

Federal Trade Commission



REPORT TO CONGRESS

**Cigar Sales
and
Advertising and Promotional Expenditures
for Calendar Years 1996 and 1997**

ISSUED: 1999

TABLE OF CONTENTS

INTRODUCTION	1
I. THE FTC DATA ON CIGAR SALES AND ADVERTISING AND PROMOTIONAL EXPENDITURES	1
A. Overview	1
B. The Increase In Cigar Sales	3
C. The Increase In Advertising And Promotional Expenditures	4
D. Physical Characteristics Of The Cigar Varieties	6
II. CURRENT PATTERNS OF CIGAR SMOKING PREVALENCE	7
A. Cigar Smoking Among Adults	8
B. Cigar Smoking Among Youth	9
III. THE HEALTH RISKS OF CIGAR SMOKING	10
IV. CONSUMER PERCEPTIONS OF THE RISKS OF CIGAR SMOKING	13
V. RECOMMENDATIONS	15
A. Rotational Health Warnings	16
B. Prohibition on Electronic Advertising	19
C. Ensuring Consistency in Regulating Youth Access to Tobacco Products	20
VI. CONCLUSION	21
VII. TABLES	22
Table 1: Domestic Cigar Sales.	22
Table 2: Domestic Market Share By Product Size	23
Table 3: Cigar Advertising And Promotional Expenditures	24
Table 4: Domestic Market Share Of Tipped And Untipped Varieties	25

Table 5: Domestic Market Share Of Flavored And Unflavored Varieties	26
Table 6: Individual Cigar Weights By Product Size Category	27
Table 7: Domestic Market Share Of Cigars Containing Reconstituted Tobacco.	28
Table 8: Domestic Market Share Of Cigars Containing Heat Cured Tobacco	29
Table 9: Consumption of Large and Small Cigars 1960 to 1998.	30
GLOSSARY.	31

INTRODUCTION

In February 1998, in response to information showing a resurgence of cigar use in the United States, the Federal Trade Commission issued Special Orders to the five leading domestic cigar manufacturers requiring them to report detailed information to the Commission on their cigar sales and advertising and promotional expenditures for calendar years 1996 and 1997.¹ The findings of that inquiry are set forth in Part I of this Report, which provides the first in-depth analysis of the domestic cigar industry's sales and advertising and promotional expenditures. Part II provides a brief overview of the recent increase in cigar smoking prevalence and of the health risks associated with cigar smoking. Finally, Part III contains the Commission's recommendation that Congress enact legislation to regulate cigars in a manner consistent with the current federal regulation of cigarettes and smokeless tobacco, including a requirement of health warnings on cigar labeling and advertising, and a prohibition against advertising cigars on any electronic media regulated by the Federal Communications Commission.

I. THE FTC DATA ON CIGAR SALES AND ADVERTISING AND PROMOTIONAL EXPENDITURES

A. Overview

The Commission's decision to require the cigar manufacturers to produce their sales and marketing data was based upon two factors. First, survey reports show a dramatic upswing in U.S. cigar consumption since 1993 among both adults and adolescents. Second, the National Cancer Institute in early 1998 issued a report on the health effects of cigar smoking (hereinafter "NCI Cigar Monograph") updating the Surgeon General's prior findings on the health risks of cigars, and concluding that cigar smoking poses serious disease risks, including cancers of the mouth, esophagus, pharynx, larynx, and lung.²

Prior to the issuance of the Commission's Special Orders, the limited information available on the cigar industry's advertising efforts pertained primarily to expenditures in conventional media such as magazines, newspapers, television, and radio. No information was available on other types of advertising and promotional efforts. The Commission's Orders required each of

¹ The Special Orders, issued pursuant to Section 6(b) of the Federal Trade Commission Act, 15 U.S.C. § 46(b), were directed to Consolidated Cigar Corporation, General Cigar Co., Inc., Havatampa Incorporated, John Middleton Incorporated, and Swisher International, Inc. According to leading tobacco analysts, the five companies together hold almost 90% of the U.S. cigar market. See "The Cigar Industry in 1996," The Maxwell Consumer Report, March 21, 1997.

² U.S. Department of Health and Human Services, Smoking and Tobacco Control Monograph No. 9 Cigars: Health Effects and Trends (1998), NIH publication no. 98-4302.

the cigar companies to produce a report of the total number of cigars sold, the total dollar volume of cigar sales, and the total dollar amounts expended on cigar advertising, merchandising, and promotion in 1996 and 1997.³ The Orders also required a breakdown of sixteen different categories of advertising and marketing expenses for each cigar brand marketed, including celebrity endorsements and product placements in movies and television.⁴

The data reported herein confirm that the cigar industry experienced a dramatic increase in cigar unit sales and revenue from 1996 to 1997. Although the total advertising and promotional expenditures for cigars are modest, equaling approximately \$30.9 million in 1996 and \$41 million in 1997, the data also show that such expenditures increased by thirty-two percent over a two year period, with substantial increases reported in almost every expenditure category.⁵ For example, expenditures on conventional advertising increased over fifty-one percent from 1996 to 1997, with magazine advertising growing by forty-nine percent and newspaper advertising growing by 254%. More importantly, the Commission data indicate that over seventy-five percent of the industry's 1996 and 1997 advertising and promotional dollars were spent on forms of advertising and promotion about which information was previously unavailable. The total expenditures in these categories increased approximately twenty-seven percent from 1996 to 1997, with large spending increases on point of sale advertising and public entertainment events.

The aggregate data presented in more detail below will serve as a baseline to assist interested parties in monitoring trends in cigar advertising and promotion, cigar smoking prevalence, and consumers' cigar preferences. The Commission intends to furnish Congress with updated cigar reports periodically.

B. The Increase In Cigar Sales

³ The Commission has reported sales and advertising data on cigarettes and smokeless tobacco for several years. In 1967, the Commission submitted to Congress its first annual report on cigarette advertising and labeling, pursuant to Section 9(b) of the Federal Cigarette Labeling and Advertising Act, 15 U.S.C. § 1331. The Commission began submitting biennial reports to Congress in 1987 on the advertising and marketing practices for smokeless tobacco products, pursuant to Section 8(b) of the Comprehensive Smokeless Tobacco Health Education Act of 1986, 15 U.S.C. § 1441. The Commission's cigarette and smokeless tobacco reports are frequently cited as reference sources by public health specialists, academics, and state and federal regulatory and public health agencies.

⁴ Definitions of each of the advertising and promotional categories are provided in the Glossary.

⁵ The cigar industry remains small in comparison to the cigarette industry. In 1996, the major cigarette manufacturers sold approximately 484 billion cigarettes and spent approximately \$5 billion on advertising and promotion. Federal Trade Commission, Report to Congress for 1996 Pursuant to the Federal Cigarette Labeling and Advertising Act, at 18 (1998).

From 1996 to 1997, the major cigar companies greatly expanded their product lines and experienced substantial increases in sales volume and revenues.⁶ The number of cigar brands marketed increased by fifty-four percent from a total of 207 brands in 1996 to 319 brands in 1997. In addition, the number of cigar varieties increased by almost forty-one percent from 1,437 varieties in 1996 to 2,025 varieties in 1997.⁷

Table 1 shows that aggregate unit sales of the five largest manufacturers increased fifteen percent from 1996 to 1997, from approximately 3.8 billion cigars to 4.4 billion cigars.⁸ The aggregate dollar sales of cigars, based upon wholesale price, increased forty-three percent from 1996 to 1997 -- from \$613 million to \$876 million.

