

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Economics



Bachelor Thesis

Tobacco Industry

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CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

BACHELOR THESIS ASSIGNMENT

Anna Kolesnyk

Economics and Management

Thesis title

Tabacco Industry

Objectives of thesis

Analyze tobacco industry in the world on the ground of financial reports of various countries and their major producers. Determine reasons for increasing/decreasing of supply-demand curve. Define strengths and weaknesses of main tobacco companies. Assess their present financial situation. Predict future behavior of tobacco market.

Methodology

Statistical methods

Financial analysis

SWOT analysis

PEST analysis

The proposed extent of the thesis

40

Keywords

tobacco industry, SWOT analysis, PEST analysis, price elasticity, taxation, supply curve, demand curve, foreign market.

Recommended information sources

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Declaration

I declare that I have worked on my diploma thesis titled “Tobacco Industry” by myself and I have used only the sources mentioned at the end of the thesis.

In Prague on date

Anna Kolesnyk

Acknowledgement

I would like to thank Maier Tomáš for his advice and support during my work on this thesis.

Tobacco Industry

Tabákový průmysl

Abstrakt

Hlavním cílem této práce je analýza kontextu, struktury a způsobu fungování tabákového trhu na příkladu dvou klíčových globálních korporací: Altria Group Inc. a British American Tobacco. Mezi otázky řešené v práci patří struktura tabákového průmyslu, povaha konkurenčního procesu, regulační rámec a regulační instituce. Práce se skládá ze čtyř kapitol. První kapitola je věnována metodologickým aspektům, bibliografii a obecnému popisu práce. Druhá se jmenuje Teoretický rámec a je pokusem o přehledovou analýzu globálního tabákového průmyslu. Třetí část je Případová studie, v níž se řeší finanční struktura tabákového trhu na příkladu společností Altria Group Inc. a British American Tobacco. Čtvrtá kapitola obsahuje závěry výzkumu a některé prognózy dalšího vývoje tabákového trhu.

Klíčová slova: tabákový průmysl, SWOT analýza, PEST analýza, cenová elasticita, vývoj, spotřební daň.

Abstract

The main objective of this study is to analyze the context, the structure and functioning of the tobacco market on the basis of two global leading corporations Altria Group Inc. and British American tobacco. Some of the issues highlighted in the study include the structure of the tobacco industry, the nature of the competitive process, the regulatory framework and the regulatory institutions. The thesis consists of four chapters. The first chapter deals with the methodological aspects, bibliography and general description of the thesis. The second is called Theoretical framework and deals with the overview of the global tobacco industry. The third one is Case study and it is about financial structure of tobacco market on the example of Altria Group Inc., British American tobacco. The fourth one deals with the conclusions of the research and some prediction of further evolution of the tobacco market.

Key words: tobacco industry, SWOT analysis, PEST analysis, price elasticity, evolution, excise tax.

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1. Introduction

The global tobacco industry on the one hand has a great influence on the World's economy and on the other hand, it is the most controversial legal industry. Talking about its impact on the economy it should be mentioned that such kind of industry provides huge benefits such as revenues, profit, taxes, creation of work places and others. As for the controversy of this industry it is explained by the fact that it always battles to conflicting viewpoints between the people involved in it and those affected by it. People who support the industry's side claim that tobacco production play a crucial part in building the World's economy and due to this industry it has billions of dollars worth of the government taxations all over the World. In contrast to them the opponents argue that a great number of tobacco smokers die of illnesses caused by tobacco products worldwide.

Taking into consideration all the above mentioned the topic "Tobacco industry" was chosen as the basis of my Bachelor thesis.

1.1 Aim and objective of the study

The study seeks to account for current developments in the market for tobacco products and associated regulatory regimes. In order to fulfill the problems put by the following methods of prediction were used: SWOT analysis helps to determine the risks and rewards of a company, face its problems and find the most perspective new markets, PEST analysis targets to identify the external factors affecting a company. Also different financial reports and statistical data were examined to give the more detailed description of the financial situation of the chosen corporations.

This work consists of a description of the market of tobacco and related products in the world as well as trends and dynamics of the given markets, including description of relevant products available on market, business operators involved, trade within countries.

The **main objective** of this study is to analyze the context, the structure and functioning of the tobacco sector in terms of competition at various stages of the tobacco value chain.

1.2 Methodology

In order to achieve the formulated aim the following **research methods** are used:

Literary research: is supposed to reach the aim by reading, analyzing, and summarizing materials about the topic. Obtained results will serve as part of thesis.

Statistical research: collecting, summarizing, analyzing, and interpreting current data concerning prices, supply/demand, import/export.

Descriptive analysis: identifying the attributes present, and then rate these attributes inculcating them into thesis.

Cost analysis: comparison of costs of tobacco products (actual or during a given period with another) for the purpose of disclosing and reporting on conditions subject to improvement.

SWOT analysis: assessing strengths of tobacco industry in general and main companies as well (what they can do) and weaknesses (what they cannot do) in addition to opportunities (potential favorable conditions for them) and threats (potential unfavorable conditions).

PEST analysis: with the help of this analysis we will be able to look at how the external factors, such as political-legal (government stability, spending, taxation), economic (inflation, interest rates, unemployment), socio-cultural (demographics, education, income distribution), and technological (knowledge generation, rates of obsolescence) factors can affect a selected sphere of research and how they can be used in combination with other tools.

Predictive analysis: description of a range of analytical and statistical techniques which we will try to use for prediction of future events or behaviors. In order to make predictions such kind of a function, named Trend function, will be used. A straight line, trend one, links price points and then stretches into the future, performing as a line of support and resistance. An uptrend line has a positive slope and a downtrend – a negative slope. It will help to forecast changes which can occur on the tobacco market and give opportunities for companies to come over some problems. It helps to forecast as many periods as a person thinks are valid. In a work, on the basis of the given data the prediction for years 2015-2017, in the aspect called Income statement, and for years 2016-2020, for the Revenue annually, will be created for the two tobacco corporations in order to see what they will expect and be ready for unexpected increasing or decreasing in revenues.

1.3 Practical value of the thesis

On the ground of analyzed statistical data and financial reports of the main producers and companies predict the future behavior of the tobacco market and its contribution to the world economy.

1.4 Structure of the Paper

After the introduction and purpose of the study theoretical framework follows. The chapter starts with the general introduction of the tobacco sector, production of tobacco, pricing segment of the industry, international trade of tobacco products and the tobacco control legislation.

Afterwards the evaluation of a case study within the manufacturing industry is carried out. And at the end general conclusions and further research are represented.

2. Literature review

The key role in the construction of the bachelor thesis plays the bibliography. It will be a foundation and a support for the thesis. It will also help to reveal the contribution that the thesis's investigation will make to this field. The following sources will be used in the research to accomplish the targets:

- Books: *Grise, A. N. The World Tobacco Markets - government intervention and multilateral policy reform. (1990)* draws on earlier and ongoing analyses of government intervention and trade liberalization; *Chaloupka, F. J., Cummings, K. M., Morley, C. P., Horan, J. K. Tax, price and cigarette smoking: evidence from the tobacco documents and implications for tobacco company marketing strategies: (2002)* provide clear evidence on the impact of cigarette prices on cigarette smoking, describing how tax related and other price increases lead to significant reductions in smoking, particularly among young persons, help to developing the industry's pricing strategies, including the development of lower price branded generics and the pass through of cigarette excise tax increases, and in developing a variety of price related marketing efforts, including multi-pack discounts,

couponing, and others.; *Jacobs, M. From the first to the last ash: the history, economics & hazards of tobacco: a comprehensive adult basic education curriculum* integrates speaking, reading, writing, and critical thinking skills and focuses on cigarette smoking;

- Internet sites will be used to gather up to date information about different aspects. For example, the home pages of the chosen corporations Altria Group Inc., British American tobacco.

They will provide one with the most fresh and reliable information about the current situation, financial reports, charts and diagrams. All this will delineate the whole picture of the corporations with its strong and weak points.

- Articles: *Jacobs, R., Gale, F., Capehart, T. & Zhang, P. The supply-side effects of tobacco control (2000)*, *Pampel, F. C., Tobacco industry and smoking. (2004)*, *Saffer, H., Chaloupka, F. J., The effect of tobacco advertising bans on tobacco consumption. (2000)*, *Fowler, S. J., Ford, W. F. Has a Quarter-Trillion-Dollar Settlement Helped the Tobacco Industry? (2004)*
- Legal documents and reports: *Directive 2014/40/EU of the European Parliament and of the council. (2014)*, *Framework Convention Alliance for Tobacco Control. (2005)*, *WHO. WHO Framework Convention on Tobacco Control. (2003)*

3. Theoretical framework

The purpose of the section is to provide a framework and background as a basis for case study which is represented in the work.

3.1 Global tobacco industry

3.1.1 Output of tobacco

Tobacco is a green, leafy plant that is grown in warm climates. After it is picked, it is dried, ground up, and used in different ways. It can be smoked in a cigarette, pipe, or cigar. It can be chewed (called smokeless tobacco or chewing tobacco) or sniffed through the nose (called snuff).¹It is widely known that tobacco is one of the world's most cultivated

¹ Jacobs, M. From the first to the last ash: the history, economics & hazards of tobacco: a comprehensive adult basic education curriculum.

crops, grown in more than 120 countries. It's rather unpretentious crop as grows well in poorer soils and violated weather. It's also very economically to cultivate it because after its gathering you can reuse this soil for growing other crops. Let's turn our eyes on a little bit of history of tobacco. Tobacco is considered to be native to the Americas, for the first time it was cultivated in the Andes Mountains in present-day Peru and Ecuador as far back as 5000 B.C. In the following centuries, the use of this plant spread across the two continents and up to the Caribbean islands. Properly prepared, tobacco could be sniffed into the nose, inserted into the mouth for chewing, or brewed like tea to make a drink.² Cigarettes unlike other tobacco products had rather inexpensive cost and different attractive physiological effect. In the late 19th early 20th century cigarettes became the leading product on the tobacco market. The value of the global tobacco industry is estimated somewhere between 600-700 billion USD³.

