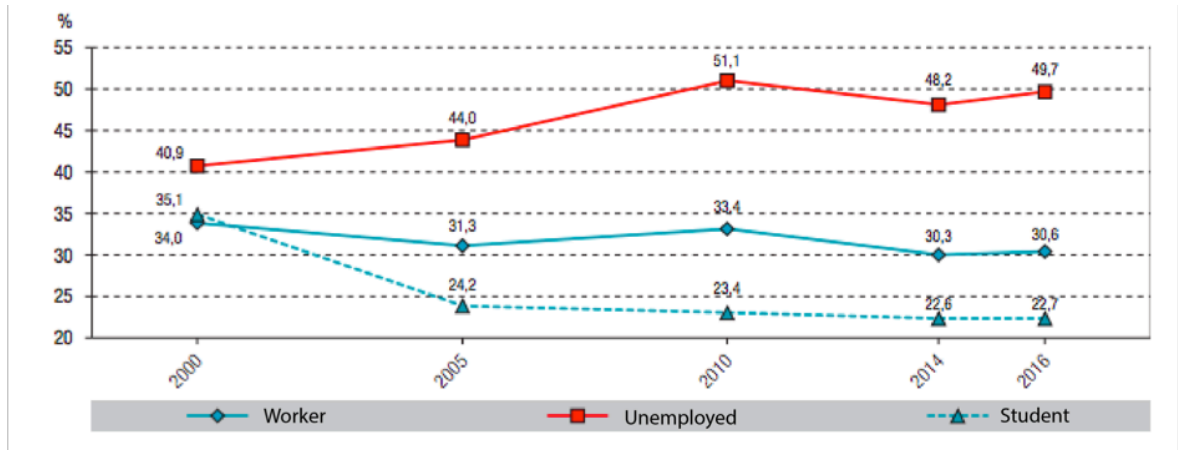
For several years, the phenomenon of smoking is more and more a social marker. This phenomenon depends on many factors, ranging from the role of the diploma to that of the family, colleagues or friends, habits of life taken sometimes from youth.

For workers / employing tobacco consumption is the only product where they spend more than executives. However, their income is lower than the average. This result is due to the dependence of the product and the desire to stop.

In fact, according to a survey conducted among 200 people, we find the following answers for the question: Socio-professional category for the smoker (*Appendix B*)

The answers are as follows: 32% Employees, 25% of students, 16% of professionals and intellectual professions.

Figure 10 : Evolution of daily smoking by activity status for 15-64 years old, France 2000-2016



Source: Santé Publique France, Tobacco and e-cigarette in France: levels of consumption according to the preliminary results from the 2016 health barometer, Mai 2017

Technologic :

The recent arrival of the electronic cigarette as a substitute for tobacco reduces the profits of the tobacco industry, but also those of the state. The government could no longer benefit from the same revenues as before if cigarette consumption decreased. Especially since France is the 5th largest producer of European tobacco, a sector representing 58 hectares of culture in 60 departments and up to 30,000 jobs.

Environmental :

The tobacco product is bad for the environment. Different aspects of a cigarette may be implicated such as the cultivation of the tobacco plant, the chemicals that make up the cigarette, the management of cigarette butts and the packaging of cigarettes.

The cultivation and drying of tobacco leaves contributes to the phenomenon of global warming considered as one of the major threats for our planet.

The tobacco is dried by spreading hot air on the leaves. In many countries, this involves cutting down trees and burning them to produce energy for the drying process, while in other countries, the most commonly used energy source is gas.