The sales data also provide information about the market shares held by cigars of different sizes, and their respective contributions to industry revenues. **Table 2** shows that the percentages of the market held by little, medium, and large cigars remained generally consistent from 1996 to 1997.⁹ While little cigars comprised twenty-seven to twenty-eight percent of cigars sold in 1996 and 1997, they made up less than six percent of total cigar revenues for those years. In contrast,

⁶ Traditionally, machine-made cigars were sold through drugstores, supermarkets, retail discounters, and convenience stores. Premium cigars most often were sold through smoke shops and retail tobacco outlet stores. Now, cigars also are sold in bars, restaurants, liquor stores, and specialty food shops, as well as through several catalogs and the Internet.

⁷ The Orders defined "brand" as cigars bearing a common identifying name or logo, regardless of whether the products are differentiated by size or packaging. "Variety" was defined as any cigar that is differentiated from any other cigar bearing its same brand name or logo by one or more of the product characteristics defined in the Orders.

⁸ Just as the Commission's cigarette reports include U.S. Department of Agriculture ("USDA") estimates of cigarette consumption, Table 1 hereto also includes the USDA's cigar consumption estimates for 1996 and 1997. The FTC data report actual shipments from the manufacturers to their wholesalers and retailers in each of the calendar years. In contrast, USDA tries to estimate actual cigar sales to consumers. These estimates are derived from tax revenue data on cigar manufacturers' wholesale sales and U.S. Customs data on cigar imports, among other information. The USDA consumption estimates are approximately eighteen percent greater than the FTC's reported sales figures, most likely because the USDA estimates include the sales of smaller manufacturers and importers in addition to those of the five largest domestic manufacturers.

⁹ Because of the great size variance among cigars, this Report segregates them into three weight categories: little cigars, weighing not more than three pounds per thousand; medium cigars, weighing more than three but less than ten pounds per thousand; and large cigars, weighing more than ten pounds per thousand.

large cigars comprised approximately thirty-eight percent of all cigars sold during such time, but accounted for sixty-five percent of total cigar revenues in 1996 and sixty-eight percent in 1997. Medium size cigars made up approximately thirty-four to thirty-five percent of unit sales, and twenty-seven percent of sales revenues in 1996 and thirty percent in 1997.

C. The Increase In Advertising And Promotional Expenditures

The dramatic increase in cigar use in America has occurred in tandem with the increase in promotional activities surrounding cigar smoking. In the early 1990s, cigar enthusiasts began promoting fancy cigar dinners and smoker's evenings in expensive restaurants and hotels. Such cigar events at restaurants, bars, and private clubs are now common. In addition, Cigar Aficionado and Smoke, two magazines devoted almost entirely to cigar smoking, have been introduced since 1992 and have rapidly gained popularity. These magazines have featured on their covers and in profile articles numerous cigar smoking actors and actresses, sports figures, and celebrity models. Also in recent years, cigars have appeared as props and in the plot lines of numerous movies and television shows. The data reported herein provide specific information on the types of advertising and promotional activities conducted by the leading cigar manufacturers in calendar years 1996 and 1997.

Table 3 reports the cigar manufacturers' total advertising and promotional expenditures for 1996 and 1997, together with a breakdown of those expenditures into sixteen advertising and promotional categories. The cigar manufacturers' total expenditures on advertising and promotion increased thirty-two percent from 1996 to 1997, from \$30.9 million to \$41 million. Moreover, there was a significant increase in the amount spent in almost every category of advertising and promotional expenditure.

By far, the industry's largest expenditures in 1996 and 1997 were on promotional allowances -- that is, discounts and other incentives given to retailers to encourage cigar sales. In both years, these expenses comprised approximately forty percent of the total amount expended for advertising and promotion. The dollar amount spent on promotional allowances increased over thirty-one percent, from approximately \$12.4 million in 1996 to \$16.3 million in 1997.

Magazine advertising was the manufacturers' second largest advertising expense in both years, comprising over twenty-one percent of total expenditures in 1996 and twenty-four percent in 1997. Actual expenditures for magazine advertising increased forty-nine percent from 1996 to 1997, from \$6.6 million to almost \$10 million. Point of sale advertising, the next largest expenditure category, increased almost thirty-seven percent, from \$3.8 million in 1996 to \$5.2 million in 1997.

The companies also reported significant spending increases between 1996 and 1997 in the following categories: public entertainment; promotional items; newspaper advertisements; celebrity endorsements and paid product placements; and Internet advertising. Expenditures for public entertainment events, such as cigar dinners and cigar tastings, rose forty-six percent, from

\$692,000 in 1996 to just over \$1 million in 1997. Spending on promotional items other than cigars increased by 116%, from approximately \$306,000 to \$660,000. The greatest percentage increase in spending was on newspaper advertising, which rose 254% from approximately \$189,000 to \$671,000.

Expenditures on celebrity endorsements and appearances, and payments for product placements in movies and television, more than doubled between 1996 and 1997, from approximately \$143,500 to approximately \$339,000.¹⁰ The manufacturers' reports indicate that in 1996 and 1997 certain companies paid endorsement fees to sports personalities, and made payments to movie studios and third party promoters for the appearance of their cigars in movies and a number of popular television shows. Demographic information obtained for a sampling of these television shows indicates that, while a majority of each show's viewers are adults, viewers under age eighteen comprise eleven to thirty-eight percent of the audiences for such shows.¹¹

Internet advertising rose almost 180% from 1996 to 1997, from over \$78,000 to over \$218,000. Moreover, it is likely that the cigar industry's presence on the Internet is substantially greater than what is reflected in their actual advertising expenditures because there may not be costs associated with certain types of indirect promotion. For example, Cigar Aficionado magazine places ratings for nearly 1,300 cigars on its Internet site. Similarly, Smoke magazine's website features an online shopping guide with information on more than thirty cigar brands. In addition, several cybersmoker organizations offer chat rooms, and some also provide hyperlinks to the websites of cigar manufacturers. Finally, a number of Internet cigar shopping sites advertise savings on premium brands of cigars.

Coupons and Retail Value Added was the only category to show a significant decline in expenditures between 1996 and 1997. Expenditures for television and radio advertising also declined slightly -- from approximately \$327,000 to \$325,000. Even these relatively small expenditures for television and radio advertising are noteworthy given that cigarettes, smokeless

¹⁰ The expenses reported do not include monies that may have been spent by the cigar magazines, cigar events sponsors, and other cigar promoters on celebrity endorsements and paid product placements.

¹¹ The Cigar Association of America amended its cigar advertising standards in March 1998 to state that "cigar manufacturers should not subsidize the use of cigars in movies or television productions through paid or donated cigar placements or otherwise." These self-regulatory standards also provide that cigar advertisements should not portray or encourage cigar use by persons under the age of twenty-one. The above-referenced demographic information indicates that persons under twenty-one comprised thirteen to forty-three percent of the audiences for the television shows sampled.

tobacco, and little cigars are banned from such media.¹² Moreover, these expenditures reflect only the broadcast advertising paid for by the leading manufacturers, and not broadcast advertising run independently by tobacco retailers.

Finally, the Commission Orders required the cigar manufacturers to report the total dollar amount spent in the above advertising and promotional categories in connection with: sponsoring or promoting any sporting event, sports team or individual; advertising at sporting events; or expenses for sports-related equipment or paraphernalia. In both 1996 and 1997, sports-related expenditures comprised only approximately one percent of the total advertising and promotional expenditures.

