



Federal Trade Commission

Cigarette Report

For 2004 and 2005

ISSUED: 2007

Tables 1 and 1A display annual cigarette sales by manufacturers to wholesalers and retailers. Table 1A displays the total number of cigarettes sold and given away in the years 2001 through 2005.¹ In 2004, the major domestic cigarette manufacturers sold or gave away 363.4 billion cigarettes domestically, down from 367.6 billion in 2003; in 2005, they sold or gave away 354.6 billion. Sales rose from 360.5 billion in 2003 to 361.3 billion in 2004, and then declined to 351.6 billion in 2005, while cigarettes given away decreased from 7.1 billion in 2003 to 2.1 billion in 2004, before rising to 3 billion in 2005.

Because the cigarette sales data reported to the Commission by the major manufacturers are based on factory shipments, and thus can reflect changes in inventory holdings by cigarette wholesalers and retailers, the Commission's annual reports also include information from the cigarette consumption series produced by the U.S. Department of Agriculture (USDA), which is based on an estimate of the number of cigarettes actually consumed.² USDA's cigarette consumption estimates, which are included in Table 1A, show a 3.0 percent decrease from 2003 to 2004 (from 400 billion cigarettes to 388 billion), and a 3.1 percent decrease from 2004 to 2005 (376 billion cigarettes).

¹ Cigarettes given away include all cigarettes distributed for free, whether through sampling, coupons for free product, "buy 3 packs, get 1 free" type offers, or otherwise, as long as those cigarettes were not reported as sold. For years prior to 2001, the Commission required the manufacturers to report the number of cigarettes they sold but not the number they gave away. It is possible, however, that in those earlier years, some manufacturers included in their sales figures some cigarettes that were actually given away.

² USDA's estimates also include sales by smaller manufacturers and importers.

cigarettes; that figure declined to \$5.3 million in 2005.⁶ (Specialty items distributed along with the purchase of cigarettes were redesignated as retail-value-added expenses beginning in 1988.) In 2004 and 2005, respectively, \$216.6 million and \$225.3 million was spent distributing non-branded, non-cigarette items in connection with the marketing or promotion of cigarettes.⁷ The total of \$224.6 million spent on specialty item distribution in 2004 accounts for 1.6 percent of total advertising and promotional expenditures; the 2005 total of \$230.5 million represents 1.8 percent of total spending. In 2003, specialty item distribution expenditures were \$264.2 million.

In 2004, expenditures for adult-only public entertainment category dropped to \$140.1 million, from \$150.9 million in 2003; these expenditures then rose to \$214.1 million in 2005. This category includes public entertainment events (*e.g.*, sponsorship of bar nights or concerts) that take place in an adult-only facility and that display the name or logo of a company's cigarettes or otherwise refer to cigarettes. In 2004, another \$115,000 was spent on general-audience public entertainment – *i.e.*, events (*e.g.*, sponsorship of a fishing tournament) that do not take place in an adult-only facility and that display the name or logo of a company's cigarettes or otherwise refer to cigarettes – down from \$32.8 million in 2003.⁸ General-audience public entertainment spending was \$152,000 in 2005.

⁶ Branded specialty item distribution includes the practice of selling or giving to consumers non-cigarette items such as T-shirts, caps, sunglasses, key chains, calendars, lighters, and sporting goods bearing a cigarette brand's name or logo.

⁷ Non-branded specialty item distribution includes the practice of giving consumers non-cigarette items such as compact discs, lighters, and sporting goods in connection with the marketing of cigarettes.

⁸ The cigarette companies also spent \$220,000 in 2004 and \$806,000 in 2005 on public entertainment events displaying their corporate name, but not displaying the name or logo of any brand of cigarettes or otherwise referring to cigarettes. These figures are not included in the total advertising and promotional expenditures reported herein.

The companies also reported spending \$28.2 million in 2004 and \$30.6 million in 2005 on the sponsorship of sports teams or individual athletes. This expenditure category accounted for 0.2 percent of all advertising and promotional expenditures in both years.