Nowadays we can point out four major market tobacco players:

- ✓ Philip Morris International Incorporation
- ✓ British American Tobacco
- ✓ Imperial Tobacco
- ✓ Japan Tobacco International

	Sales/Revenue (USD millions)				Gross Income (USD)			
	2010	2011	2012	2013	2010	2011	2012	2013
Philip Morris International Inc.	21.18	31.31	31.31	30.9	17.4	20.3	20.9	20.47
British American Tobacco Plc.	14.88	15.4	15.19	15.2	8.18	8.96	9.11	9.33
Japan Tobacco Inc.	17.35	20.33	21.20	23.9	10.3	11.7	13.8	15.3
Imperial Tobacco Group Plc.	15.02	15.19	14.67	14.59	4.99	5.03	5.11	4.63

Table 1. Companies' sales/revenue and gross income from the year 2010 to 2013.

Source: *Statista.com. Statistics and facts about the tobacco industry. [online]. Available from: <<http://www.statista.com/>>. [cit. 2014-06-10]*

² Fred, C. Pampel Tobacco Industry and Smoking, 2004

³ Tobacco Industry – Statistics and Facts

As for the main producers of tobacco products in Ukraine, such companies can be picked up: "Philip Morris Ukraine", "Japan Tobacco", "JT International Ukraine", "Imperial Tobacco Production Ukraine."

In the Figure below they are represented according to a market share they possess on the country's market.

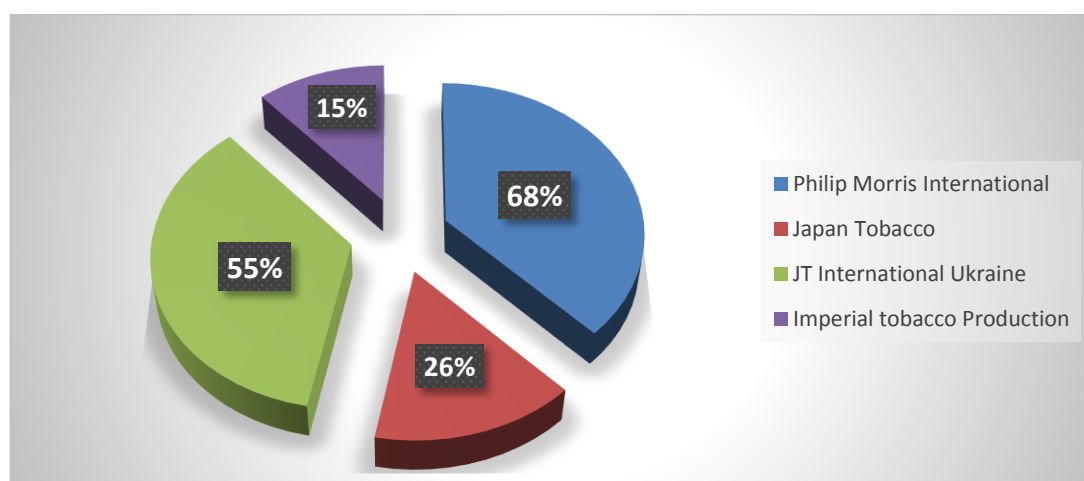


Figure 1. Leading tobacco producers in Ukraine

Source: All about cigarettes, cigars, smoking and tobacco: [online]. Available at: <<http://www.tabal.ua/>> [cit. 2014-10-05]

3.1.2 Tobacco products

Tobacco products can be divided into two groups: smoked and smokeless. Smoked tobacco product include: cigarettes, cigar an pipes, bidis and kreteks and hookahs. Smokeless tobacco is also called chewing. A lot of people consider it to be much less harmful that the smoked one but they are mistaken because this type as well as the previous one can cause a lot of illnesses. As it is said: "There is no such thing as a "safe tobacco products". Among all industrialized countries in Europe, America and Asia, the number of smokers in Ukrainian working population is one of the biggest. About 41% of working population smoke it (12 million people), approximately 40% of all Ukrainian teenagers. Number of women who smoke also impresses with its size. Among the women of 20 to 39 years, every third or fourth woman - heavy smoker. The main problem with which we faced is that over the last 20 years, the number of male smokers has remained stable or slightly

increasing. At the same time, the uptrend in smoking among women and adolescents hits the scale.

From the graph below we can make a conclusion that the most affected category is people who use drugs. Besides, nowadays we are able to observe such tendency: women got used to smoke much more than men. This problem also touches upon young people especially teenagers. All is computed according to percentage ratio (%).

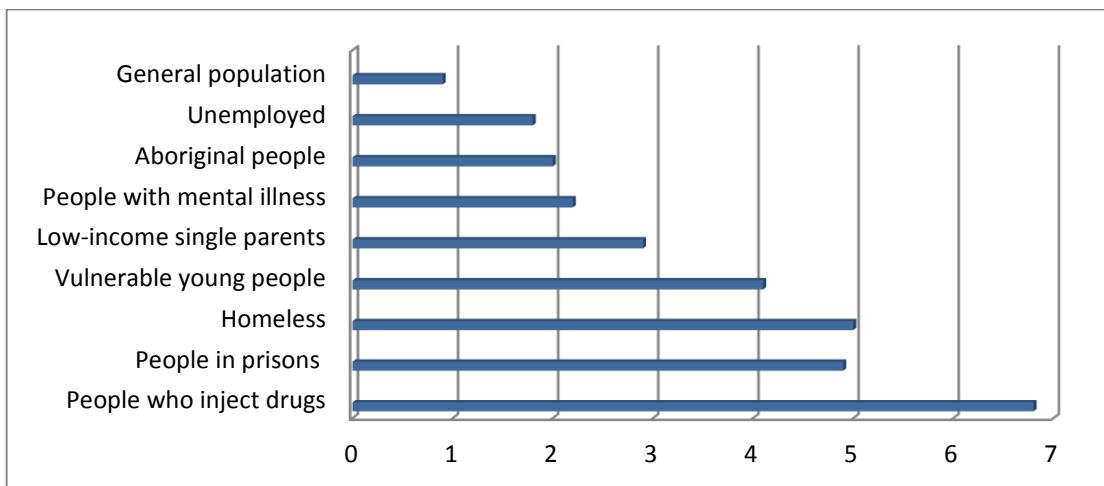


Figure 2. Smoking prevalence among disadvantaged groups shown in percentage

Source: Cancer Council NSW: [online]. Available at: <<http://www.cancercouncil.com.au/>> [cit. 2014-20-04]

3.2 Price of tobacco

Price is a very important factor determining demand for tobacco products. Price of tobacco is also comprised of taxes which also makes an influence. The demand for cigarettes in developed countries is less responsive to taxes than in developing ones.

Many factors such as the tobacco market structure (a monopoly, oligopoly, or competitive market) and tobacco tax system make a great influence on the price of tobacco products. Of course price may depend on whether cigarettes are of premium brands or of economy ones. Focusing on the price we shouldn't forget about tax system. It varies in accordance with political and economic factors of this or that country.

The most widely-spread type of taxation is a specific tax. It is a tax whose rate is based on a particular quantity of a product, rather than on its value.⁴ This tax helps to reduce the price gap between cheap and premium brands.

This forces smokers to quit or lower consumption as opposed to simply switching to cheaper cigarette brands. So in order to limit consumers' alternative to substitute tobacco products to get rid of price or tax increase the government should make the price of tobacco more uniform.

<i>Country</i>	<i>Average price for a pack of cigarettes</i>	<i>Currency</i>
Austria	4.5	EUR
Belgium	5.2	EUR
Bulgaria	4.2	EUR
Croatia	3.0	EUR
Cyprus	4.5	EUR
Czech Republic	3.2	EUR
Denmark	5.1	EUR
Estonia	2.0	EUR
Finland	5.6	EUR
France	7.0	EUR
Germany	5.1	EUR
Greece	3.9	EUR
Hungary	2.7	EUR
Ireland	8.1	EUR

Table 2. The average national price for a pack of cigarettes of some countries members of EU

Source: International Cigarette Prices. [online]. Available at: <<http://www.cigaretteprices.net>>. [cit. 2015-09-15]

In the table above I would like to show the average national price for a pack of cigarettes on the example of some countries members of EU. Talking about Ukraine, I should point out that according to the year 2014 the price for tobacco is 1.0 EUR.

So, from this table we can see that the highest average price for a pack of cigarettes belongs to Ireland. According to European surveys, conducted in 2015, the smoking rate in Ireland is decreasing faster than in any of EU countries.

⁴ Definition was taken from the site USLegal.com

All this is due to the strict control instituted by the government over tobacco industry in the country: bas on advertising and displaying tobacco products, prohibition on sponsorship, introduction of regulations providing for combined with photos and text warnings.⁵

3.2.1 Price elasticity of products

Touches upon the topic of price elasticity it's necessary to determine that tobacco is price inelastic good. It determines the situation in which the supply and demand for a good or service are unaffected when the price of that good or service changes.⁶ In other words tobacco will continue to be purchased when economy goes up and down. Though the slump in economy can affect the consumers' ability to trade up.