Today, major tobacco companies are announcing that they have implemented programs to reduce their CO₂ emissions. The companies officially recognize that climate change could have negative effects on their turnover and on the environment. However, in 2006, the emissions of the only tobacco company
BAT (British American Tobacco) represented with a production of 665 billion cigarettes, the equivalent of half a ton of CO₂.¹⁴

¹⁴ British American Tobacco Annual Report 2016

Legal:

The industry is hampered by several factors, the first is on the political front and the second is slowing down by legislative plans. On the one hand by international laws such as:

- in 2004, France set up the FCTC (Framework Convention for the Fight Against Tobacco) of the WHO, encouraging the implementation of prevention in the face of the danger of smoking.
- in 2010 - 2012 the European Union provided for the gradual increase until 2018 of the minimum levels of the applicable taxation.
- on 8 October 2013, the tobacco directive aimed at making it less attractive: 65% of the package covered by health information.
- Reform of the European organization of the tobacco market.

Here are some other French laws against smoking:

- 1976: The Veil Act prohibits all direct advertising on tobacco in France.
- 1991: The Evin Law prohibits smoking in public places.
- Article L.3511-6 of the Public Health Code, giving the duty to display clearly by messages and / or images the dangerousness of tobacco consumption.¹⁵

¹⁵ La législation antitabac en France

4.5. A developing underground economy

4.5.1. Fake traffic

The recent rises in the price of tobacco has sparked the parallel cigarette market.

The estimation of the illicit cigarette market is really difficult. All underground markets have clandestine activities that are always in motion. To escape control, fraudsters hide and change their habits.

To counter this phenomenon, the European Anti-Fraud Office (OLAF) is tasked with combating cigarette smuggling as part of the European Union's anti-fraud efforts. OLAF collaborates with the states concerned by this trafficking, which involves the majority of countries.¹⁶

This black market is developing internationally, it is strongly present on European soil.

The majority of illegal cigarettes are created in Europe. About 62% of the illicit goods are owned by France, Italy, Germany, Poland and the United Kingdom.

This parallel market is a shortfall to the state. Indeed, the loss is estimated at about 10 billion Euros of taxes that are not applied, all over Europe. This amount of money is a direct investment for counterfeiters, which makes it possible to finance other more dangerous markets, such as arms trafficking or terrorism.

¹⁶ <https://ec.europa.eu/anti-fraud/>

4.5.2. Border importation

It is estimated today that a quarter of cigarette sales are made outside tobacco shops, through a cross-border market.

Indeed, France is surrounded by seven European countries, Belgium, Luxembourg, Switzerland, Italy, Andorra and Spain. All these countries have a much lower tobacco tax policy, which favors cross-border shopping for the French population. These countries are taking advantage of this price increase in France to increase their savings.

For example the country Andorra is located between the French border and the Spanish border.

Andorra is famous for its tax having encouraging duty free sales.

Indeed, the country needs 120 tons per year of tobacco for its domestic consumption. However, the tobacconists distributed 850 tons a year, to the 8 million tourists who come from Spain, but mainly from France.¹⁷ The average price of a pack of cigarettes is around 4 Euros in Andorra, against 9 Euros in France.

Figure 11 : Map of Andorra



Source: Wikipedia, Andorra in Europe , Mars 2011

¹⁷ <https://www.publicsenat.fr/article/parlementaire/tabac-le-marche-parallele-de-cigarettes-fait-perdre-3-milliards-de-recettes>

The European Union authorizes a maximum quantity of tobacco purchase in Europe. Customs considers for personal use the following maximum quantities:

- Cigarettes: 800 units, ie 4 cartridges
- Cigars: 200 units
- Cigarillos: 400 units
- Smoking tobacco: 1 kg

Based on the tobacconists interviewed in a neighboring French city of Luxembourg, Thionville. An economic analysis of French debtors on the Luxembourg border has been put in place. Although smoking has a lower turnover, regulars and people who cannot move to neighboring countries, continues to buy in French cities near the borders. These people are usually young people (18-20 years old) and old people.