All reporting companies indicated that no money had been spent on endorsements and testimonials for cigarettes in either 2004 or 2005. No expenditures have been reported in this category since 1988.

The cigarette companies reported spending \$93.8 million for direct mail advertising in 2004 (\$93.8 million had been spent in 2003), and \$51.8 million in 2005.⁹

The industry reported spending \$751.8 million on coupons in 2004 (an increase from the \$650.7 million reported in 2003). In 2005, spending on coupons rose to \$870.1 million.¹⁰

Retail-value-added expenditures are the costs associated with offers such as “buy one, get one free” and “buy three, get a free T-shirt,” where the bonus item is distributed at retail when the cigarettes are purchased.¹¹ The companies spent \$636.2 million in 2004 and \$725 million in 2005 on retail-value-added involving free cigarettes. They also spent \$14.3 million and \$7.5 million in those years on retail-value-added involving free non-cigarette items, down from \$20.5 million in 2003. Total retail-value-added expenditures were \$650.6 million in 2004 and \$732.5 million in 2005.

⁹ This category does not include direct mail containing coupons. Coupons sent via direct mail were reported in the “coupon and retail-value-added” category from 1988 to 1996, but have been reported separately since 1997.

¹⁰ In 2002, the Commission clarified that when coupons are distributed for free cigarettes and no purchase is required to redeem them, such activities should be reported only as “sampling,” not as “coupons.”

¹¹ The cigarettes and the bonus items are often packaged together as a single unit.

In 2004, the companies reported spending \$1.4 million on advertising on a company Internet website; that figure rose to \$2.7 million in 2005. They continued to report no expenditures on any other Internet advertising (*e.g.*, banner ads on third-party sites or direct mail advertising using e-mail).

The companies reported spending \$346,000 on telephone advertising in 2004, a figure that declined to \$59,000 in 2005. This category includes expenses associated with telemarketing calls or the operation of incoming telephone lines for consumers to participate in promotions or hear pre-recorded product messages (but excludes costs associated with customer service representatives for responding to consumer complaints or questions).

In 1988, the Commission began requiring the cigarette companies to report the total amount of money they spent advertising and promoting sports and sporting events.¹² This question is separate from, and duplicative of, the reporting of the individual various advertising and promotion categories. For example, money spent on a magazine advertisement promoting a cigarette-branded sports tournament open to those of all ages is reported under the category “general-audience public entertainment” and is also reported as an expenditure on “sports and sporting events.” Similarly, expenditures on sponsorship of sports teams and individual athletes are reported under the category “sponsorship” and are also reported as “sports and sporting events.” The major domestic cigarette companies spent \$28.2 million in 2004 and \$30.6 million in 2005 on sports and sporting events, down from \$62.8 million in 2003. These amounts are the same as those reported for sponsorships (see p. 6,

¹² This includes expenditures for: (1) the sponsoring, advertising, or promotion of sports or sporting events; support of an individual, group, or sports team; and purchase of or support for equipment, uniforms, sports facilities, and/or training facilities; (2) all expenditures for advertising in the name of the cigarette company or any of its brands in a sports facility, on a scoreboard, or in conjunction with the reporting of sports results; and (3) all expenditures for functional promotional items (clothing, hats, etc.) connected with a sporting event.

tar ratings of 8-11 mg. represented 42.5 percent of the market in 2004 and 43.3 percent in 2005; however, only 1.5 percent of these cigarettes disclosed their ratings on the pack in 2004, and only 1.2 percent did so in 2005. In contrast, 91.6 percent of cigarettes rated 3 mg. tar or less disclosed their ratings on the pack in 2004, and 90.7 percent did so in 2005.