As we have already known from the Microeconomics, factors affecting demand are the following:

- Income. An increase in disposable income enabling consumers to be able to afford more goods.
- Quality. An increase in the quality of the good
- Advertising can increase brand loyalty to the goods and increase demand.
- Substitutes. An increase in the price of substitutes

So tobacco is not an exception. Its demand responds to:

- price changes relative to the price of other products
- real income changes
- changes in tastes and preferences

The current demand is defined as the function of current prices and current values of other explanatory variables. In other words, if a product is addictive, a person's self-sufficiency applies no more. The addictiveness of a product "forces" a consumer to buy a product that he might not have bought had he not been addicted to.⁷ It also purports that the demand for tobacco products does not respond to changes in the price, is perfectly price-inelastic.⁸

⁵ Tobacco Free Ireland. Report of the Tobacco Policy Review Group. October 2013

⁶ Investopedia

⁷ Cameron, S. Are Greek smokers rational addicts? Appl Econ Lett, 1997; 4:401-402

⁸ U.S. Department of Health and Human Services, 2000

The Law of demand states that other factors being constant, price and quantity demand of any good and service are inversely related to each other. When the price of a product increases, the demand for the same product will fall. It can be explained as the natural consumer choice behavior. He is afraid to spend more for a good in order not to go out of cash. Graphically it is represented like this:

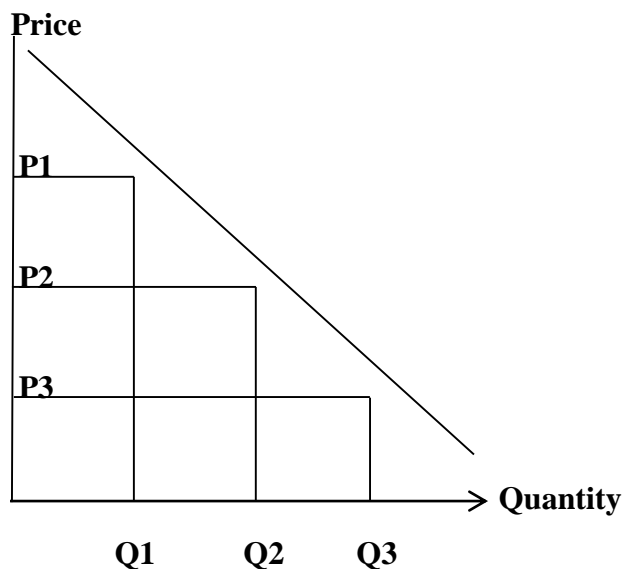


Figure 3. Natural consumer choice behavior.

Within the context of tobacco demand studies, the most important and most commonly used variables are price and income. Earlier studies⁹ widely included advertising variable in regression equation. Relatively few studies included the price of complementary and substitute goods in the regression equation. A notable exception makes the seminal study by Chapman and Richardson (1990), who covered the price of substitutes in their demand equation. Hsieh et al. (1999) enclosed imported cigarette prices in the demand for local cigarettes prices and local cigarette prices in the demand of imported cigarettes.

For any standard commodity, there are two distinct ways to benefits to consumers. The first is connected with willingness to accept payment. The amount of money is considered to make a consumer indifferent between consuming the product or not. The benefit is referred to as compensating variation. In the case of tobacco products, this is equivalent to determine the size of the payment or even bribe bound to induce smokers to quit. The

⁹Duffy (1991), Seldon and Boyd (1991), Tegene (1991), Wilcox and Vacker (1992), Valdés (1993), Duffy (1995), Tremblay and Tremblay (1995), and Cameron (1997).

second one lies in willingness to pay. It determines the maximum amount consumers are willing to pay in order to prevent the loss of tobacco products. In other words, how much a consumer would be willing to pay to continue smoking. It's called equivalent variation. For cigarettes, for example, the gap between the equivalent variation and compensation one can be quite large; an addicted smoker may require infinite compensation to quit, while his willingness to pay, limited by his income, can be finite.

One more major factor affecting tobacco products is supply. Supply, relative to the tobacco industry is reflected by the number of competitors setting the price of providing production.

Also supply of tobacco is supposed to be more elastic, i.e. the supply is more sensitive to change in the price of cigarettes. The more the price rise in the market the producer will be willing to supply more. As a consequence, the rate at which the price of cigarette rises, rate of increase in supply will be more than that.

The price elasticity of demand illustrates how much demand would change with a price change.¹⁰ For example, if price elasticity for a tobacco product were -0.3 , then demand for it would fall by only 0.3% for every 3% increase in price. Due to the addictive nature of tobacco products, its demand is not very sensitive to price changes.

But with time people more and more get used to price changes and will reduce their consumption further. From this we can make conclusion that in the long-run, price elasticity is expected to be higher (more sensitive) than in the short-run.

Young people are more sensitive for price increases. And of course, it should be mentioned, that tobacco consumption is relatively related to the factors of socio-economic status. It can be illustrated by such an example as, sensitiveness to price increases higher among the poor than the rich in high-income countries Smoking creates private and social costs and benefits.

Consumers of tobacco products derive a private benefit from their consumption in the form of pleasure and addiction feeding and in turn they entail a private cost of health problems

¹⁰ Percent-change in the number of cigarettes consumed that results from a one-percent increase in price of cigarettes.

and the costs of consuming tobacco products despite its increasing prices due to taxation. In addition, consumption of tobacco products creates external costs, which sees a higher social cost than private cost.

The elasticity of supply indicates how responsive producers are to a change in price. It depends on how easy it is to make alterations of their output when price changes. If the cost of supplying units rises bluntly as output expands, then a higher price will cause minor increase in quantity supplied. Now let's talk about producer surplus. It can be determined as the payment producers receive in excess of their opportunity cost.

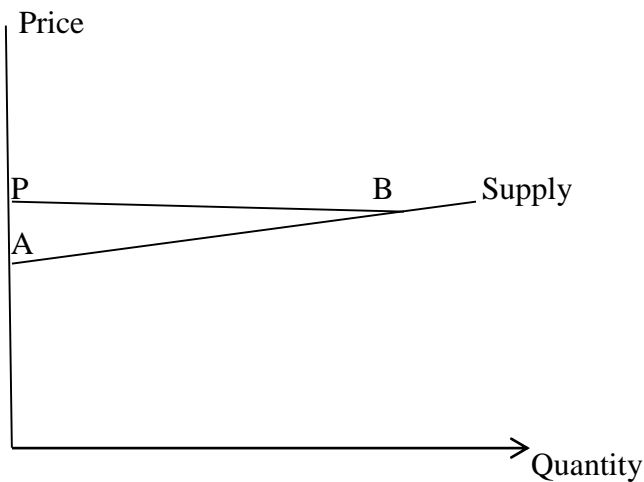


Figure 4. Elastic supply curve with producer surplus.

This figure shows the producer surplus as the area between price P and the supply curve. It results from the production of tobacco leaf and the manufacture of cigarettes. The production of leaf occurs under competitive conditions and as for the manufacture of cigarettes, we take into account the market power of cigarettes manufacturers.

If the price of for the product goes down, producer will quickly shift to the production of alternative outputs. As the result, supply of the tobacco will be relatively elastic (Figure 5). And vice versa, if there are no alternatives, producers will not be able to react rapidly to the price decline.

3.3 Export and import of tobacco products

Tobacco trade is big business, for both the raw material (tobacco leaves) and the finished product (manufactured cigarettes). According to different researches about 75% of tobacco leaves are used for cigarettes.

Trade movements are determined by trends in supply and demand sectors in trading countries all over the world, also by changes provided by exporter and importers, such as tariff and non-tariff barriers, export promotion and policy. In the developed economies all over the world, sales of cigarettes have reduced due to ban on smoking in public areas, restrictions on advertising, taxes etc. But nevertheless, according to different experts, tobacco production will continue to grow to meet the demand of nicotine-addicted consumers.

Exporters	Value exported in 2014 (USD thousand)	Trade balance in 2014 (USD thousands)	Share in world exports (%)
Germany	5.050.818	2.496.661	12.1
Brazil	2.501.868	2.453.422	6
Netherlands	3.606.352	2.197.115	8.7
Poland	2.569.386	1.813.521	6.2
India	957.216	909.767	2.3
Zimbabwe	840.217	785.741	2.0
Malawi	647.408	587.381	1.6
Romania	933.950	577.847	2.2
Turkey	1.072.118	508.438	2.6
Portugal	748.809	454.112	1.8

Table 3. Tobacco exporters according to the year 2014.¹¹

Source: Trade Map. Trade statistics for international business development: [online]. Available at: <<http://www.trademap.org/>>. [cit. 2014-28-04]

The trade balance is equal to the difference between the value of the exports and the one of the imports. Countries, where the trade balance are shown in red, have some negative difference. Czech Republic's value exported comprises 606,422 USD thousands, trade balance is 340.258 USD and share in the world - 1.6. Graphically it can be represented like this:

¹¹ Trade Map. Trade statistics for international business development

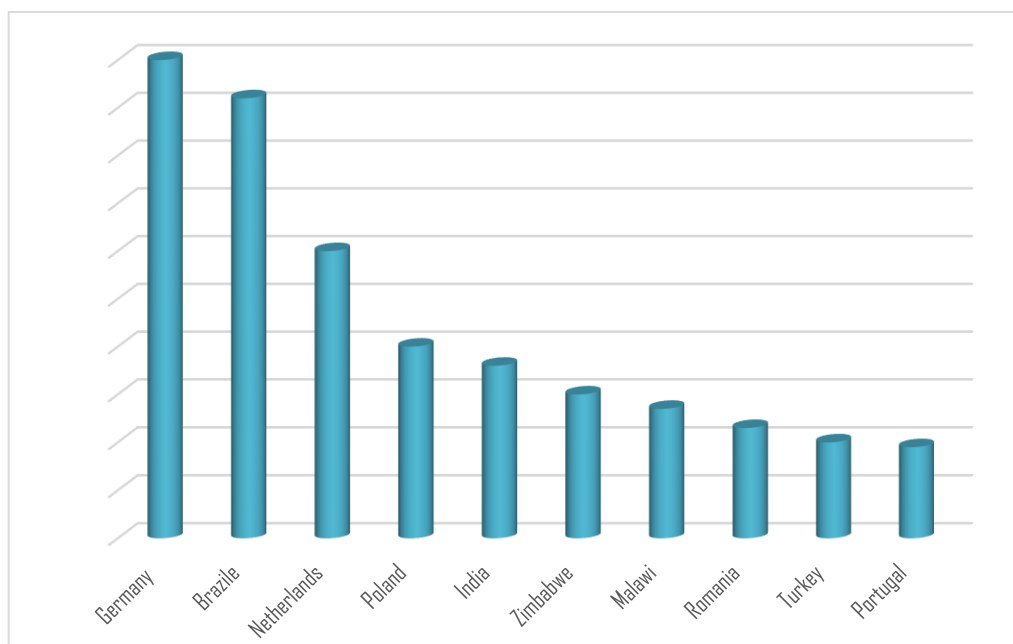


Figure 5. Exported value, USD thousand for packs of cigarettes per year

Source: Trade Map. Trade statistics for international business development: [online]. Available at: < <http://www.trademap.org/>>. [cit. 2014-28-04]

According to various international reports, 846 billion cigarettes were exported, but only 619 billion were reported to be imported. The table below illustrates the main importers in the year 2014 of tobacco products.