D. Physical Characteristics Of The Cigar Varieties

Cigars come in a great range of weights, sizes, and styles. As a result, cigars can vary significantly in the amounts of nicotine and other deleterious substances that they deliver, the smokers to whom they appeal, and the manner in which they are smoked. The Commission Orders required the manufacturers to report several physical characteristics of each cigar variety, including size, style, individual cigar weight, tobacco type, method of curing, and whether any flavorings were added to the cigar. These baseline data provide preliminary information on the physical characteristics of cigars and possible interrelations between cigar styles and consumer preferences.

Table 4 reports the percentages of little, medium, and large cigars that have a non-tobacco tip and the percentages that are untipped. In both 1996 and 1997, virtually all of the little cigars were tipped. In addition, roughly sixty percent of the medium size cigars were tipped, while almost none of the large cigars were tipped.

Table 5 reports the percentages of little, medium, and large cigars that contained added flavorings. The flavorings reported included, but were not limited to, cherry, fruit, menthol, nutty, sweet, vanilla, and aromatic. Some cigar varieties contained more than one flavor. The data indicate that flavored cigars were available in each size category. However, over eighty-three percent of little cigars contained flavoring, compared to just thirty-one percent of large cigars in 1996 and sixteen percent in 1997. The table also indicates that flavored large cigars contributed proportionally less sales revenue than unflavored large cigars.

Table 6 reports the average weight of an individual cigar within each of the three weight categories (little, medium, and large), and the range of cigar weights within each size category. The average weights reported are sales weighted -- that is, the number of cigars sold at a given weight is factored into the average weight. The average weights ranged from just over one gram for a single little cigar to approximately eight grams for a single large cigar. Data on individual

¹² See discussion at footnote 42 infra.

cigar weights are significant because a cigar's weight affects the amount of nicotine and other deleterious substances emitted in its smoke.

Table 7 reports the percentages of little, medium, and large cigars containing any reconstituted tobacco (in any part of the cigar) and the percentages of cigars containing no reconstituted tobacco. In 1996 and 1997, virtually all little and medium cigars contained reconstituted tobacco, and the cigars containing reconstituted tobacco accounted for almost all sales revenues in these size categories. In the large cigar category, the cigars made without reconstituted tobacco, *i.e.*, the premium cigars, comprised only seven to ten percent of all units sold, but approximately thirty-six to forty-seven percent of all dollar sales in 1996 and 1997, respectively.

Table 8 reports the percentages of little, medium, and large cigars consisting entirely of air cured tobacco and the percentages consisting in part of heat cured tobacco (in any part of the cigar).¹³ The data indicate that a substantial percentage of medium size cigars contain heat cured tobacco -- approximately twenty-seven and thirty-four percent of the units sold in 1996 and 1997, respectively. Almost no little cigars and only a small percentage of large cigars contain heat cured tobacco. Differences in the curing, aging, and fermentation of tobacco may affect its pH and palatability, and may also affect its chemical content, including the levels of nicotine and nitrosamines found in the tobacco.

II. CURRENT PATTERNS OF CIGAR SMOKING PREVALENCE

The above reported increases in cigar sales and advertising and promotional expenditures come at a time when health authorities are expressing increasing concern about cigar usage. This section discusses the findings of the NCI Cigar Monograph and other newly released survey data regarding the recent increases in cigar smoking prevalence rates.

¹³ Air cured tobacco is dried slowly at ambient air temperature and humidity, and is fermented during the aging process. Heat cured tobacco is exposed to hot air during the curing process, and then fermented during the aging process.

A. Cigar Smoking Among Adults

After a twenty-year decline, cigar consumption in the United States has increased significantly between 1993 and the present. According to USDA estimates, Americans consumed slightly more than five billion cigars in 1998, a fifty-seven percent increase over the 3.4 billion cigars consumed in 1993.¹⁴ While consumption of all types of cigars has increased since 1993, the most dramatic growth has been in the sales of premium cigars, *i.e.*, hand-rolled cigars made entirely of long filler tobacco that retail for more than one dollar apiece. Unit sales of premium cigars increased over 150% between 1993 and 1998.¹⁵

Cigar smoking rates among the population also have increased markedly in the 1990s, although it is difficult to pinpoint the rate of increase due to the varying definitions of cigar use employed in the relevant surveys. The only prevalence series spanning the recent rise in cigar popularity is the California Adult Tobacco Use Survey, which shows that current cigar use among California men almost doubled between 1990 and 1996, from 4.8% to 8.8% of the population. Current cigar use among California women increased five-fold during this period, from .2% to 1.1%.¹⁶ Nationwide, the 1997 National Household Survey on Drug Abuse (NHSDA) indicates that 10.5% of men and 1.9% of women surveyed in 1997 reported smoking cigars in the previous month.¹⁷

The greatest increase in cigar smoking prevalence has occurred among young adult men. The California surveys show that cigar smoking among men eighteen to twenty-four years old increased from four percent in 1990 to almost 12.5% in 1996. The NHSDA data show that nationally 17.5% of men eighteen to twenty-five years old, and thirteen percent of men twenty-six to thirty-four years old, reported smoking a cigar in the past month. Similarly, the NHSDA data indicate that cigar smoking rates are higher among young women, eighteen to twenty-five years old, than among women in any other age group. These patterns represent a significant change from earlier surveys, which showed the greatest concentration of cigar smoking among older men.

¹⁴ USDA, Commodity Economics Division, Economic Research Service, Tobacco Situation and Outlook Report, Doc. No. TSB-240 (Apr. 1999); and Table 9 herein.

¹⁵ *Id.* While cigar consumption rose every year from 1993 to 1998, the annual rate of increase declined in 1998 (4.4%) compared to the 1997 rate of increase (12.7%).

¹⁶ In the California adult survey, current cigar users included persons who reported that they "now smoked every day or some days." NCI Cigar Monograph at 27 (Table 2a) and 31-34.

¹⁷ U.S. Department of Health and Human Services, Substance Abuse and Mental Health Services Administration, Office of Applied Science, National Household Survey on Drug Abuse, 1997 (unpublished tabulations).

With regard to frequency of use, recent surveys indicate that most adult cigar users smoke on an occasional, rather than on a daily, basis. The 1997 NHSDA survey reports that approximately eighty-nine percent of adult cigar smokers smoke less than daily.¹⁸ In addition, survey evidence suggests that much of the recent increase in cigar smoking prevalence is due to an increased number of occasional smokers. The rise in occasional cigar use is observed most clearly in the California surveys where *daily* cigar smoking rates remained constant between 1990 and 1996, while the percentage of persons who reported smoking cigars on a less frequent basis almost doubled.¹⁹

B. Cigar Smoking Among Youth

While there is no data on teen cigar use prior to 1996, several recently conducted national surveys on youth cigar use show that substantial numbers of adolescents are trying cigars.²⁰ A 1996 in-school survey conducted nationally by the Robert Wood Johnson Foundation, and published by the Centers for Disease Control, showed that approximately twenty-seven percent of fourteen to nineteen year olds had smoked at least one cigar in the preceding year.²¹ Moreover, nearly three percent of the adolescents surveyed in the Robert Wood Johnson study reported smoking fifty or more cigars in the previous year. The percentage of teenagers in this survey who reported using more than fifty cigars in the previous year is greater than the percentage of young adults who in a 1991 survey had reported smoking more than fifty cigars in a *lifetime*.²²

The 1997 National Youth Risk Behavior Study (“NYRB”), conducted by the Centers for Disease Control in high schools nationwide, indicated that twenty-two percent of high school students (grades 9-12) had smoked cigars within the previous thirty days. Another recent national survey of adolescents reports lower but still significant cigar smoking rates. The 1997

¹⁸ *Id.* (unpublished tabulations)

¹⁹ Other recent surveys also suggest that the current increase in cigar smoking prevalence is due primarily to an increase in occasional users, rather than regular users. NCI Cigar Monograph at 38-42.