However, the government has implemented a business diversification bonus for tobacconists with less than € 300,000 turnover and a provider of five different services. Le of the interviewees not knowing the existence of this bonus. This shows a flagrant lack of communication from the government and the tobacconists. (Appendix C)

5. Future

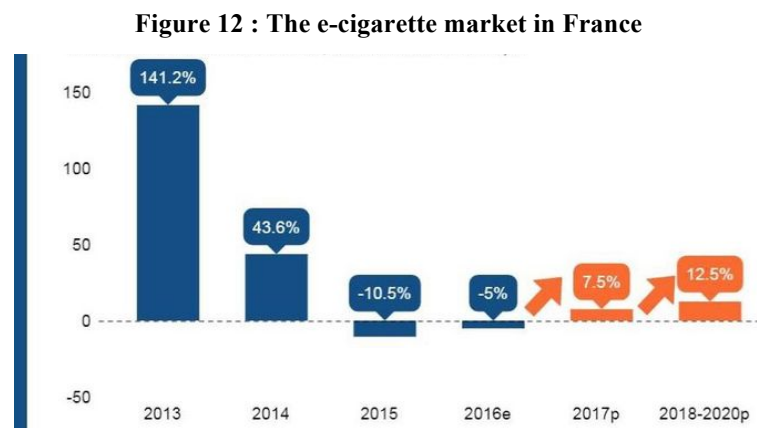
5.1. Development of new legal surrogate and new communication

5.1.1. Electronic cigarette

It was in 2003, that the first electronic cigarette device was made public. This substitute is intended to simulate the use of a real cigarette. In 2005, Hon Lik, a former Chinese pharmacist and engineer, patented a "smokeless electronic spray cigarette".

The electronic cigarette has become a substitute in direct competition with the major tobacco companies. Becoming a fad, where the consumer can choose the taste, the colors, any marketing aspects has become one of the biggest threat to industries.

The e-cigarette market is entering a stable and sustainable growth phase. Growth from 2017, and accentuated in the coming years are highlighted. In 2017, sales of electronic cigarettes are 350 million Euros. In 2020, the chart forecasts a total sale of 500 million Euros.¹⁸



Source: XERFI Research, 2017

¹⁸ Benjamin Thomas, Toute la Franchise, 2017

According to a public health study, in 2017, 41.7% of the 18-75-year-old report having tested the e-cigarette. In 2017, 2.7% of 18-75-year-old surveyed say that they are vaping daily, this figure remains stable compared to 2016.

Today, the market benefits from a regulatory framework that was not the case previously. This made it possible to detach from a gadget image to become a real product of everyday use. Finally, government measures to fight against smoking, such as the sharp rise in the price of the cigarette package, play in favor of this new product.

In June 2018, the Seita company launches a challenge that is to democratize the vape, with a simple and accessible product, MyBlu. (Appendix E)

Myblu is a closed system of vape, refillable thanks to capsules.

Myblu is the number 1 in closed-circuit electronic cigarette sales in the tobacconist network.

The brand materializes its bet by showing the commitment to accompany the smokers who wish to leave the cigarette. The company engages a movement of transformation of the tobacco market towards the vape, by democratizing innovative solutions.

Indeed, the e-cigarette is favored in the tobacco market, for these effects not harmful to health and for its multitude of choice of tastes. The e-cigarette, unlike normal cigarette packs, can be customized making the object more marketing. Many smokers have made the choice to start the e-cigarette to reduce the consumption of tobacco by reducing nicotine.

5.1.2. New communication

In 2016, the Minister of Social Affairs and Health, Marisol TOURAINE and Public Health France, in partnership with the Health Insurance, launched the operation "Month without tobacco".

This operation encourages smokers to stop smoking for 30 days during the month of October, which multiplies by 5 the chances of permanent cessation. Participants receive support and encouragement to stay motivated.

Several tools to help stop smoking have been put in place for the participants.

- The **Stop kit**, contains a diary that helps the participant at each step with tips, information on the benefits of stopping smoking, tips to manage cravings and games. In this kit, there is also information to prepare for stopping smoking. And a tool to calculate the savings made each day according to daily consumption.
- **E-coaching** is an application that offers a 100% personalized program with tips, tricks, and mini-games. You can find videos of support. This application has been downloaded approximately 86,000 times in 2018.
- A **Tabac Info Service** Remote Assistance Number, « 3989 », was used by approximately 21 000 people.