Importers	Value imported in 2014 (USD thousand)	Trade balance in 2014 (USD thousand)*	Share in world imports (%)
Japan	3.773.484	-3.589.763	8.6
Germany	2.581.157	2.469.661	5.9
Italy	2.464.677	-2.127.539	5.6
France	2.362.146	-1.744.005	5.4
USA	2.056.394	-250.941	4.7
Spain	1.802.163	-1.353.899	4.1
China	1.718.473	-434.561	3.9
Belgium	1.712.615	-288.000	3.9
Netherlands	1.409.237	2.197.115	3.2
United Arab Emirates	1.134.039	-782.384	2.6

Table 4. Importers of tobacco and manufactured tobacco substitutes 2014.

Source: Trade Map. Trade statistics for international business development: [online]. Available at: < <http://www.trademap.org/>>. [cit. 2014-28-04]

Czech Republic's value imported- 320,164, trade balance- 340,258 USD and share in the world - 0.7.

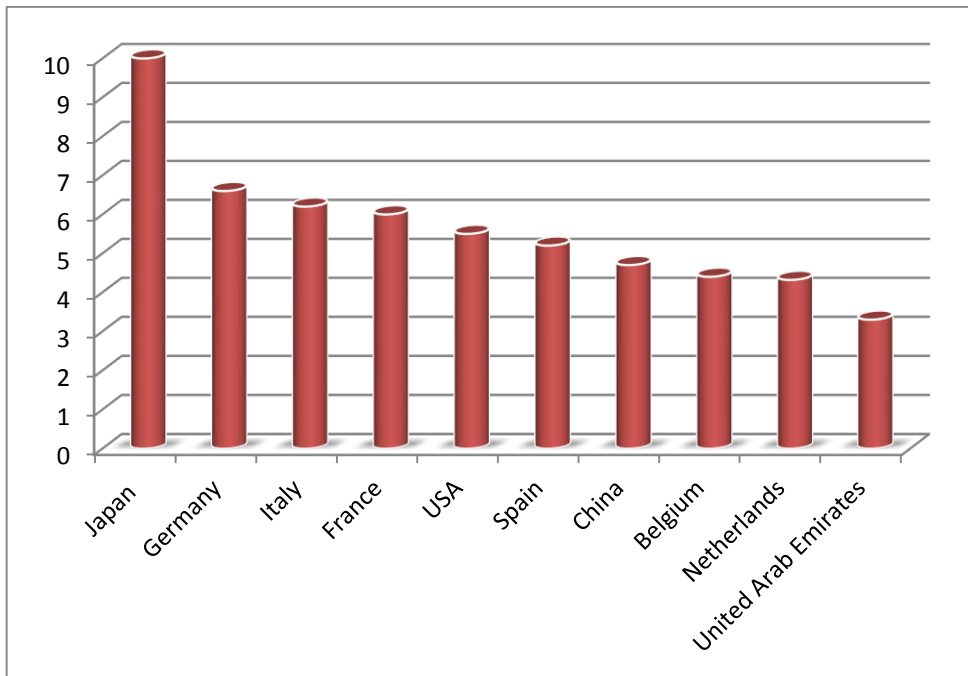


Figure 6. Imported value, USD thousand for packs of cigarettes per year

Source: Trade Map. Trade statistics for international business development: [online]. Available at: <<http://www.trademap.org/>>. [cit. 2014-28-04]

Tobacco remains big business despite tighter regulations on how it is marketed and sold. A group of five tobacco exporting countries have allied with the industry to challenge the spread of “plain packaging” laws. But they do have a stake in maintaining the stature and pricing of premium cigars and cigarettes.

Sales slowly move from developed markets, like those in Western Europe, to emerging ones in Asia and Africa. All this is because of declining smoking prevalence influenced by companies restricted by government policies.

And why is Asia and Africa? Because there tobacco companies take full advantages of less regulatory environment, population grows rapidly and income index increases constantly.

3.4 Tobacco Control Legislation. Tobacco taxation

During centuries, governments around the world took into account the Adam Smith's advice, taxing tobacco products. Governments have used the system of taxation for different goals. Historically, and even nowadays, the primary goal of imposing taxes has been revenue generation.¹²

Tobacco products are a reliable source of revenue, typically produced by a small number of manufacturers, have few good substitutes and, at least in the short run, have relatively inelastic demand.¹³

Some countries impose high import taxes on tobacco products in order to protect domestic tobacco manufacturers and farmers from foreign competitors. Others have still had a low taxation system concerning some products in order to make them affordable for the poor, while making up revenues by taxing premium products at higher rates. The majority of government taxes includes: exercise tax, value added tax, general sales taxes, imports and exports taxes and others. The tobacco product exercise taxes are the most important in reducing tobacco consumption. This kind of taxes is relatively applied to tobacco products and raise their prices relative to the prices of other goods and services.

According to different studies, about 90% of countries impose tobacco exercise taxes, many of them apply VAT or sale tax and nearly all impose import duties.¹⁴ Tobacco excise tax is most important for tobacco control.

Excise tax refers to an indirect type of taxation imposed on the manufacture, sale or use of certain types of goods and products. There are two types of it:

- Ad Valorem - a fixed percentage is charged on a particular good or product. This administration of the tax is less common. (e.g. a specific percentage of manufacturer's prices or retail prices)

¹² World Health Organization. WHO Technical Manual on Tobacco Tax Administration. Geneva: World Health Organization, 2010. http://www.who.int/tobacco/publications/tax_administration/en/index.html

¹³ Frank J Chaloupka, Ayda Yurekli, Geoffrey T Fong, Tobacco taxes as a tobacco control strategy 2012

¹⁴ VAT – value added tax. A type of consumption tax that is placed on a product whenever value is added at a stage of production and at final sale. Value-added tax (VAT) is most often used in the European Union.

- Specific - a fixed currency amount may be imposed depending on the quantity of the goods or products that are purchased. Specific is the most common type. (e.g. tax per pack of 20 cigarettes)

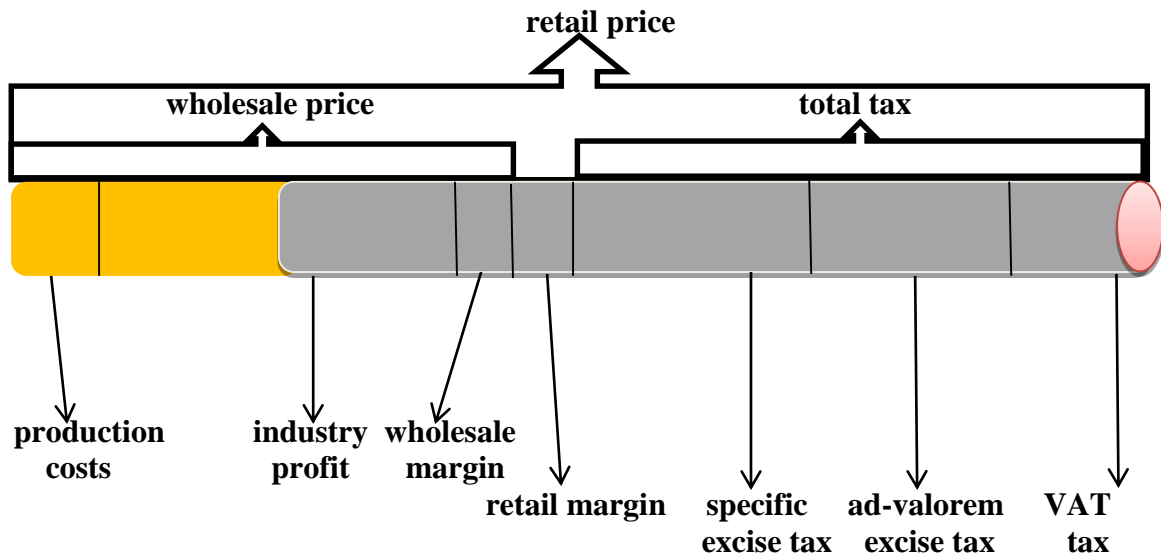


Figure 7. Cigarette price

Each price of a cigarette comprises the following components:

- Retail price – the price of a good when it is sold directly to the user not through a mediator.
- Wholesale price – the cost of a good sold by a wholesaler. He can easily increase the price comparing to the price he pays to a producer. It includes:
 - Production cost – combine raw material and labour. Is influenced by a business.
 - Industry profit – profit which this or that kind of industry acquires.
 - Wholesale margin – profit, got by a wholesale for selling a good.
 - Retail margin – is known as gross margin and it measures the price that you pay for a good and the price at which you sell this item.
- Total tax – total sum of all taxes that a taxpayer has for a year.