²⁰ All three of the surveys discussed herein were designed to be projectible to the adolescent population nationwide. The NCI Cigar Monograph also reports the results of youth surveys conducted in California, Massachusetts, and New York.

²¹ U.S. Department of Health and Human Services, Centers for Disease Control, “Cigar Smoking Among Teenagers -- United States, Massachusetts, and New York, 1996.” Morbidity and Mortality Weekly Report 1997; 46 (No. 20): 433-440.

²² NCI Cigar Monograph at 38 (Table 7) and 42, citing the 1991 National Health Interview Survey. Differences in the survey methodologies of these two studies also may have affected their results.

National Household Survey on Drug Abuse (“NHSDA”), conducted at-home through a self-administered questionnaire, indicates that five percent of twelve to seventeen year olds reported smoking a cigar in the previous thirty days.

Thus, while the various surveys of teenagers measured different markers, they all indicate a substantial incidence of cigar use. The youth prevalence data also indicate that a substantial percentage of adolescent cigar smokers currently use cigarettes or other tobacco products.²³

In February 1999, the Department of Health and Human Services (“HHS”) issued a report on focus groups conducted nationwide to explore teenagers’ cigar use patterns and their perceptions of cigar-related health risks.²⁴ The focus groups, although only exploratory in nature, suggest that adolescent cigar use is widespread, that teens believe cigar smoking is more socially acceptable than smoking cigarettes or using spit tobacco, and that teens can easily purchase cigars. In addition, teens report widespread use of cigars as “blunts” for smoking marijuana. When blunting, the user opens the cigar and replaces all or most of the filler tobacco with marijuana or other substances. The focus groups revealed that many teens smoke both ordinary cigars and blunts, and that teen references to cigar smoking and/or blunting are often hard to differentiate. Thus, the practice of blunting likely contributes to the relatively high cigar smoking prevalence rates reported by other youth surveys.

III. THE HEALTH RISKS OF CIGAR SMOKING

The NCI Cigar Monograph concludes from the available evidence that regular cigar smoking, like the use of other tobacco products, can cause several forms of cancer. The Monograph states that although the risks of these cancers are proportionate to the amount a person smokes, cigar smoke contains the same toxic and carcinogenic constituents found in cigarette smoke. Cigar smoking can cause oral, esophageal, laryngeal and lung cancers. Regular cigar smokers who inhale, particularly those who smoke several cigars per day, have an increased risk of coronary heart disease and chronic obstructive pulmonary disease. Regular cigar smokers have risks of oral and esophageal cancers similar to those of cigarette smokers, but they have lower risks of lung and laryngeal cancer, coronary heart disease, and chronic obstructive

²³ NCI Cigar Monograph at 51; U.S. Department of Health and Human Services, Centers for Disease Control, “Cigar Smoking Among Teenagers -- United States, Massachusetts, and New York, 1996.” Morbidity and Mortality Weekly Report 1997; 46 (No. 20): 433-440.

²⁴ Department of Health and Human Services, Office of the Inspector General, Youth Use of Cigars: Patterns of Use and Perceptions of Risk, OEI-06-98-0030 (February 1999). The HHS report emphasizes that, because of the exploratory format of the teen focus group project, the information collected should be used only as a starting point for further study of teen cigar use and should not be projected to all teens. *Id.* at iii.

pulmonary disease than cigarette smokers.²⁵ In addition, cigar smoke generates high levels of indoor pollutants. Thus, the NCI Cigar Monograph cautions that cigars are not a safe alternative to cigarettes.

Although the recent prevalence data suggest that most cigar users smoke only occasionally, the studies evaluated in the NCI Cigar Monograph all involved subjects who were daily cigar smokers (one or more cigars a day).²⁶ The Monograph notes that the risks to occasional cigar smokers are difficult to measure because of the wide variability in the frequency of smoking among occasional smokers and in the amounts of tobacco contained in different cigars. The Monograph concludes, however, that it is reasonable to assume that the risks for occasional cigar smokers lie somewhere between those for individuals whose only exposure to tobacco smoke is environmental tobacco smoke and those of regular cigar smokers. As occasional cigar smokers smoke more frequently or inhale more deeply, their exposure to tobacco smoke increases, and with that increased exposure comes a proportionate increase in disease risks.²⁷

²⁵ NCI Cigar Monograph at Chapter 4 (conclusions summarized at 155). See also Iribarren, et al., "Effect of Cigar Smoking on the Risk of Cardiovascular Disease, Chronic Obstructive Pulmonary Disease, and Cancer in Men," New England J. Med 340(23):1773-80 (1999) (a large male cohort study showed cigar smoking to moderately increase the risk of chronic obstructive pulmonary disease and lung cancer, and added new evidence of an association between cigar smoking and a moderate but significant increase in the risk of coronary heart disease).

²⁶ The primary risk estimates provided in the NCI Cigar Report are derived from the findings of the American Cancer Society's Cancer Prevention Study I, conducted between 1959 and 1972. One of the largest prospective cohort studies ever undertaken, the CPS-I followed over one million individuals. For purposes of evaluating cigar-related mortality risks, the NCI analysis focused on the mortality data provided for white males who smoked at least one cigar per day.

²⁷ The mortality risks for the majority of regular cigar smokers who do not inhale deeply appear to be considerably lower than those for cigarette smokers. For example, NCI estimates that the excess risk mortality (compared to nonsmokers) is 66% for cigarette smokers in contrast to 8% for daily cigar smokers. (NCI Cigar Monograph at 112, Table 3). According to the NCI Cigar Monograph, the risk from inhaling cigar smoke increases with increases in the number of cigars smoked daily and increases in the depth of inhalation. Cigar smokers in the NCI sample who smoked five or more cigars a day with moderate inhalation (4.5% of the total number of daily smokers studied) approached the lung cancer rates of smokers of twenty cigarettes per day.

Some studies also indicate that cigarette smokers who switch to cigars reduce their risk
(continued...)

There currently is no direct evidence on the form of the dose response relationship for occasional cigar smokers. The most relevant information concerning the likely risks to occasional cigar smokers is the NCI's analysis of the risk profile for the least intensive daily smokers, those persons who smoked one to two cigars daily. The NCI analysis estimates that these cigar smokers may be subject to significantly elevated risk for oral, esophageal, and laryngeal cancers.²⁸

Finally, like other tobacco products, cigars contain substantial quantities of nicotine. Cigar smoke may be inhaled, producing the same virtually instantaneous effects of nicotine delivery produced by cigarettes, or it may be held in the nose and mouth, providing a somewhat slower rate of nicotine absorption as occurs with smokeless tobacco products. Both routes of nicotine delivery are well-documented to lead to dependence with other forms of tobacco use.

While there are no published studies on the frequency of cigar addiction, the available survey data indicate that a substantial majority of adult cigar smokers smoke only occasionally.²⁹ According to the NCI Monograph, patterns of tobacco usage are an important indicator of addiction. Thus, although it is likely that heavy regular smokers may develop nicotine tolerance and a physical dependence on cigars, there would be little basis to expect that people who rarely smoke cigars on two or more consecutive days would become physically dependent upon cigars.³⁰ The Monograph cautions, however, that addiction to nicotine is a process that typically begins

²⁷(...continued)

considerably. (*Id* at 119). The NCI Cigar Monograph attributes this reduced risk to lower inhalation and overall tobacco consumption among persons who switched from cigarettes to cigars, as compared to cigarette smokers. The reduction in risk for cigarette smokers who switch to cigars is, however, far smaller than the reduction in risk they could achieve from eliminating all tobacco use. Moreover, the greater likelihood that former cigarette smokers will inhale cigar smoke means that they are at greater risk than cigar smokers who never smoked cigarettes.