The month without tobacco has been much shared on social networks, a hashtag was created "#moissanstabac". The official page of the operation has 118,000 fans on Facebook and has 4,900 followers on Twitter.

The League Against Cancer supports with the project created an Escape Game. This is an opportunity to educate smokers or non-smokers, and to reach the young audience are fans of games. The purpose of this event is to show how to escape from tobacco.

Teams will need to find items, solve puzzles to help "Justine" who wants to quit.¹⁹

During these event sales of nicotine substitutes increased by 66% in 2018. Each month 300,000 French people buy lozenges, chewing gums or patches. This is explained by the introduction in 2018 of the reimbursement of certain nicotine substitutes by Social Security. Before, smokers benefited from a flat rate of 150 Euros of reimbursement per year. Since March, Nicotine EG chewing gum has been reimbursed at 65% and the NicoretteSkin patch since the end of May, with no ceiling.

¹⁹ Santé Publique France. #moissanstabac 3eme Edition. October 2018

5.2. Willingness to fight against consumption

5.2.1. Higher price

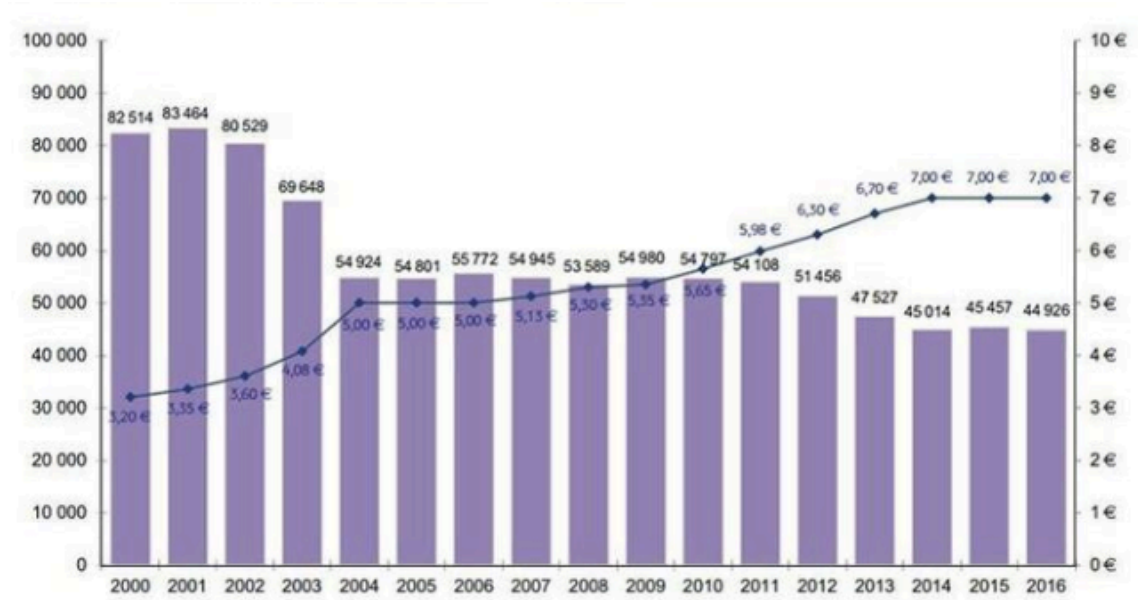
The rise of tobacco in France led to more than 80 000 deaths per year and is the first cause of mortality today. The most popular and cost-effective option for all government is increasing the price of tobacco. Therefore, an intervention to the State is necessary to solve the problem. The French government's objective is to reduce the consumer and the purpose to reduce rate mortality by using politics.

