Appendix 5

Marketing of Cigarettes and Smokeless Tobacco in the U.S.

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A. Current Use of Cigarettes and Smokeless Tobacco

Approximately 46 million Americans (26%) smoke cigarettes and approximately 2.9% of Americans use smokeless tobacco, including snuff and chewing tobacco.[1]

Most tobacco users initiate use while they are children or adolescents: 89% of smokers begin smoking daily at or before the age of 18.[2]

Although adult smoking rates continue to decline, the prevalence of smoking by young people has not declined for the last decade.[3] Between 1992 and 1993, the prevalence of smoking among high school seniors increased from 17.2% to 19%.[4] Smoking among college freshmen increased from 9% in 1985 to 12.5% in 1994.[5] Use of snuff, the most popular form of smokeless tobacco, has increased dramatically in the last two decades, especially among adolescents.

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[1] CDC, "Cigarette Smoking Among Adults - United States, 1993." *Morbidity and Mortality Weekly Report.* 43:50 (Dec. 23, 1994):925-30; CDC, "Use of Smokeless Tobacco Among Adults - United States 1991." *Morbidity and Mortality Weekly Report.* 42:14 (April 16, 1993):263-66.

[2]Institute of Medicine. Growing Up Tobacco Free: Preventing Tobacco Addiction in Children and Youths. National Academy Press. 1994. Pages 5-6.

[3] *See:*
U.S. Department of Health and Human Services. Reducing the Health Consequences of Smoking: 25 Years of Progress, A Report of the Surgeon General. 1989. Page 269.

Institute of Medicine. Growing Up Tobacco Free: Preventing Tobacco Addiction in Children and Youths, *supra* at pp. 7-8.

[4] The University of Michigan. Monitoring the Future Study. January 27, 1994. Table 1 - "Trends in Prevalence of Various Drugs for Three Populations: Eight, Tenth, and Twelfth Grades."

[5] Washington Post, January 9, 1995. Page A2, col. 3.

Overall, consumption of moist snuff almost tripled from 1972 through 1991; use by adolescent males aged 18 to 19 increased almost 1,500% between 1970 and 1991.[6]

B. Companies marketing cigarettes and smokeless tobacco in U.S.

The marketing of tobacco products in the U.S. is dominated by three huge international tobacco companies, Philip Morris International, RJR Nabisco, and British-American Tobacco, which together account for about 85% of the cigarette market:

Philip Morris. Philip Morris International operates in the U.S. through its subsidiary Philip Morris USA. Philip Morris USA is the leading cigarette manufacturer in the U.S., selling 194.7 billion cigarettes in 1993, for a 42.2% share of the total U.S. cigarette market.[7] This share appears to have risen slightly in 1994. Philip Morris' highest selling brands are Marlboro, Benson & Hedges, Merit, Virginia Slims, Cambridge and Basic. Marlboro is the largest selling

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[6] *See:*
Centers for Disease Control and Prevention. Office of Smoking and Health. Unpublished data from 1970 and 1991 National Household Interview Surveys. (Rate of snuff use among 18-19 year-old males was 0.5% in 1970 and 7.6% in 1991).

Marcus AC, Crane LA, Shopland DR, Lynn WR. Use of smokeless tobacco in the United States: Recent estimates from the current population survey. In: *Smokeless Tobacco Use in the United States: NCI Monographs*. 1989;8:17-23.

Sullivan LW. Keynote Address. In: *Smokeless Tobacco or Health: An International Perspective: Smoking and Tobacco Control Monograph 2*. National Cancer Institute. NIH Pub. No. 92-3461. 1992.