²⁸ The Monograph estimates that the group of least intensive daily smokers is at more than twice the risk of oral and esophageal cancers than non-smokers, and more than six times the risk of laryngeal cancer than non-smokers. NCI Cigar Report at 125 (Table 11). Although these results do not reach statistical significance, given the limitations of the sample size and the infrequency of oral cancer mortalities, the data suggest that even light cigar smokers are at some increased risk for mouth and throat cancers. Studies with larger sample sizes would be required to resolve the issue.

²⁹ The 1997 NHSDA survey indicates that approximately 89% of adult cigar smokers smoke less than daily. *Supra* at 9.

³⁰ *Id.* at 182, 190.

during adolescence and young adulthood, and therefore the low rate of addiction among adult cigar smokers may not apply to cigar use begun in adolescence.³¹

IV. CONSUMER PERCEPTIONS OF THE RISKS OF CIGAR SMOKING

The limited information available on consumers' perceptions of cigar-related risks suggests that consumers generally are aware that cigar smoking poses health risks, although they lack information about the specific risks involved.

In 1996, the American Cancer Society conducted a survey of adults indicating that a majority of both cigar users and non-users believe cigar smoking can pose health risks.³² Similarly, the recent HHS focus group study on youth cigar use indicates that, when specifically probed about the health risks of cigars, most teens say they believe that cigars are dangerous and addictive.³³ According to the HHS report, it appears that most teens have received little information about the health effects of cigar use, but that they draw general conclusions about possible cigar-related health risks based upon their knowledge of the dangers of cigarettes or other tobacco products. Several teens indicated that, given the known harms of tobacco, they

³¹ *Id.* at Chapter 6 (conclusions summarized at 191). *See also* U.S. Department of Health and Human Services, Preventing Tobacco Use Among Young People: A Report of the Surgeon General, July 1994 (*citations omitted*) (The younger one begins to smoke cigarettes or use smokeless tobacco, the more likely he or she is to be a current user as an adult. In addition, persons who begin to use tobacco as adolescents are among the heaviest adult users. Heavy users are the most likely to experience tobacco-related health problems and the least likely to quit using tobacco.)

³² *See* F. Baker et al., "Risk Perception and Cigar Smoking Behavior," paper presented at American Cancer Society Conference: Cigar Smoking Health Risks – State of the Science Conference, Washington, D.C. (June 15, 1998).

³³ Department of Health and Human Services, Office of the Inspector General, Youth Use of Cigars: Patterns of Use and Perceptions of Risk, OEI-06-98-0030, (Feb. 1998). As discussed *supra*, the HHS focus groups were exploratory in nature and therefore should not be projected to teens nationwide.

believe cigars must be somewhat dangerous, but that they do not know specifically how dangerous.³⁴

Finally, the results of a 1998 Canadian focus group study similarly suggest that consumers recognize that cigar smoking is harmful, but that they lack knowledge of the specific risks involved.³⁵ The Canadian focus groups, conducted on behalf of Health Canada's Office of Tobacco Control, probed several groups of adult and adolescent cigar smokers about their awareness of the health risks associated with cigar smoking. The focus group report concludes that the majority of cigar smokers interviewed know that cigar smoking poses health risks, yet they have only a vague awareness of the specific risks involved. Like the HHS focus group participants, the Canadian cigar smokers also expressed the belief that, given the health hazards of cigarettes, cigars must pose health risks. In addition, the cigar smokers generally expressed an interest in getting more specific information about the consequences of cigar smoking. However, the focus group report also indicates that many participants believe cigar tobacco is "cleaner" and "more natural" than cigarette tobacco, and therefore less dangerous.

All of the above research has limitations. First, the results of these studies cannot necessarily be projected to the overall population. Second, there are inherent limitations in using survey research to discern attitudes and beliefs about the riskiness of products. In this regard, it is difficult to assess the extent to which cigar smokers personalize their expressed beliefs about the risks of cigar smoking generally.

Each of the above studies, for example, points to the possibility that cigar smokers possess an "optimism bias" about their own cigar-related risks. In other words, these cigar smokers may tend to minimize their personal risk or to believe that they are at less risk than other cigar smokers. Optimism bias or "unrealistic optimism" is a well-documented phenomenon among both adult and adolescent cigarette smokers. Studies consistently demonstrate that cigarette smokers perceive their own risks from smoking to be lower than the risk to other

³⁴ Despite their belief that cigars are harmful, a substantial percentage of the focus group teens report using cigars. Many of the cigar smokers also envision themselves smoking cigars five years from now. Like the youth cigar smoking prevalence surveys, the HHS focus groups indicate that a significant percentage of teenagers who smoke cigars also smoke cigarettes. However, twenty-two percent of the teens in the focus groups who report ever using tobacco indicate that *cigars* were their first experience with tobacco. *Id.*

³⁵ Environics Research Group, "Focus Group Report on Warning Labels for Cigars, Pipes, and Chewing Tobacco," prepared for Health Canada (Mar. 1998). The Canadian focus groups were exploratory in nature, and the information collected should not be projected to all cigar smokers.

smokers, and therefore may tend to underestimate the extent to which smoking-related risks apply to themselves.³⁶

V. RECOMMENDATION

The NCI Cigar Monograph concludes that cigar smoking can pose serious health risks. The Commission believes that, as is already the case for cigarettes and smokeless tobacco, consumers should be advised of these risks. This is especially true in light of current cigar advertising, which portrays cigar smoking as part of a glamorous and affluent lifestyle.

While consumers may be aware generally that cigar smoking poses risks, warnings highlighting the specific health risks of cigar smoking may further educate consumers or reinforce their existing beliefs. Moreover, given the public's extensive exposure to health warnings for cigarettes and smokeless tobacco, the current absence of clear and conspicuous federal health warnings for cigars may send a misleading signal that cigars are not harmful to

³⁶ See e.g. Weinstein, N.D. "Accuracy of Smokers' Risk Perceptions," Ann. Behav. Med. 20(2): 135-140 (1998) (a review of the literature); Ayanian, J.Z., Cleary, P.D. "Perceived Risks of Heart Disease and Cancer Among Cigarette Smokers," J. Am. Med. Assoc. 281(11): 1019-21 (1999); Segerstrom, S.C. et al "Optimistic Bias Among Cigarette Smokers," J. Applied Social Psychology 23:1606-1618 (1993); Chapman, S. et al., "Self-Exempting Beliefs about Smoking and Health: Differences Between Smokers and Ex-Smokers, Am. J. of Public Health 83:215-219 (1993). For studies on adolescents, see e.g. Reppuci, J.D. et al., "Unrealistic Optimism Among Adolescent Smokers and Non-Smokers," J. Primary Prevention 11:227-236 (1991); Hanson, W.B., Malotte, C.K., "Perceived Personal Immunity: The Development of Beliefs about Susceptibility to the Consequences of Smoking," Preventive Medicine 15:363-372 (1986); Cohn, L.D. et al., "Risk Perception: Differences Between Adolescents and Adults," Health Psychology 14:21-222 (1995).

one's health, or that cigars are a safe alternative to cigarettes.³⁷ Similar effects may result from the presence of cigar advertising on television and other electronic media. Thus, the Commission believes that consistent tobacco regulation is desirable.