All the member states of the EU makes gross profits through taxes applied to the sales of tobacco products. The tax system consists of a VAT and specific taxes called excise duties. Indeed, knowledge is needed regarding the price of a package of cigarette, where only 8 % of the price is for the tobacconist, 12 % for the manufacturer of cigarettes and a total of 80 % goes to the State for taxes. All these takings brought reported 14 billion Euros to the State in 2016. If smoking is a pleasure for many people, it is a large expenditure for the State because it assumes the costs. Indeed the Minister for Health, Marisol Touraine said, "the tobacco costs 100 billion Euros to the national community" to justify the measures anti-smoking. It is to say that the smokers make press considerable loads on all the contributors to the Social Security and the taxpayers.

Secondly, an increase in the prices of the tobacco untrained several consequences of the point of the consumer. Then putting a politics of increase of taxes it can have a real impact. According to the calculations of the OMS, « on average », the 10 % increase in prices on the package of cigarettes should pull (entail) a reduction in 4 % of the demand (request) in high-income countries. In low-income countries or intermediary from 4 to 8 %.

However, for teenagers the daily consumption of tobacco increases. Indeed, 40 % of the regular smokers are 16-25-year-old. From 2000 until 2016, the price of the package of tobacco has more than doubled (118 %) while sales were almost divided by two (45 %).

Figure 13 : Cigarette sales in million units and average annual price of cigarette pack of the top-selling brand



Source: Direction générale des Douanes et Droits indirects, 2017

The evolution of tobacco consumption has not been linear. From 2004 to 2010, consumption stagnated around 55 000 tons annually, while the average price was 5 Euros. It was necessary for price increases to exceed 4.5% each year from 2010 to 2014 for consumption to decline again. Starting in 2014, with an average price of 7 Euros, it reached a new price of 45,000 tons.

Many researcher one to work on has sensibility-price. The results of the studies of Townsend, Chaloupka and Farrely show that the request of cigarettes is less elastic. As for the prices for more educated individuals or as for the higher income. It shows that individuals whose family income was lower than the average of the sample were more price-sensitive than those whose family income was higher.

Besides, if we integrate the fact that rises in prices are going to push certain smokers to the stop, the elasticity prices is higher. The elasticity-prices estimated from the studies which use accumulated data vary between 0,14 and 1,23. For example, elasticity price between 2013 - 2014 is:

Equation 4: Elasticity of Supply and Demand

Elasticity of Supply and Demand = Rate of variation of the demand /Rate of variation of the price

- 2013: 47 527 consumer → 6,70€ price
- 2014 : 45 014 consumer → 7 € price

$$\text{Rate of variation of the demand: } \frac{45\,014 - 47\,527}{47\,527} \times 100 = -5\%$$

$$\text{Rate of variation of the price: } \frac{7 - 6,70}{6,70} \times 100 = -7\%$$

$$\text{Elasticities of Supply and Demand: } \frac{4,47\%}{-5\%} = -1,11$$

The demand of cigarette decreases by 5 % when the price of cigarette increases by 4,47 %, the elasticity-price of the demand for cigarette is - 1,11 the good is price inelastic. Indeed, the fact that cigarettes are expensive can also trigger a "effect of distinguishing feature " .

5.2.2. Passive smoking

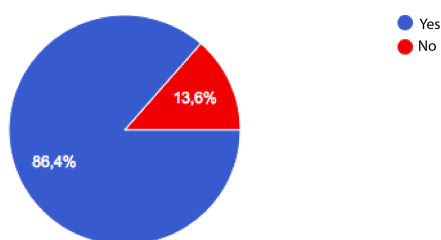
The number of chemicals identified to date in tobacco smoke is estimated at around 4,000, of which more than 250 are classified as dangerous to health and at least 50 identified as carcinogenic in humans and animals.

Tobacco smoke is a special mixture, smoke is formed through thousands of chemicals in gaseous form, after the incomplete or complete combustion of tobacco. Passive or involuntary smoking is defined as exposure to tobacco smoke in an environment.²⁰

Figure 14 : Reaction about passive smoking

Do you believe that passive smoke can actually cause tobacco-related illnesses, or even kill:

200 Answers



Source: *Questionnaire: The tobacco industry in France, 2019*

According to a survey of 200 people of different ages in France. It can be observed that almost 80% of respondents is sensitive about this, against 20% who are not. Although its dangers are lower than for the active smoker, they are now proven and recognized. In France, nearly 1,100 deaths are linked to passive smoking each year, of which 150 are due to lung cancer. The French are aware of these causes and feel concerned. In the second graph, 86% of people think that passive smoking has irremediable causes. In addition, 28% of people think that the risks of this one are underestimated, compared to 66% of real risks. (*Appendix D*) This data led the government to take regulatory action to ban smoking in public places.