TABLE 1A

TOTAL DOMESTIC CIGARETTE UNITS SOLD AND GIVEN AWAY
(IN BILLIONS OF INDIVIDUAL CIGARETTES)

<u>YEAR</u>	<u>UNITS SOLD*</u>	<u>UNITS GIVEN AWAY**</u>	<u>TOTAL NUMBER SOLD AND GIVEN AWAY AS REPORTED BY MANUFACTURERS</u>	<u>UNIT CHANGE IN SOLD AND GIVEN AWAY FROM PRIOR YEAR</u>	<u>PERCENT CHANGE IN SOLD AND GIVEN AWAY FROM PRIOR YEAR</u>	<u>USDA CIGARETTE CONSUMPTION ESTIMATES</u>
2001	398.3	3.9	402.2	***	***	425.0
2002	376.4	11.1	387.4	(14.8)	(3.7)	415.0
2003	360.5	7.1	367.6	(19.8)	(5.1)	400.0
2004	361.3	2.1	363.4	(4.2)	(1.1)	388.0
2005	351.6	3.0	354.6	(8.8)	(2.4)	376.0

* Cigarettes sold by manufacturers to wholesalers and retailers within the U.S. and to armed forces personnel stationed outside the U.S.

** Cigarettes given away within the U.S. and to armed forces personnel stationed outside the U.S.

*** Prior to 2001, the Commission did not ask about cigarettes given away, although some cigarettes given away may have been reported as sold.

TABLE 2A
DOMESTIC CIGARETTE ADVERTISING AND PROMOTIONAL EXPENDITURES FOR YEARS 1986-1995 (DOLLARS IN THOUSANDS)*

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Newspapers	\$119,629 5.0%	\$95,810 3.7%	\$105,783 3.2%	\$76,993 2.1%	\$71,174 1.8%	\$48,212 1.0%	\$35,467 0.7%	\$36,220 0.6%	\$24,143 0.5%	\$19,122 0.4%
Magazines	\$340,160 14.3%	\$317,748 12.3%	\$355,055 10.8%	\$380,393 10.5%	\$328,143 8.2%	\$278,110 6.0%	\$237,061 4.5%	\$235,253 3.9%	\$251,644 5.2%	\$248,848 5.1%
Outdoor	\$301,822 12.7%	\$269,778 10.5%	\$319,293 9.7%	\$358,583 9.9%	\$375,627 9.4%	\$386,165 8.3%	\$295,657 5.7%	\$231,481 3.8%	\$240,024 5.0%	\$273,664 5.6%
Transit	\$34,725 1.5%	\$35,822 1.4%	\$44,379 1.4%	\$52,294 1.4%	\$60,249 1.5%	\$60,163 1.3%	\$53,293 1.0%	\$39,117 0.6%	\$29,323 0.6%	\$22,543 0.5%
Point-of-Sale	\$135,541 5.7%	\$153,494 5.9%	\$222,289 6.8%	\$241,809 6.7%	\$303,855 7.6%	\$344,580 7.4%	\$366,036 7.0%	\$400,943 6.6%	\$342,650 7.1%	\$259,035 5.3%
Promotional Allowances	\$630,036 26.4%	\$702,430 27.2%	\$879,703 26.9%	\$999,843 27.6%	\$1,021,427 25.6%	\$1,156,280 24.9%	\$1,514,026 28.9%	\$1,557,635 25.8%	\$1,678,917 34.7%	\$1,865,657 38.1%
Sampling Distribution	\$98,866 4.1%	\$55,020 2.1%	\$74,511 2.3%	\$57,771 1.6%	\$100,893 2.5%	\$56,970 1.2%	\$49,315 0.9%	\$40,202 0.7%	\$6,974 0.1%	\$13,836 0.3%
Specialty Item Distribution	\$210,128 8.8%	\$391,351 15.2%	\$190,003 5.8%	\$262,432 7.3%	\$307,037 7.7%	\$184,348 4.0%	\$339,997 6.5%	\$755,780 12.5%	\$850,810 17.6%	\$665,173 13.6%
Public Entertainment	\$71,439 3.0%	\$71,389 2.8%	\$88,072 2.7%	\$92,120 2.5%	\$125,094 3.1%	\$118,622 2.6%	\$89,739 1.7%	\$84,276 1.4%	\$81,292 1.7%	\$110,669 2.3%
Direct Mail	\$187,057 7.9%	\$187,931 7.3%	\$42,545 1.3%	\$45,498 1.3%	\$51,875 1.3%	\$65,002 1.4%	\$34,345 0.7%	\$31,463 0.5%	\$31,187 0.7%	\$34,618 0.7%
Endorsements & Testimonials	\$384 0.0%	\$376 0.0%	\$781 0.0%	\$0 0.0%	\$0 0.0%	\$0 0.0%	\$0 0.0%	\$0 0.0%	\$0 0.0%	\$0 0.0%
Coupons & Retail-Value-Added	**	**	\$874,127 26.7%	\$959,965 26.5%	\$1,183,798 29.6%	\$1,882,905 40.4%	\$2,175,373 41.6%	\$2,559,387 42.4%	\$1,248,896 25.8%	\$1,348,378 27.5%
Other***	\$252,570 10.0%	\$299,355 11.6%	\$78,366 2.4%	\$89,290 2.5%	\$62,917 1.6%	\$68,758 1.5%	\$41,608 0.8%	\$63,680 1.2%	\$47,672 1.0%	\$33,680 0.7%
Total	\$2,382,357 100%	\$2,580,504 100%	\$3,274,853 100%	\$3,616,993 100%	\$3,992,008 100%	\$4,650,114 100%	\$5,231,917 100%	\$6,035,437 100%	\$4,833,532 100%	\$4,895,223 100%