A. Rotational Health Warnings

Presently, both cigarette and smokeless tobacco manufacturers are required by federal statute to display rotational health warnings on all labeling and advertising for their products. *See Federal Cigarette Labeling and Advertising Act*, 15 U.S.C. §1331; *Comprehensive Smokeless Tobacco Health Education Act of 1986*, 15 U.S.C. §1441. Similarly, the Commission believes that cigar health warnings should be mandated by federal legislation. In the alternative, Congress may wish to direct the Commission to use its existing authority to require health warnings on cigars.³⁸

³⁷ Beginning in 1989, many nationally available cigars brands began to display the following general health warning label required by the State of California:

**WARNING: This Product Contains Chemicals Known To The State Of California
To Cause Cancer, And Birth Defects Or Other Reproductive Harm.**

This warning is not an adequate substitute for federally mandated warnings. It is very often inconspicuous and it is required only on labeling and not in advertising. In addition, the warning's generic message does not adequately warn of the specific adverse health consequences associated with cigar smoking.

In January, 1999, the Attorney General of Massachusetts enacted consumer protection regulations for the advertising and sale of cigars, cigarettes, and smokeless tobacco. These regulations, which become effective August 1, 1999, require that the following two health warnings be rotated on cigar advertising and packaging:

**WARNING: Cigar Smoke Contains Carbon Monoxide And Nicotine, An
Addictive Drug.**

**WARNING: Cigars Are Not A Safe Alternative To Cigarettes Or Smokeless
Tobacco Products.**

The Massachusetts labeling requirements currently apply only to manufactured cigars and not to hand-rolled cigars. The Massachusetts regulations also contain several other requirements and prohibitions, including prohibitions against the sale of cigars from self-service displays and the promotion of cigars through sampling and give-aways.

³⁸ Under Section 5 of the FTC Act, the Commission has authority to institute
(continued...)

The Commission recommends that cigar manufacturers and marketers be required to comply with a system of multiple rotating warnings, similar to the rotational plans in place for cigarettes and smokeless tobacco. The advantage of rotational warnings, as compared to a single health warning, is that the multiple warnings can provide a broad range of health risk information, while also increasing the likelihood that consumers pay attention to the individual messages over an extended period of time. However, the Commission recognizes that the rotational plan for cigar warnings should be appropriately tailored to accommodate the relatively small sales volume of many cigar brands and the broad diversity of cigar packaging.³⁹

Health warnings should be displayed clearly and conspicuously on all labeling and advertising for cigars. Currently, the large majority of cigars are sold in prepackaged containers, and the health warnings should be displayed clearly and conspicuously on all such cigar packages.⁴⁰ Although a small percentage of cigars are sold singly, without packaging, there are a number of ways in which health warnings could be displayed on these cigars. For example, the warnings could be displayed on the boxes or other containers from which individual cigars are sold, or could be posted in retail establishments that sell cigars individually. The Commission would be pleased to participate in any discussions between Congress, the cigar industry, and other interested parties on these and other options regarding the placement of warnings on advertising and labeling.

The conclusions stated in the NCI Cigar Monograph suggest several possible health warning messages. Such messages should advise consumers of the risks associated with cigar smoking in a factual, yet clear and easily understandable manner. In adopting any final warnings, of course, care must be taken to ensure that the warnings communicate the intended messages to consumers. The Commission also would be pleased to assist Congress in this effort.

As a starting point, the Commission recommends that Congress consider the following three warnings, which address the Monograph's conclusions as to the major adverse health consequences of cigar smoking.⁴¹

³⁸(...continued)

administrative proceedings to require cigar manufacturers and marketers to display health warnings if it finds that the absence of warnings would be unfair or deceptive.

³⁹ For example, Congress could consider requiring rotation of the health warnings on a yearly basis, rather than on a more frequent basis as is done with cigarettes and smokeless tobacco.

⁴⁰ Cigars come in a variety of package types including, but not limited to, cigar boxes, tins, soft packs, hard packs, tubes, and cellophane wraps.

⁴¹ NCI Cigar Monograph at i, 19, 155.

WARNING: Regular cigar smoking can cause cancers of the mouth and throat, even if you do not inhale.

The NCI Cigar Monograph found that regular cigar smokers are at a similar risk of cancers of the oral cavity, pharynx, and esophagus as are cigarette smokers. Moreover, the mouth and throat are exposed to toxins in the cigar smoke even if the cigar smoker does not inhale.

Inclusion of the qualifier “regular” in the proposed warning accurately reflects the existing scientific evidence on cigar-related health risks, which is limited to the experiences of those who smoke on a daily basis. While the NCI Cigar Monograph also expresses concern that occasional cigar smokers are likely to be at some level of risk, the magnitude cannot be quantified at present because of the wide divergence in cigar smoking behavior and the lack of epidemiological evidence. Nevertheless, the potential for risk from occasional smoking suggests the possibility that warnings limited to “regular” cigar use might give the misleading impression that casual use is completely free of risk.

WARNING: Inhaling cigar smoke can cause lung cancer. The more deeply you inhale, the greater your risk.

The NCI Cigar Monograph concludes that cigar smokers who inhale, particularly those who inhale deeply and smoke several cigars a day, are at increased risk of lung cancer. This message is especially important to current and former cigarette smokers since they are the cigar smokers most likely to inhale. It is also an important message to convey to adolescents who may be experimenting with cigars and cigarettes interchangeably.

WARNING: Cigars are not a safe alternative to cigarettes.

The NCI Cigar Monograph concluded that cigars are not a safe alternative to cigarettes. This conclusion may be obscured, however, by the recent popularity of cigars, their high visibility in the media, and numerous celebrity endorsements of the products. According to the Monograph, *the risks of tobacco smoke exposure are similar for all sources of tobacco smoke*, although the magnitude of a cigar smoker’s risk is proportionate to the frequency and intensity with which one smokes. Regular cigar smokers have risks of oral and esophageal cancers similar to those of cigarette smokers, but are at lower risk for heart and lung disease than cigarette smokers because they generally smoke less frequently and inhale less deeply than cigarette smokers.

Persons considering switching from cigarettes to cigars are advised that the only way to eliminate the serious harm that can result from cigarette smoking is *to quit using tobacco entirely*. While some studies indicate that cigarette smokers can reduce their risk by switching to cigars, this reduction in risk is far smaller than what they could achieve by eliminating all tobacco use. The Monograph attributes the switchers’ reduction in risk to their lower inhalation and total

tobacco consumption, as compared to cigarette smokers. However, the greater likelihood that former cigarette smokers will inhale cigar smoke means that they are at greater risk than cigar smokers who have never smoked cigarettes.

B. Prohibition on Electronic Advertising

Advertising on electronic media, i.e., radio and broadcast and cable television, is the type of advertising most likely to be passively received by minors. Presently, cigarettes, smokeless tobacco, and little cigars are prohibited from advertising on any medium of electronic communication subject to the jurisdiction of the Federal Communications Commission.⁴² There is no similar prohibition on advertising other cigars through the electronic media. This disparate treatment of cigars could have the effect of increasing cigar sales and consumption. In 1971, for example, shortly after implementation of the prohibition on the electronic advertising of cigarettes, several tobacco manufacturers began advertising little cigars on television. In response, little cigar sales increased 254% between 1971 and 1972. Sales dropped steadily after Congress amended the Cigarette Act in 1973 to extend the prohibition on broadcast advertising to little cigars.⁴³

This Report shows that the cigar companies spent about \$325,000 on television, radio, and audiovisual advertising in both 1996 and 1997. In addition, some portion of the \$339,000 reported as expenditures for endorsements and product placements was money spent to place cigars on television shows. Moreover, the extent of cigar advertising on television and radio is greater than simply the major manufacturers' expenditures reported herein. For instance, it has come to the Commission's attention that individual cigar retailers in several parts of the country have run cigar advertisements recently on local television and radio stations.