²⁰ Institut national du Cancer, *Cancers et tabagisme passif*, December 2010

5.3. Expensive package

The government notices the price of the tobacco will be 10 Euros for the year 2020. For the consumer, the package in 10 Euros would return to an increase of 50 % of its price.

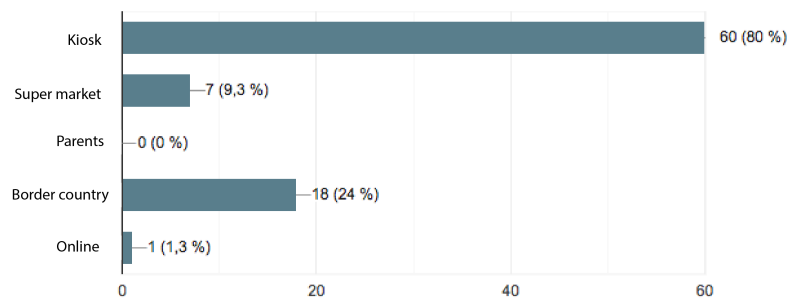
The government announced in 2017 that it will have an increase in the price of tobacco. This increase will affect all products, cigarettes, rolling tobacco, cigar but also cigarillo. In fact, the taxation of rolling tobacco was lower than that of cigarettes. This led to an increase in the consumption of tobacco to roll. The first increase was in 2017 of 0.35 €. The following year, the second increase was 1 € more. In 2019, the government announces two new increase to come, in April an increase of 0.50 € and in November a new rise of 0.50 €.

However, according to surveys, the price of a pack of cigarettes has become much too expensive. Indeed, 88% of those questioned smokers denounced a price too high against 10% who found the appropriate price. Indeed, it is a choice to start the cigarette, but often the will to stop does not depend on a choice. The government is penalizing people who need this product, but who cannot afford to pay a package of 10 Euros. Which leads people to get cigarettes outside French borders, such as 18 out of 75 people.

Figure 15 : The share of purchase in the various localization of sales

Where do you get your tobacco?

75 Answers



Source: *Questionnaire: The tobacco industry in France, 2019*

Generally, two categories of people are included in the price increases. The first time economically poor people were paid, they became a luxury product. The second category is the young, who were put forward through their pocket arguments. Parents do not consent to this way of life, do not finance their purchases.

It's forceful argument for the French Minister for Health, whose objective is to reach the first "generation without tobacco ".

Conclusion

Long perceived as a low-risk product, the tobacco industry is now faced with many questions and is experiencing more and more difficulties. Indeed, the figures for tobacco are decreasing because of regulation on the main product, the cigarette. However, today tobacco companies remain profitable, such as relocating their productions. We saw this for Seita, which closed in 2017. Companies are hotly contested, so new substitutes are taking place in a market that was once dominated only by smoking tobacco.

In France, the logic is similar, particularly because of the implementation of health policy. This policy has put in place taxes, an increase in the price of tobacco that aims to reduce the number of consumers. Such an increase is particularly effective for certain categories of the population, such as the young and the economically disadvantaged, as we have seen previously. These French but also European laws aim to reduce the number of smokers and, at the same time, to reduce the number of cancer-related to tobacco consumption. However, cigarettes are still consumed by the most addictive, for whom smoking is a "habit", but the efforts undertaken for years seem to be paying off for the government, as the consumption of young people decreases year by year. Therefore, the government's desire to move to a generation without tobacco is increasingly possible seeing the indicators of consumption of young people decreased.