* Because of rounding, sums of percentages may not equal 100 percent.

** Prior to 1987, the Commission did not specifically collect information on Coupons & Retail-Value-Added.

*** Expenditures for audio-visual are included in the "All Others" category to avoid disclosure of individual company data.

TABLE 3

DOMESTIC CIGARETTE ADVERTISING EXPENDITURES
BY MEDIA FOR YEARS 1963 - 1974*
(MILLIONS OF DOLLARS)

<u>YEAR</u>	<u>TV</u>	<u>RADIO</u>	<u>NEWSPAPER</u>	<u>MAGAZINES</u>	<u>DIRECT</u>	<u>BILLBOARD/ POSTER/ OUTDOOR/ TRANSIT</u>	<u>OTHER</u>	<u>TOTAL</u>
1963	\$151.7	31.6	45.6		13.2	NA	7.4	249.5
1964	170.2	25.5	45.2		14.6	NA	5.8	261.3
1965	175.6	24.8	41.9		14.7	NA	6.0	263.0
1966	198.0	31.3	43.4		17.9	NA	6.9	297.5
1967	226.9	17.5	41.2		20.3	NA	6.0	311.5
1968	217.2	21.3	44.6		21.6	NA	6.0	310.7
1969	221.3	13.6	48.7		13.4	NA	8.9	305.9
1970	205.0	12.4	14.7	49.5	16.9	11.7	4.5	314.7
1971	2.2	0	59.3	98.3	27.0	60.6	4.2	251.6
1972	0	0	63.1	96.1	22.9	67.5	8.0	257.6
1973	0	0	65.3	92.4	15.2	63.2	11.4	247.5
1974	0	0	80.5	114.6	31.1	71.4	9.2	306.8

* The data reported in Tables 2 through 2C were not collected in their present form until 1975. Thus, Table 3, which reports cigarette advertising expenditures from 1963 through 1974, has been retained in this report for comparative purposes.