[7] Philip Morris Companies, Inc. 1993 Form 10-K, filed with the Securities and Exchange Commission.

cigarette brand in the U.S. and the world, accounting for 23.5% of U.S. cigarette sales in 1993.[8]

RJR Nabisco. RJR Nabisco Holdings Corp. operates its domestic tobacco business in the U.S. through its subsidiary R.J. Reynolds Tobacco. R.J. Reynolds Tobacco is the second largest cigarette manufacturer in the U.S., with sales in 1993 accounting for 29.8% of the U.S. cigarette market.[9] This share appears to have decreased slightly in 1994. Together, Philip Morris USA and R.J. Reynolds sell over 70% of all cigarettes sold in the U.S. R.J. Reynolds' highest selling brands include Winston, Doral, Salem, Camel, Monarch and Best Value.[10]

British-American Tobacco. British-American Tobacco (BAT) Industries, PLC owns several large cigarette manufacturers worldwide (including BAT Cigarettenfabriken in Germany, Souza Cruz in Brazil, and British-American Tobacco in Europe, Latin America, Asia, Africa, and Australia). BAT operates in the U.S. through its subsidiary Brown and Williamson Tobacco Corp., and has recently acquired the American Tobacco Co., formerly owned by American Brands, Inc. Brown and Williamson cigarette sales account for approximately 11.5% of the U.S. market. Brown and Williamson's principal brands include Kool, Barclay, Viceroy, and Richland. American Tobacco Co., whose principal brands are Lucky Strike, Pall Mall, Tareyton, Carlton, American, Montclair, Misty, Riviera, Private Stock, Prime, and Summit, had a 6.75% share of

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[8] Id.

[9] RJR Nabisco, Inc. 1993 Form 10-K, filed with the Securities and Exchange Commission.

[10] Id.

the U.S. cigarette market in 1993.[11] American Tobacco's share appears to have risen in 1994 to over 7%.[12]

BAT is also associated with a number of tobacco companies worldwide, including Imperial Tobacco of Canada.

Other cigarette manufacturers. In addition to the three largest tobacco manufacturers, there are a small number of additional cigarette manufacturers operating in the U.S.: Lorillard (a subsidiary of Loews' Corp.) and the Liggett Group (a subsidiary of the Brooke Group, Ltd., and operating successor to the Liggett & Myers Tobacco Co.)

Lorillard, whose largest selling brands are Newport, Kent, and True, had 7.1% of the U.S. cigarette market in 1993. The Liggett Group, whose cigarette brands include L&M, Chesterfield, Lark, and Eve, as well as discount brands, is the smallest of the major cigarette companies operating in the U.S., accounting for 2.4% of the cigarette market in 1993.[13]

Various cigarettes manufactured outside the U.S. are imported and marketed here.[14] For example, cigarettes manufactured by Imperial Tobacco, Ltd (including Dumaurier, Players (for Philip Morris), and Matinee), by RJR-McDonald, Inc.(including Export A), and by the

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[11] American Brands, Inc., 1993 10K filed with the Securities and Exchange Commission

[12] Greensboro, NC News & Record, Nov. 28, 1994, Business Weekly, p. 5.

[13] Brooke Group Ltd., 1993 10K filed with the SEC.

[14] List of cigarette importers and small manufacturers, dated May 26, 1993, provided by Phil Preisman, attorney with the Division of Advertising Practices, Federal Trade Commission.

Rothmans Group or its subsidiaries are imported and marketed in the U.S.[15]

Smokeless tobacco manufacturers. The smokeless tobacco industry, which manufactures snuff and chewing tobacco, is dominated by U.S. Tobacco (UST). UST had 35.1% of the smokeless tobacco market and 85% of the moist snuff market in 1992. UST is followed by Conwood Co. which had 24.5% of the smokeless tobacco market in 1992, Pinkerton Tobacco Co. (formerly the Swedish Tobacco Co.)(23.6%), National Tobacco Co. (8.9%), Helme Tobacco Co. (6.9%), Brown and Williamson Tobacco Corp. (0.7%), and R.C. Owen (0.5%). [16]

[15] Informal communications with various companies involved in importing cigarettes into the U.S., including Imperial Tobacco, Ltd., 3810 Rue St. Antoine, Montreal, P.Q., H4C 1B5, Trans-Border Customs Services, Inc., P.O. Box 800, Champlain, NY, 12919, and RJR-MacDonald, Inc., P.O. Box 111, Toronto, Ontario M5X 1E8.

[16] Nothing to snuff at. *U.S. Distribution Journal*. December 15, 1993.