Moreover, excise taxes applied to cigarettes vary within the country as the amount and type of excise tax depends on value, characteristics of cigarettes and other factors. For

example, Australia, South Africa and other countries impose a constant specific excise tax on all cigarettes, while India, the Philippines and others apply a multilevel tax structure that imposes a diversity of specific excises that vary on the bases of manufacturers' prices, production scale, whether or not the cigarette is filtered, cigarette length, or other factors.¹⁵

European Union tries to maintain regulation over taxes. The balance between ad valorem and specific tax is not determined, but the specific tax, of the total tax including VAT, must be between 5 to 55 % .

The arrangements for the taxation of tobacco products were introduced on 1 January 1993. Commission proposed full harmonization of excise duties on manufactured tobacco. The current Community framework for the taxation of tobacco products provides for

- a common structure (product definitions and means of taxation) for excise duty on tobacco products as well as
- minimum rate levels, above which Member States are free to set their national rates at levels they consider appropriate according to their own national circumstances.

Every four years it represents regular tobacco taxation reports for an authentic view of the structure and rates of excise duties on tobacco.¹⁶

In order to decrease the hazard impact of tobacco on the health, the World Health Organization took the lead in the developing the world's first tobacco control treaty - The Framework Convention on Tobacco Control (FCT). It was ratified on 27 February 2005 and is a legally-binding international treaty. It is the world's first public health treaty.

The objective of this treaty is "to protect present and future generations from the devastating health, social, environmental and economic consequences of tobacco consumption and exposure to tobacco smoke by providing a framework for tobacco control measures to be implemented by the Parties at the national, regional and international levels to reduce continually and substantially the prevalence of tobacco use and exposure to tobacco smoke."¹⁷

¹⁵ Abedian I, van der Merwe, R, Wilkins, Jha P, Editors. The Economics of Tobacco Control: Towards an Optimal Policy Mix. Cape Town: University of Cape Town; 1998

¹⁶ European Commission Taxation and Customs Union http://ec.europa.eu/taxation_customs/index_en.htm

¹⁷ WHO. WHO Framework Convention on Tobacco Control, WHO 2003. Viewed 23 Nov 05

The requirement for all parties is to endeavor an extensive ban on all direct and indirect tobacco advertising, promotion and financing. “Parties to the treaty agree that health warning labels ideally should cover 50% or more of the principle display areas of each packet, which for a standard cigarette package means both the front and back.”¹⁸ All further regulations should result from the expanded authority of a state and local government to restrict the time, place and manner, but not the content of tobacco market. “The Parties recognize that price and tax measures are an effective and important means of reducing tobacco consumption by various segments of the population, in particular young persons.”¹⁹

Tobacco control policies may target the supply or the demand side of the whole industry. Figure 9 illustrates the systematization of these instruments. Their choice and combination depend on a country. Also some remark should be considered.

Firstly, supply and demand instruments should be successive and coordinated. Secondly, some of these factors can have an immediate effect whilst others may reveal their effect over some time.

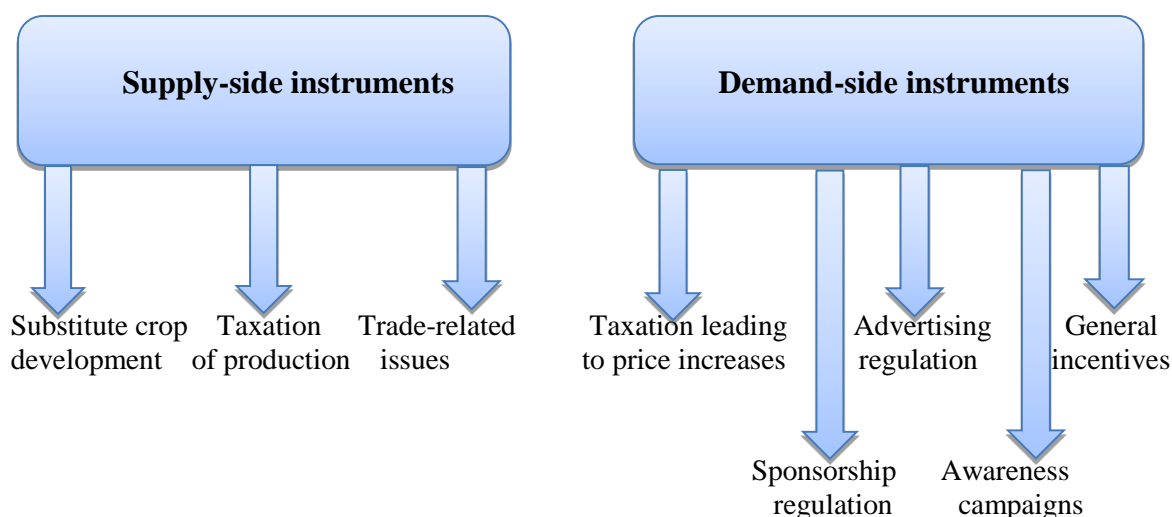


Figure 8. Systematization of tobacco control policy instruments.

Source: Abedian, I., Van Der Merwe, R., Wilkins, J. P., Editors. The Economics of Tobacco Control: Towards an Optimal Policy Mix: Cape Town: University of Cape Town, 1998

¹⁸ Framework Convention Alliance for Tobacco Control. Factsheet number 2.

¹⁹ Framework Convention on Tobacco Control. Article 6

When a good is too expensive, the consumer may discontinue its consumption, reduce the consumption of other goods in order to continue the highly taxed product or even turn to illicit tobacco products. In this case taxes create a financial opportunity for illicit trade.

The potential profit for smugglers should be weighed against other factors. Thus and so, it isn't only a high tax rate which points out whether illicit trade will be a problem, but the combination of high tax rate and other factors such as level of corruption, societal reasons.

Taxation efforts need to ensure the tax structure between countries by minimizing price difference in order to prevent smuggling. Smuggling is a great problem: 5 % of global cigarette production and 30% of global cigarette trade. Tobacco manufacturers know it well and argue effectively for reducing tax rate. The proper reaction for smuggling should be to harmonize prices and to improve pressure by customs and tax officials.

Country	Specific Excise As % of total tax (specific + ad valorem + VAT)	Ad Valorem Excise in %	Value Added Tax	Total Tax*
Austria	24.93	41.00	16.67	76.83
Belgium	18.03	45.84	17.36	77.10
Bulgaria	51.90	23.00	16.67	82.46
Croatia	24.98	37.00	20.00	75.98
Cyprus	34.71	34.00	15.97	76.54
Czech Republic	42.12	27.00	17.36	76.64
Denmark	71.65	1.00	20.00	74.06
Estonia	37.96	34.00	16.67	81.67
Finland	15.79	52.00	19.35	84.73
France	17.91	49.70	16.67	80.85
Germany	49.85	21.74	15.97	75.18
Hungary	31.99	31.00	21.26	76.83
Ireland	67.13	8.85	18.70	83.81
Italy	7.5	52.41	18.03	76.16

Table 5. Excise Duty Tables. Part III – Manufactured Tobacco, 2015²⁰

Source: European Commission Taxation and Customs Union: [online]. Available at: <http://ec.europa.eu/taxation_customs/> [cit. 2014-16-08]

²⁰ Situation as at 1 January 2015

* Total tax includes excise taxes, import duties if applicable, VAT and other taxes not elsewhere specified.

From this table it's clearly seen that the highest total tax is traced in Finland. When the tax rate increased it resulted in a growing negative attitude against smoking and also encouraged many consumers to try to quit the increasingly expensive habit. The tobacco industry also faced increasing challenges when the new display ban came into force and tobacco products dropped out of consumers' sight.

The experience with the variety of taxes and their structures concerning tobacco products all over the world provide a thorough evidence base for identifying best practices in tobacco taxation.

The best practices include: adoption of a relatively simple tax system including equivalent taxes to all tobacco products; minimization of incentives for tobacco user to switch to cheaper brands in response to tax increases; redaction of opportunities for tax avoidance.

Conclusions

The tobacco industry has historically deployed a great variety of tactics to shape and influence the tobacco control policy. Year by year governments all over the world provide effective large cigarette excise taxes to reduce tobacco use. They also set some limits on tobacco advertising and promotion. Besides, greater monitoring of tobacco marketing in low-income and middle-income countries is seen along with impact of marketing restriction.

Despite all negative effects, tobacco industry cause it still remains and will remain the most lucrative and prosperous industry for years. The world's population is increasing and the demand and with it will become more tobacco users.

The tobacco industry contributes to the economy of more than 100 countries, and millions of people worldwide depend on it on employment. Tobacco taxes represent a main source of revenue for almost every government in the world.

4. Case study

In the practical of my diploma thesis I am going to analyze development, strong and weak sides, also perspectives and the future of the tobacco industry by the example of some famous tobacco companies.



Altria Group, Inc. is one of the largest tobacco company all over the world. Altria is the multinational corporation which has its headquarters in Henrico Company, Virginia, United States of America. Moreover, it owns 100% of Philip Morris USA, Philip Morris Capital Corporation. The bet revenue of the corporation is basically from its tobacco business.