In keeping with the Commission's belief that cigars and other tobacco products should be regulated in a consistent manner, we recommend that Congress enact legislation prohibiting the

⁴² The Cigarette Act was amended in 1969 to make it unlawful to advertise cigarettes on any electronic medium subject to the jurisdiction of the Federal Communications Commission. (Public Health Cigarette Smoking Act of 1969, Pub. L. No. 91-222 (1969)). In 1973, in response to dramatic increases in the advertising and sales of little cigars, and the Surgeon General's determination that little cigars were hazardous to health, Congress amended the Cigarette Act to include "little cigars" within the electronic medium prohibition. This amendment defined little cigars as "any roll of tobacco wrapped in leaf tobacco or any substance containing tobacco . . . and as to which one thousand units weigh not more than three pounds." (Little Cigar Act, Pub. L. No. 93-109 (1973)). As discussed above, little cigars are not subject to any other federal advertising or labeling restrictions. The same prohibition on electronic advertising is included in the Smokeless Tobacco Act (Comprehensive Smokeless Tobacco Health Education Act of 1986 §3(f), Pub. L. No. 99-252 (1986)).

⁴³ NCI Cigar Monograph at 21-24.

advertisement of cigars on television, radio, or any other electronic media regulated by the Federal Communications Commission.

C. Ensuring Consistency in Regulating Youth Access to Tobacco Products

In order to reduce youth access to tobacco products, local and municipal governments increasingly are enacting ordinances that prohibit the sale of cigarettes and smokeless tobacco from self-service displays, requiring that they be placed in locations less accessible to minors. Additionally, in 1996 the Food and Drug Administration (“FDA”) adopted regulations restricting the sale of cigarettes and smokeless tobacco to protect children and adolescents, in part by eliminating self-service displays.⁴⁴ Although the FDA regulations have not yet been implemented, several large grocery and pharmacy chains across the country have voluntarily moved cigarettes and smokeless tobacco products behind the counter. As cigarettes and smokeless tobacco become less readily accessible to underage smokers, it will be important also to restrict youth access to cigars to prevent them from becoming the tobacco product of choice for minors.⁴⁵

Thus, the Commission recommends that Congress also consider measures to reduce youth access to cigar products, including restrictions on the use of self-service cigar displays. Such legislation could be tied to the implementation of federal restrictions on the sale of cigarettes and smokeless tobacco products.⁴⁶ The Commission recognizes that, because of their small size and

⁴⁴ Regulations Restricting the Sale and Distribution of Cigarettes and Smokeless Tobacco to Protect Children and Adolescents, 61 Fed. Reg. 44,396 (1996). The Fourth Circuit Court of Appeals overturned FDA’s regulations based upon its finding that FDA does not have jurisdiction to regulate tobacco. Brown & Williamson Tobacco v. FDA, No. 97-1604, slip op. at 14 (4th Cir. Aug. 4, 1998), *cert. granted* 1999 U.S. LEXIS 2981 (Apr. 26, 1999).

⁴⁵ While the sale of cigars to minors is illegal in all fifty states, a February 1999 report of the Department of Health and Human Services, entitled “Youth Use of Cigars: Federal, State Regulation and Enforcement,” indicates that the states generally give very low priority to enforcement of unlawful cigar sales as compared to enforcement of unlawful cigarette sales. The report also found that many states have little information on the extent of cigar sales to minors, the ease with which minors can purchase cigars, and the degree to which minors’ use of cigars is a problem in their states.

⁴⁶ The FDA regulations list several ways for retailers to eliminate the use of self-service displays: place tobacco products in locked cases or in locations where they are supervised by cashiers; place them behind only one or two checkout lanes instead of at each one; sell them only from one controlled area of the store, where store employees are present to handle other administrative tasks; or establish a system so that one employee can respond to requests for tobacco products by bringing the products directly to the checkout as needed.

(continued...)

sales volume, cigar manufacturers may be unable to compete effectively with cigarette manufacturers for restricted shelf space. The legislation therefore should provide flexibility for alternative cigar shelving arrangements that provide reasonably equivalent barriers to youth access. The Commission also recommends that tobacco specialty stores be exempted from such regulations, provided that they take reasonable steps to restrict unaccompanied access by minors.

VI. CONCLUSION

The Commission is pleased to provide Congress with this report of the sales and advertising practices of the domestic cigar industry. Commission staff will continue to monitor cigar advertising and will send reports to Congress periodically on cigar sales and advertising expenditures.

⁴⁶(...continued)

GLOSSARY

- Air Cured:** Tobacco that is cured at a natural ambient air temperature and humidity.
- All Other:** Advertising and promotional expenditures not covered by another reporting category defined in this glossary.
- Binder:** The tobacco used to surround the filler to create a bunch.
- Brand:** All cigars that bear a common identifying name or logo, regardless of whether the products are differentiated by size or packaging.
- Coupons and Retail Value Added:** Expenses and costs associated with the value added to the purchase of cigars, including, but not limited to: “buy one get one free” promotions; “buy one get x free” promotions; and costs associated with cents-off coupons, whether redeemed at the point of sale or by mail, including costs associated with advertising or promotion, design, printing, distribution, or redemption.
- Direct Mail:** Direct mail advertising, excluding expenses reported in the categories: Sampling; Promotional Items other than Cigars; Public Entertainment; or Retail Value Added and Coupons.
- Endorsements:** Expenses for endorsements and testimonials made to encourage cigar smoking, or the mention of a cigar or the company name, or the appearance of the product, name, or package in any situation likely to come to the attention of the public, such as motion pictures, stage shows, and public appearances by, or photographs of, a celebrity or public figure. This category excludes expenses reported in the categories: Newspapers; Magazines; Outdoor; Television, Radio, and Audiovisual; Transit; Direct Mail; Point of Sale; or Public Entertainment.
- Filler:** The tobacco used to form the central body of a cigar.
- Flavor:** Any flavoring added to a cigar, such as cherry, fruit, menthol, sweet, or vanilla.
- Heat Cured:** Tobacco that is exposed to hot air during the curing process.

Internet: Internet advertising expenses including, but not limited to: spending on Internet sites and pages, hyperlinks, and banners on third party sites, news groups, and on-line advertisements to display the name, logo, symbol, motto, or selling message of a brand of cigars, regardless of whether the site, page, hyperlink, or banner promotes the sale of cigars. Expenditures include the cost of developing, creating, maintaining, monitoring, and updating the site, page, banner, or other form of on-line advertisement.

Large Cigar: Any cigar that weighs more than ten pounds per 1,000 cigars.

Little Cigar: Any cigar that weighs less than three pounds per 1,000 cigars.

Magazines: Magazine advertising, excluding expenses reported in the categories: Sampling; Promotional Items other than Cigars; Public Entertainment; or Coupons and Retail Value Added.

Medium Cigar: Any cigar that weighs three or more, but less than ten pounds per 1,000 cigars.

Newspapers: Newspaper advertising, excluding expenses reported in the categories: Sampling; Promotional Items other than Cigars; Public Entertainment; or Coupons and Retail Value Added.

Outdoor: Outdoor advertising on billboards and other outdoor displays, excluding expenses reported in the categories: Transit; Sampling; Promotional Items other than Cigars; or Public Entertainment.

Point of Sale: Point of sale advertising, excluding expenses reported in the categories: Sampling; Promotional Items other than Cigars; Public Entertainment; or Coupons and Retail Value Added.

Promotional Allowances: Amounts paid to retailers and any other persons (other than employees involved in distribution or sales) to facilitate the sale of any cigar, excluding expenses reported in the categories: Newspapers; Magazines; Outdoor; Television, Radio, and Audiovisual; Transit; Direct Mail; or Point of Sale.