The policy against the tobacco industry has a detrimental effect on the tobacco economy in France. After decreasing European aid and higher taxes, the number of farmers has halved in 10 years. This finding leads to a decrease in supply that no longer meets demand.

The tobacco industry, by its financial means, but also extra-financial is forced to find new products less non-controversial view by governments. A new fashion of vaping is established in the world, which did not escape the big tobacco industries, proposing a new range of product. Today, the tobacco industry has moved towards a healthier industry.

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Appendix

Appendix A : Lyrics "I have good tobacco" FR // ENG

J'ai du bon tabac dans ma tabatière,
I have good tobacco in my snuffbox,

J'ai du bon tabac, tu n'en auras pas.
I have good tobacco, you will not have any.

J'en ai du fin et du bien râpé,
I have some fine and well grated,

Mais ce n'est pas pour ton vilain nez.
But it's not for your ugly nose.

J'ai du bon tabac dans ma tabatière,
J'ai du bon tabac, tu n'en auras pas.

J'ai du bon tabac pour bourrer ma pipe,
I have good tobacco to stuff my pipe,

J'ai du bon tabac, tu n'en auras pas.
I have good tobacco, you will not have any.

J'en ai du blanc, du noir et du gris,
I have some white, some black and some gray,

Mais je n'en donne qu'à mes amis.
But I give it only to my friends.

J'ai du bon tabac dans ma tabatière,
I have good tobacco in my snuffbox,

J'ai du bon tabac, tu n'en auras pas.
I have good tobacco, you will not have any.

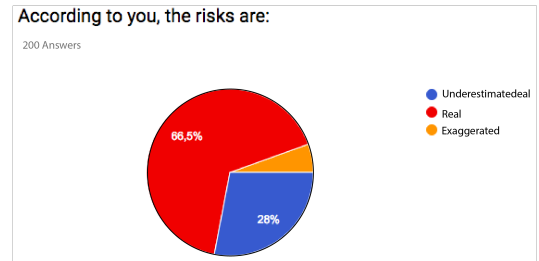
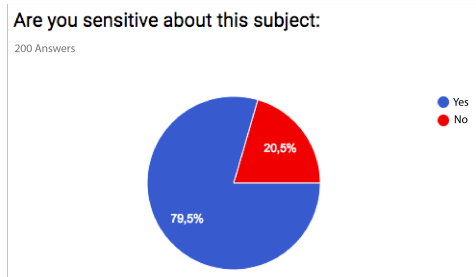
Appendix B : Result of questionnaire by GOOGLE FORM

SMOCKERS		
Socio professional category	Sum	Percentage
Farmers	1	1%
Senior Managers	5	7%
Cadres et professions intellectuelles supérieures	12	16%
Employees	24	32%
Students	19	25%
Workers	2	3%
Intermediate professions	6	8%
Unemployed	6	8%
Total	75	100%

C : Question of the interview with the debtors

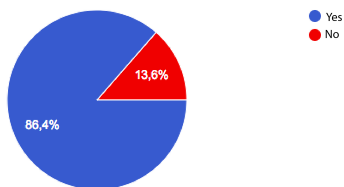
- o What are the most purchased tobacco brands?
- o Have you felt a drop in prices as a result of rising tobacco prices?
- o What is the average age who buys tobacco?
- o Do you feel the effects of being near a border?
- o Did you benefit from the activity diversification bonus?

Appendix C : Answer of questionnaire passive smoking



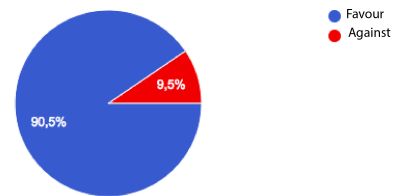
Do you believe that passive smoke can actually cause tobacco-related illnesses, or even kill:

200 Answers



What is your position regarding the ban on smoking in public places:

200 Answers



Appendix E : List of picture

Figure 16 : Electronic cigarette - My Blu



Source: South Beach Smoke, Myblu starter kit