Business Segments

Cigarettes: Philip Morris USA is Altria's domestic cigarette manufacturing company. The total shipment cigarette volume is 125.4 billion units in 2014.²¹ It continues to be the largest tobacco company in the United States by both revenue and volume. It manages the production and distribution to wholesalers of Altria's U.S.-sold cigarette brands sold. Marlboro, the principle cigarette brand

Smokeless Products: Altria owns the world's largest moist smokeless tobacco manufacturer by sales. It provides Altria with the leading smokeless tobacco brands, Skoal and Copenhagen, Red Seal and Marlboro Snus. Total smokeless shipment volume was 793.3 million units in 2014.²²

²¹ Altria Annual Report 2014

²² Altria Annual Report 2014

Cigars. Variety of cigar products, including the Black and Mild brand. Company is engaged in the manufacture and sale of machine-made large cigars and pipe tobacco. Black & Mild is the principle cigar brand. Total shipment volume was 1.3 billion units 2014.

Wine. In addition to the predominant positions in tobacco, Altria's earnings benefit from its unique position in the wine and beer categories. Altria owns Ste. Michelle Wine Estates, a leading domestic wine producer, importer and distributor. Its premium wineries include Chateau Ste. Michelle, Columbia Crest. One of Ste. Michelle's wines was named best in the world by Wine Spectator magazine last year.²³ The company's major customer is McLane Company, Inc. Total wine shipment was 8.4 million units in 2014.



Figure 9. Spheres of business²⁴

Source: Altria Group, Inc. 2014 Annual Report

Having analyzed different financial reports of the company it can be pointed out that:

- ✓ Net income in the year 2014 averaged 24,522 USD, comparing with the 2013 the change makes 0,2 %
- ✓ Operating income: 2014 - 7,620 USD; 2013 - 8,084 USD; change- 5,7%
- ✓ Net earnings attributable to Altria Group, Inc: 2014 - 5,070; 2013 - 4,535; change - 11.8%
- ✓ Cash dividends declared per share: 2014 - 2.00; 2013 - 1.84; change - 8.7%

²³ Richmond Times Dispatch "Altria Group Inc. gets taste of wine business"

²⁴ Altria Group, Inc. 2014 Annual Report

Talking about the year 2014, Altria Group Inc. earned 4,66 billions from its operations and generated 177 millions cash from investments.

Having made some researches it was found out that the corporation uses a strategy – multibranch multiplicity. It lies in the fact that the industry, in which they are presently involved, is unrelated to the one which they have recently entered. It helps to concentrate more on financial aspects, eg. cash flow and gain maximum growth and enter other industries to get more possibilities for the future growth.

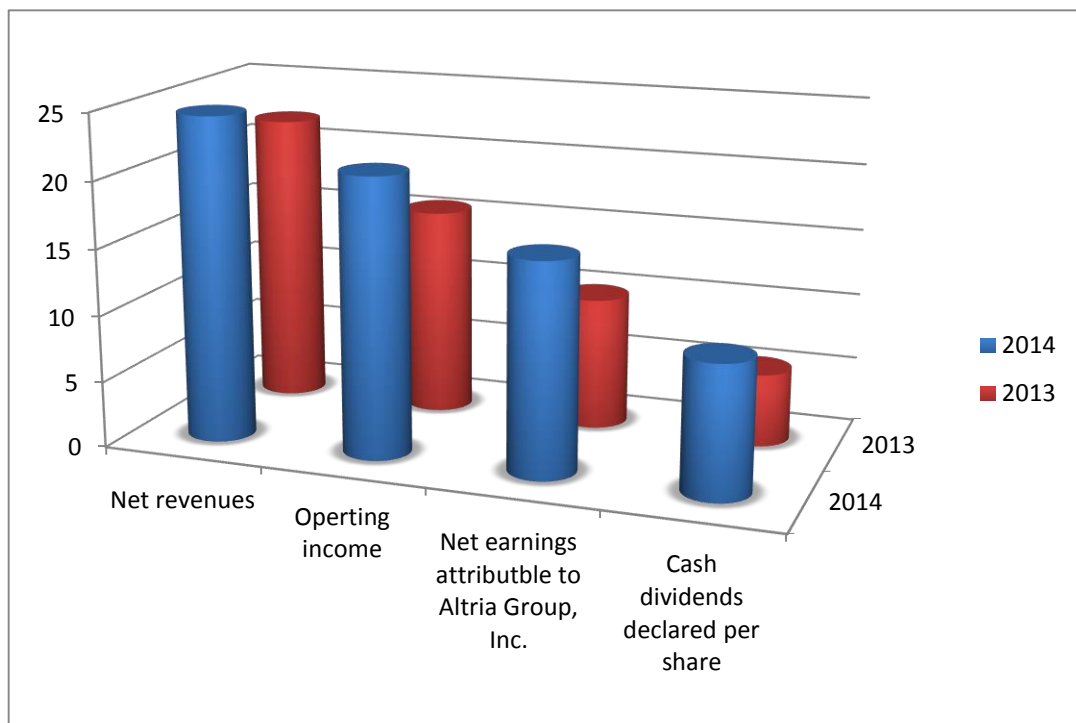


Figure 10. Financial report 2013-2014, USD

Source: Altria Group, Inc. 2014 Annual Report

In order to explore new solutions to problems, identify opportunities for the future success, determine the right time for changes and prevent threats from outside SWOT analysis of Altria Group, Inc. was used. The abbreviation stands for Strength, Weakness, Opportunity, Threat.

Strengths:

- Largest tobacco manufacturer

- Well established
- Company stock is not generally violate

Weaknesses:

- Declining smoking rates
- High competition
- Production of cigarettes is the only driving source

Opportunities:

- Altria is ready to join the market of electronic cigarettes; it somehow will help to compensate the decline in sales which the company is facing.
- Smokeless products proved to be a growing trend among consumers.

Threats:

- High taxes
- Illegal brands can incur a risk of a company's market share.
- Smoking bans start in small places and spread all over public places.
- The company can be unsuccessful in foreseeing changes in adult consumer preferences, changes in consumer purchase behavior or in coping with different economic difficulties.

Analyzing the external factors I took Phillip Morris company as a principle. First of all, we will find out what the abbreviation **PEST** or **PESTEL** means. It stands for Political, Economic, Social and Technological, (Environmental, Legal). This kind of analysis is used to assess these four external factors in relation to the business situation of the chosen company. It also helps to evaluate how these factors will affect the “business life” of your company in the long-term. So let's conduct the PEST analysis of PMI.

Political factors

By the year 2009 about 44 countries provided smoking bans. About million people are protected by smoke free laws, which leads to the reduction of sales of tobacco products in a country. The government is always seeking for a public approval and appreciation by

introducing smoking laws or increasing tax rate. All this is made with the only one intention – to play the people’s card.

Economic

PMI’s profits didn’t suffer much from the slump even though the world was stroke from time to time by the economic recession. This is due to the company’s improved business outlook. The strong market share results were driven by the company’s sturdy brand portfolio, led by Marlboro.²⁵ It helped to gain in 2014 0,3 share points in both EU and EEMA Regions.²⁶

Sociological

PMI is always criticized as a major contributor of smoking related deaths so in order to cope with it the company does a lot on this field. Its programs focus on accessing to education, providing economic opportunity, empowering women and disaster relief. Furthermore, the company spends billions of dollars on charity annually.

Technological

PM is the international company so it’s obvious that it has to deal with all of the technological advances in the world. They are famous for introducing “Light” or “low-tar” cigarettes.²⁷

According to the Directive of European Parliament and the Council of the European Union, dated 3 April 2014, the emission levels from cigarettes placed on the market or manufactured in the Member States (‘maximum emission levels’) shall not be greater than²⁸:

- 10 mg of tar per cigarette;
- 1 mg of nicotine per cigarette;
- 10 mg of carbon monoxide per cigarette.

²⁵ Philip Morris International. Annual Report 2014 pp. 1-2

²⁶ Europe, the Middle East and Africa.

²⁷ containing less tar than usual or standard

²⁸ DIRECTIVE 2014/40/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL: Article 3 p.13

Another technological advance is the integration of the computer management system, called SAP.²⁹ “SAP is intended to make it easy for Philip Morris U.S.A. to connect its order-management, product delivery and CRM applications to Oracle's software for powering business-to-business exchanges”³⁰

In addition, in 2011 Philip Morris announced that he entered to an agreement of using a new technology lying in the method of delivering a nicotine-containing aerosol which had to reduce the harm of smoking.³¹

Environmental

The company establishes goals for its energy use, water use, waste water discharge etc.

Legal

Philip Morris had to experience difficulties and losses due to various legal proceedings, having been blamed of killing people by its tobacco products. It was sued by people, companies and distributors. In order to overcome and prevent such situations the company has its own department, which deals with legal affairs.

The Figure 12 illustrates the dynamics of annual revenue of Altria Group, Inc, calculated in billions USD, in the intervening years 2011 and 2016 with the further prediction for the year 2017-2020

As we can see, despite of negative factors affected the company, it continues to grow its revenue and if in the year 2011 it was 17 billion dollars then in the year 2020 it will average about 23.16 billion dollars.

The growth of the revenue can be due to the factors of entering the market of electronic cigarettes, which will help the corporation to broaden its opportunities, and producing of smokeless products which will also increase its profit.

²⁹ Systems, Applications & Products in Data Processing is a European multinational software corporation that makes enterprise software to manage business operations and customer relations.

³⁰ <http://www.computerworld.com/>

³¹ Philip Morris International Inc. New York, May 26, 2011 (BUSINESS WIRE)

From the figure above it can be made a conclusion that Altria Group has a good and professional team targeted at increasing revenue and profits. The company is focusing in diversifying its product sector, evolving brand loyalty.