TABLE 4
DOMESTIC MARKET SHARE OF CIGARETTES BY TAR YIELD

Year	Market share of cigarettes having tar yields of:				
	15 mg. or less	12 mg. or less	9 mg. or less	6 mg. or less	3 mg. or less
1967	2.0%	NA	NA	NA	NA
1968	2.5%	NA	NA	NA	NA
1969	3.0%	NA	NA	NA	NA
1970	3.6%	NA	NA	NA	NA
1971	3.8%	NA	NA	NA	NA
1972	6.6%	NA	NA	NA	NA
1973	8.9%	NA	NA	NA	NA
1974	8.9%	NA	NA	NA	NA
1975	13.5%	NA	NA	NA	NA
1976	15.9%	NA	NA	NA	NA
1977	22.7%	NA	NA	NA	NA
1978	27.5%	NA	NA	NA	NA
1979	40.9%	NA	NA	NA	NA
1980	44.8%	NA	NA	NA	NA
1981	56.0%	NA	NA	NA	NA
1982	52.2%	43.8%	27.8%	8.9%	2.9%
1983	53.1%	44.9%	27.9%	9.4%	3.1%
1984	51.0%	43.4%	26.3%	9.4%	2.9%
1985	51.9%	43.1%	25.3%	8.4%	2.3%
1986	52.6%	44.5%	22.3%	9.9%	2.6%
1987	55.4%	47.8%	20.2%	10.0%	2.5%
1988	54.2%	48.7%	20.1%	10.7%	3.1%
1989	55.1%	48.4%	21.5%	11.4%	2.4%
1990	60.6%	51.5%	25.5%	12.2%	2.8%

TABLE 4A
DOMESTIC MARKET SHARE OF CIGARETTES BY TAR YIELD

Year	Market share of cigarettes having tar yields of:				
	15 mg. or less	12 mg. or less	9 mg. or less	6 mg. or less	3 mg. or less
1991	60.5%	52.6%	22.0%	12.7%	2.6%
1992	68.7%	52.9%	24.9%	12.7%	2.5%
1993	66.5%	53.3%	23.4%	12.6%	1.9%
1994	71.2%	53.7%	23.1%	12.3%	2.1%
1995	72.7%	53.6%	27.1%	12.2%	2.2%
1996	67.4%	55.5%	22.3%	11.9%	1.9%
1997	70.2%	55.6%	21.9%	11.5%	1.7%
1998	81.9%	56.8%	22.9%	13.2%	1.6%
1999	86.6%	57.4%	25.3%	13.6%	1.6%
2000	87.1%	50.4%	23.7%	13.6%	1.3%
2001	85.2%	58.1%	22.6%	13.2%	1.0%
2002	84.9%	58.2%	22.5%	12.9%	0.9%
2003	84.9%	59.5%	22.5%	12.6%	0.8%*
2004	84.8%	57.7%	19.2%	11.5%	0.8%
2005	83.5%	58.4%	18.7%	11.5%	0.6%

* This figure was erroneously reported as 1.0% in the Commission's previous report.

TABLE 5A

DOMESTIC MARKET SHARE OF FILTER
AND NON-FILTER CIGARETTES

<u>YEAR</u>	<u>NON-FILTER</u>	<u>FILTER</u>
1988	5%	95%
1989	5%	95%
1990	5%	95%
1991	4%	96%
1992	3%	97%
1993	3%	97%
1994	3%	97%
1995	3%	97%
1996	3%	97%
1997	2%	98%
1998	2%	98%
1999	2%	98%
2000	2%	98%
2001	2%	98%
2002	2%	98%
2003	1%	99%
2004	1%	99%
2005	1%	99%