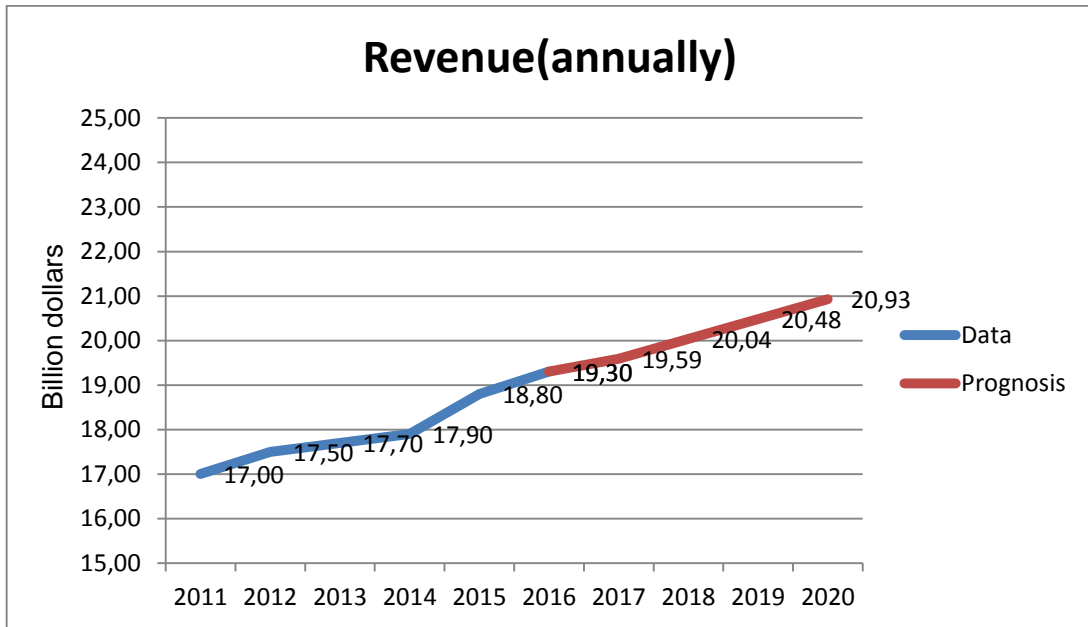


Figure 11. Forecasting

Source: Altria Group. Home page. [online]. Available at: < <http://www.altria.com/> > [cit. 2015-05-10]



British American Tobacco is one of the global producers in the tobacco industry. Its main fields are the manufacturing, distribution and sales of tobacco products.

The company enriches the tobacco market with wide range of cigarettes, cigars, pipe tobacco, roll-your-own tobacco, and smokeless snuffs.

Business Segments

The main brands are: Dunhill, Kent, Lucky Strike, Pall Mall and Rothmans. BAT aims to achieve the leading role in the global tobacco industry stockholder value. In 2013, BAT was the first who initiated the production of e-cigarettes.³² Firstly, it tries to play the main role among their international competitors and secondly, the company aspires to manage its business as a privileged partner of key stockholder and in showing responsibilities.

Paying attention to the financial side of the company, on the ground of different statistical reports, such diagram was created:

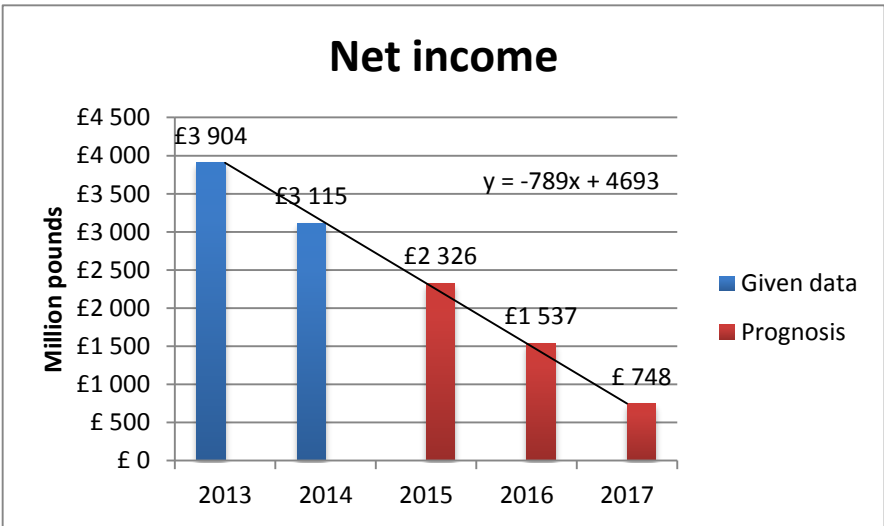
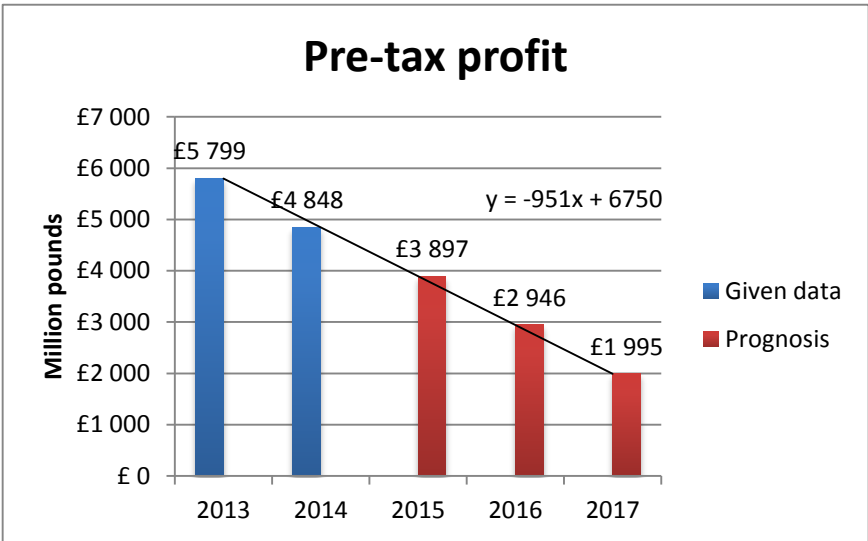
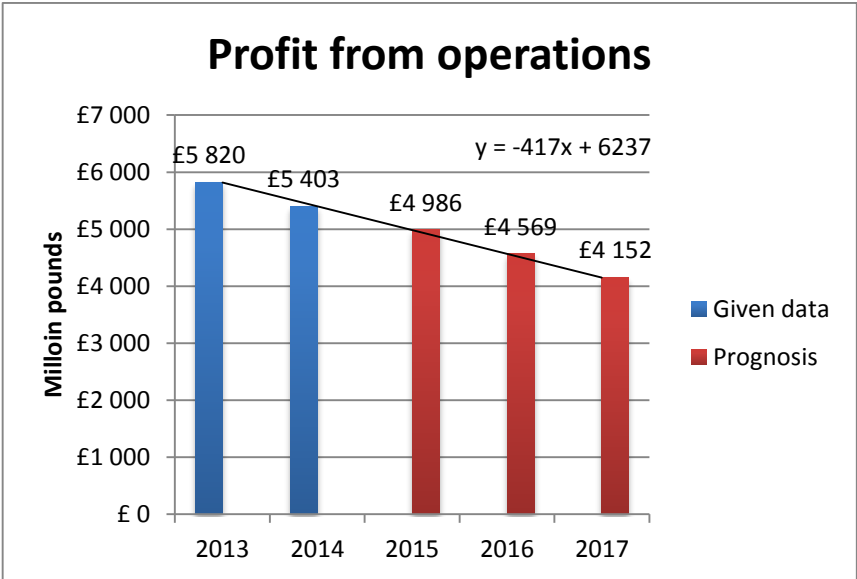
- Profit from operations: 2013 – 5 820£m; 2014 – 5 403£m
- Pre-tax profit: 2013 – 5 799£m; 2014 – 4 848£m
- Net income: 2013 – 3 904£m; 2014 – 3 115£m
- Dividend per share: 2013 – 142£m; 2014 – 148£m³³

The four diagrams below show us that BAT not only increased its profit but also there were periods when it decreased. For example, comparing the year 2013 and 2014 we can see that the profit from operations decreased in 2014 for 5 403£m. Such position as pre-tax profit shows the following picture: in the year 2013 it was 5 799£m and then decreased by 4 848£m next year; net income comparing with the year 2013 decreased by 3 115£m and dividend per share, here the situation is better because according to the year 2014 it formed 148£m.

As for prognosis, it should be mentioned that profit from operations will fall, starting from 2015 when it will be £m4 633 and till 2020 when it will average £m3 061. The same is observed with pre-tax profit which will comprise £m3 549 in 2020. Net income in the year 2015 will be 4 986£m and in 2017 it will reach 4 152£m. The next is pre-tax profit: in 2015 it will start decreasing, forming 3 897 £m, and in 2017 it will average 1 995£m. Net income also will suffer from decreasing, starting from 2015 till 2017 – 748£m. And the best situation among all the above mentioned is with dividend per share. From the graph it can be seen the increasing of its value from 154£m to 166£m in 2017.

³² <http://www.bat.com/>

³³ Everything is counted in millions of pound sterling (GBP)



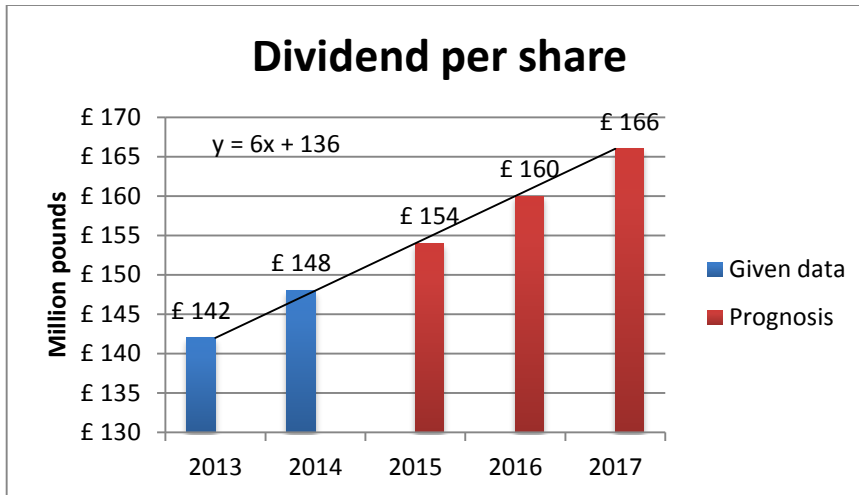


Figure 12. Income statement 2013-2017

Source: British American Tobacco Annual Report. Financial Statements. Strategic Report, 2014.

SWOT analysis of BAT

Strengths:

- In the company portfolio is presented a great variety of brands in the tobacco industry. With the leading GDB, which contribute significantly to the welfare of the company all this favors the company's financial position.
- Geographically diversified. Due to the wide international presence the company can appease the risks connected with some particular markets.
- BAT functionates in all major markets: Europe, the U.S., Africa, the Middle East, the Asia.
- In addition, BAT has a strong management team which helps to control the situation on the market and contributes significantly to the constant economic growth.
- The company is also characterized by the effective communication. It has strong business relations with many trade partners all over the world. It helps to expand their business.
- BAT is the only company really interested in leaf processing. It deals with many farmers around the world and more of them are their direct suppliers.

Weaknesses:

- Over the last four years the company tried to perform under the average growth and as the result lost its market share.
- It can be explained by feeble competitive position, inferior goods, offering services.
- One of the weaknesses is the scarcity of innovative products and services.
- From the legal point of view BAT like other companies is also involved in different legal proceedings. They are connected with health issues, smoking related deaths, economic loss due to further treatment of smoking addicted people. Besides the government prohibited all kind of advertisement of tobacco products in mass media.
- Decreasing of revenues. This is caused by illegal trade of tobacco products, impairing of sales mix.
- Tobacco market - oligopoly market. Oligopoly is the market in which a few firms dominate. When it is shared between these firms it is said to be highly concentrated.³⁴

The tobacco market produce differentiated products. They are characterized by a great variety and preferences. There are main players on the tobacco market who control it. Most of the companies under oligopoly prefer to block the entry for new nascent firms.

- Taxation policies. Year by year the government tries to loosen the influence of the tobacco sector at the global market by increasing taxes.

Opportunities:

- New products. BAT takes into account its customers' wishes and as the result has focused on producing light cigarettes under some of its brands.
- Building up a new strategy. It will bring good opportunities for a company while entering, for example, new markets or starting up with putting new goods or services on the market.

³⁴ Macmillan English Dictionary for Advanced Learners, 2007.

- Strengthening of positions on the market of smokeless tobacco. The growing popularity of smokeless tobacco products gives good opportunities for the company to expand its business in this segment.
- Due to the government's prohibitions and bans tobacco companies had to turn their regards on the newly developed market.

Threats:

- High level of competition. Tobacco industry is known to be very competitive. The appearance of new products each year on the market can prove the competition among companies. Small companies have their own bulge on big tobacco giants. They offer quality products at lower prices and retain market share from traditional producers.
- Growth of illicit trade and fabricated products. Year by year the percentage of the contraband increases rapidly. It is due to the poor control over borders, blank spots in laws, not effective regulations of free trade zones and the usage of the internet as a tool for selling tobacco products.
- The high excise taxes force customers to direct their eyes to low-cost products, not paying attention to the quality. All this results on the sales and brand equity of companies.
- Governmental pressure. It means issues concerning banning of smoking in public areas, advertisement on the television and others.
- The existence of non-governmental organizations causes great damages the economy of tobacco companies because they are always alert and provide the government with new arguments against tobacco industry.

PEST analysis of the company.

Political/Legal

As other tobacco giants which are suffered from the governmental pressure, BAT is not an exception. It is also subjected to taxation, restriction on advertisement, presentation of

products, references about tobacco ingredients, bans on smoking in public areas. In order to be somehow legally protected BAT hire qualified lawyers to fix different matters up.

Economic

Owing to the company, millions of people all over the world are provided with places of work. Due to taxes the government has the major revenue around the world. BAT makes great contribution to the financial sphere of many countries.

Social/Cultural

With years people become more informed about hazardous of smoking, so BAT tries to build up the “productive dialogue” with mass media, warning about health risks, prohibition of smoking and others.

Technological

Auto-manufacturing. The process of making cigarettes has become fully automated, from processing of tobacco to cutting cigarettes. They are packed and labeled in qualified brand packs. In order to keep up to date BAT annually conduct various researches for inventing new products. Also it takes care about the quality of tobacco leaves and applies new technologies in reforming soil.

Environmental

BAT takes part in many programs on protection of the surrounding environment. It opposes to the deforestation and supports land clearing. Besides, the company donates money to charities. Knowing that the tobacco industry is much subjected to the governmental influence and depends on many aspects, BAT tries to be in the lead among other well-known companies and take first place for the government, shareholders. The company is known by its prosperous strategy, management, qualified products, it continues building strong long-term relations with shareholders.

In the figure below we managed to trace annual revenues, calculated in billions USD, from 2011-2016 with the further forecast for the year 2020. It can be observed from the graph that starting from the year 2011 the company has been augmenting its revenue. If in the

year 2015 it totals 4 796 billions USD and by now it comprises 4 815 billions USD, then, having made some prognosis, such data were received: in the year 2017 the company’s revenue will aggregate 4 935 billions USD and it will increase in such way that in 2020 it will be 5 645 billions USD. In order to gain new benefits in future the company attempts to expand the sales of its current products by more intensive distribution and competitive pricing. It also fixes relations with new markets and suppliers.

BAT creates new or modifies current products in such a way that they will apply to a new market and will easily meet people’s needs. The company focuses on new brands, better quality and innovations. In future the company will continue to develop the market strategy in order to avoid “unpleasant surprises”, such as illicit trading.

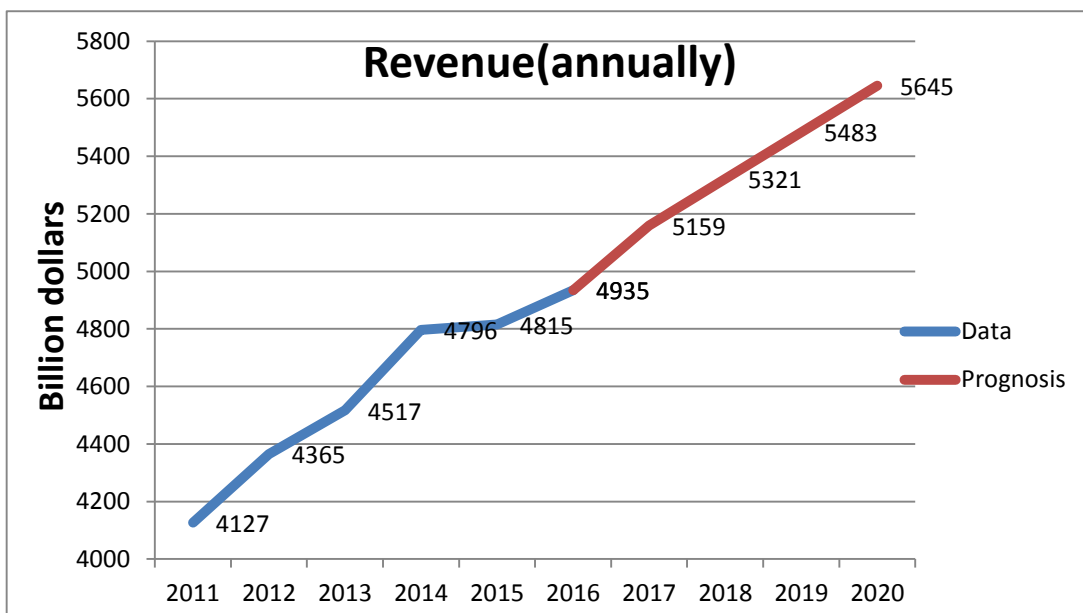


Figure 13. Forecasting

Source: British American Tobacco. Home page. [online]. Available at: <<http://www.bat.com/>>. [cit. 2015-15-09]

5. Conclusions

Having analyzed lots of information and facts about global tobacco industry and on the basis of the obtained results I can say the following.

Firstly, tobacco industry was, is and will be one of the most influential sphere in the world, despite the hazardous effect caused by it. It will still continue to be the lucrative and successful industry. Even slight decrease in demand won't prevent its development. Secondly, the government will create more and more legal aspects against tobacco giants. But we shouldn't forget that, for example, taxes paid by them contribute significantly to a state treasure of many countries. So there is no reason to "annihilate" the industry itself. Thirdly, it's known that the population increases year by year. So more and more tobacco users will appear and as the result the demand for tobacco products will continue rising.

Fourthly, tobacco companies provide millions of people with working places. Loss of tobacco income and jobs will bring the tough transmission foe workers, farmers, communities, businessmen. In the long-run, workers, land and capital will be freed from their usual tobacco-related activities and will be moved to other sectors, but it will be difficult in the short-run, because a lot of workers have special skills suitable only to the tobacco sector and as the result will have limited options and opportunities in future.

From the information, mentioned in previous chapters, a conclusion that tobacco industry will shift further and further, absorbing new regions, users, sectors crops up. But also some negative aspects in this development also should be mentioned. The illicit trading of tobacco products mustn't be eliminated, because to my opinion the industry, no matter how hard it tries to eradicate this phenomenon, can't get rid and won't get rid of it completely. And of course along with tobacco corporations small markets will continue existing, giving smokers an opportunity to buy tobacco products at lower price. If it is decided to be deep in this theme, I would like to concentrate my attention more on export/import of tobacco products and system of taxation in different countries.

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