TABLE 7

DOMESTIC MARKET SHARE OF MENTHOL
AND NON-MENTHOL CIGARETTES

<u>YEAR</u>	<u>MENTHOL</u>	<u>NON-MENTHOL</u>
1963	16%	84%
1964	16%	84%
1965	18%	82%
1966	19%	81%
1967	20%	80%
1968	21%	79%
1969	22%	78%
1970	23%	77%
1971	24%	76%
1972	24%	76%
1973	25%	75%
1974	27%	73%
1975	27%	73%
1976	28%	72%
1977	28%	72%
1978	28%	72%
1979	29%	71%
1980	28%	72%
1981	28%	72%
1982	29%	71%
1983	28%	72%
1984	28%	72%
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1987	28%	72%
1988	28%	72%
1989	27%	73%
1990	26%	74%
1991	27%	73%
1992	26%	74%
1993	26%	74%
1994	25%	75%
1995	25%	75%
1996	25%	75%
1997	25%	75%
1998	26%	74%
1999	26%	74%
2000	26%	74%
2001	26%	74%
2002	27%	73%
2003	27%	73%
2004	27%	73%
2005	27%	73%

TABLE 8

DISCLOSURE OF TAR AND NICOTINE RATINGS
ON CIGARETTE PACKS (1994 -2001)

		1994	1995	1996	1997	1998	1999	2000	2001
% of overall market that discloses ratings on the pack		6.3%	6.3%	6.1%	5.8%	5.3%	4.1%	3.6%	1.8%
more than 15 mg. tar	market share of varieties in tar group	28.8%	27.3%	32.7%	29.8%	18.0%	13.4%	12.9%	14.8%
	% that discloses ratings on pack	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
12-15 mg. tar	market share of varieties in tar group	19.3%	21.0%	15.3%	16.7%	29.1%	32.5%	39.0%	29.7%
	% that discloses ratings on pack	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%
8-11 mg. tar	market share of varieties in tar group	38.6%	38.7%	39.2%	41.0%	39.4%	40.3%	33.9%	42.1%
	% that discloses ratings on pack	2.4%	2.8%	2.6%	2.3%	3.2%	1.6%	0.7%	1.0%
4-7 mg. tar	market share of varieties in tar group	11.2%	10.8%	10.9%	10.8%	11.9%	12.2%	12.9%	12.5%
	% that discloses ratings on pack	30.7%	30.1%	29.3%	28.6%	20.7%	16.2%	16.5%	3.7%
3 mg. tar or less	market share of varieties in tar group	2.1%	2.2%	1.9%	1.7%	1.6%	1.6%	1.3%	1.0%
	% that discloses ratings on pack	91.8%	89.1%	97.2%	97.3%	97.4%	92.3%	92.0%	87.9%

Retail-Value-Added – Bonus Cigarettes: Retail-value-added expenditures for promotions involving free cigarettes (*e.g.*, buy two packs, get one free), whether or not the free cigarettes are physically bundled together with the purchased cigarettes, including all expenditures and costs associated with the value added to the purchase of cigarettes (*e.g.*, excise taxes paid for the free cigarettes and increased costs under the Master Settlement Agreement).

Retail-Value-Added – Non-Cigarette Bonus: Retail-value-added expenditures for promotions involving free non-cigarette items (*e.g.*, buy two packs, get a cigarette lighter), including all expenditures and costs associated with the value added to the purchase of cigarettes.

Coupons: All costs associated with coupons for the reduction of the retail cost of cigarettes, whether redeemed at the point-of-sale or by mail, including all costs associated with advertising or promotion, design, printing, distribution, and redemption. However, when coupons are distributed for free cigarettes and no purchase or payment is required to obtain the coupons or the cigarettes, these activities are considered to be sampling and not couponing.

Sponsorships: Sponsorships of sports teams or individual athletes, but excluding endorsements.

Endorsements & Testimonials: Endorsements and testimonials.

Company Website: All expenditures associated with advertising on any company Internet website.

Internet – Other: Internet advertising other than on the Company's own Internet website, including on the World Wide Web, on commercial on-line services, and through electronic mail messages.

Telephone: Telephone advertising, including costs associated with the placement of telemarketing calls or the operation of incoming telephone lines that allow consumers to participate in any promotion or hear pre-recorded product messages; but excluding costs associated with having customer service representatives available for responding to consumer complaints or questions.

All Other: Advertising and promotional expenditures not covered by another category.