Promotional Items: The costs of distributing promotional items other than cigars, including the costs of such items (the costs to the company, less consumer payments), whether distributed by sale, redemption of coupons, or otherwise. This category excludes

expenses reported in the categories: Sampling; or Coupons and Retail Value Added.

Public Ente-

tainment: Expenses in promoting and/or sponsoring public entertainment events bearing or otherwise displaying the name, logo, or selling message of a company or a brand of cigars including, but not limited to, dinners, wine or spirit tastings, and weekends or other vacations featuring cigar smoking. This category excludes expenses reported in the categories: Sampling; or Promotional Items other than Cigars.

Sampling: Expenses associated with the distribution of free cigars, including the costs of the products and the costs of organizing, promoting, and conducting the sampling.

Sports: Expenses in connection with: sponsoring, advertising, or promoting sports or sporting events; supporting an individual, group or sports team; expenditures for sports equipment, uniforms, sports facilities and/or training facilities; advertising the name of the company or any of its cigars in a sports facility; and expenses for items such as clothing, hats, bags, posters, sporting goods, and equipment connected with a sports event. All expenses reported in this category are also reported in another category of advertising expense defined in this glossary.

**Television,
Radio, and**

Audiovisual: Advertising on any medium of electronic communication subject to the jurisdiction of the Federal Communications Commission such as broadcast television, cable television, or radio. This category also includes advertising on motion picture theater screens, satellite broadcasts, pay per view programming, and video cassettes. This category excludes expenses reported in the category Internet.

Tipped: A cigar having a tip made of a substance that does not contain tobacco.

Transit: Advertising on public transportation vehicles and facilities, excluding expenses reported under the categories: Sampling; Promotional Items other than Cigars; or Public Entertainment.

Variety: Any cigar, marketed under a particular brand name or logo, that is differentiated from any other cigar bearing the same name or logo by product characteristics such as size, style, weight, or flavor.

Wrapper: The tobacco or tobacco-containing substance covering the body of a cigar.

TABLE 1
DOMESTIC CIGAR SALES*
(CIGAR UNITS AND SALES IN THOUSANDS)

<u>Year</u>	<u>Dollar Sales</u>	<u>Cigars Sold</u>	<u>USDA Cigar Consumption Estimates**</u>
1996	\$613,305	3,803,134	4,535,000
1997	\$876,115	4,398,682	5,176,000

* All "dollar sales" figures reported in the tables represent wholesale dollars, i.e., the manufacturers' sales to wholesalers and retailers.

** U.S. Department of Agriculture, Tobacco Situation and Outlook Report. (Apr. 14, 1998) (Tables 2 and 5).

TABLE 2
DOMESTIC MARKET SHARE BY PRODUCT SIZE*
(CIGAR UNITS AND DOLLARS IN THOUSANDS)

<u>Cigar Size*</u>	<u>UNITS</u>		<u>DOLLARS</u>	
	<u>Number of Cigars</u>	<u>% of Total</u>	<u>Dollar Sales</u>	<u>% of Total</u>
<u>1996</u>				
Little	1,062,659	28.0%	35,082	5.7%
Medium	1,293,198	34.1%	181,009	29.7%
Large	1,437,686	37.9%	394,109	64.6%
<u>1997</u>				
Little	1,164,819	26.6%	39,718	4.6%
Medium	1,547,154	35.3%	239,109	27.4%
Large	1,674,252	38.2%	592,878	68.0%

* The units and dollars reported here are less than those reported in Table 1 because size data was unavailable for 0.25% and 0.27% of the 1996 and 1997 varieties, respectively.

** Little, medium, and large cigars are defined in the Glossary herein.

TABLE 3

**CIGAR ADVERTISING AND PROMOTIONAL EXPENDITURES
FOR YEARS 1996 AND 1997
(IN THOUSANDS OF DOLLARS)**

Type of Advertising	1996		1997	
	Dollars	% of Total	Dollars	% of Total
Magazines	6,625.5	21.4%	9,878.0	24.1%
Newspapers	189.3	.6%	670.8	1.6%
Television Radio, Audiovisual	326.7	1.1%	324.8	.8%
Internet	78.4	.3%	218.4	.5%
Outdoor	35.0	.1%	50.5	.1%
Transit		0.0%		0.0%
Point of Sale	3,840.2	12.4%	5,232.5	13.0%
Coupons and Retail Value Added	3,911.7	12.7%	2,723.5	6.7%
Direct Mail	208.4	.7%	240.6	.6%
Endorsements and Product Placements	143.5	.5%	338.8	.8%
Promotional Allowances	12,360.0	40.0%	16,292.8	39.8%
Promotional Items	305.8	.9%	660.7	1.6%
Public Entertainment	692.3	2.2%	1,016.5	2.5%
Sampling	308.1	1.0%	422.7	1.0%
<u>All Other</u>	<u>1,888.0</u>	<u>6.1%</u>	<u>2,904.7</u>	<u>7.0%</u>
Total Expenditures	30,912.9	100.0%	40,975.4	100.1%*
Sports*	372.2	1.2%	378.0	.9%

* Total percentages may not be exact due to rounding.

** "Sports" includes all expenses (reported in any other category) in sponsoring or promoting sports activities or sports figures in connection with a sport. See Glossary.

TABLE 4
DOMESTIC MARKET SHARE OF TIPPED AND UNTIPPED VARIETIES

<u>Cigar Size</u>	<u>UNITS</u>		<u>DOLLARS</u>	
	<u>Tipped</u>	<u>Untipped</u>	<u>Tipped</u>	<u>Untipped</u>
<u>Little</u>				
1996	98.3%	1.7%	97.6%	2.4%
1997	98.5%	1.5%	97.7%	2.3%
<u>Medium</u>				
1996	59.0%	41.0%	55.3%	44.8%
1997	61.4%	38.6%	56.4%	43.6%
<u>Large</u>				
1996	1.4%	98.6%	.6%	99.4%
1997	1.3%	98.7%	.5%	99.5%

TABLE 5
DOMESTIC MARKET SHARE OF FLAVORED AND UNFLAVORED VARIETIES

<u>Cigar Size</u>	<u>UNITS</u>		<u>DOLLARS</u>	
	<u>Flavored</u>	<u>Unflavored</u>	<u>Flavored</u>	<u>Unflavored</u>
<u>Little</u>				
1996	83.4%	16.6%	84.7%	15.3%
1997	84.2%	15.8%	86.3%	13.7%
<u>Medium</u>				
1996	75.4%	24.6%	73.3%	26.7%
1997	68.2%	31.8%	64.7%	35.3%
<u>Large</u>				
1996	31.1%	68.9%	17.6%	82.4%
1997	16.4%	83.6%	7.8%	92.2%

TABLE 6
INDIVIDUAL CIGAR WEIGHTS BY PRODUCT SIZE CATEGORY

<u>Cigar Size</u>	<u>Average Weight of Individual Cigars (in gm)*</u>	<u>Weight Range</u>	<u>Std. Deviation</u>
<u>Little</u>			
1996	1.02	1.0 - 1.2	.06
1997	1.02	1.0 - 1.4	.06
<u>Medium</u>			
1996	3.96	1.4 - 8.0	1.44
1997	3.87	1.0 - 9.0	1.35
<u>Large</u>			
1996	7.95	3.0 - 31.0	2.25
1997	8.12	3.0 - 34.0	2.40

* Average weights are sales weighted.

TABLE 7

**DOMESTIC MARKET SHARE OF CIGARS CONTAINING RECONSTITUTED TOBACCO
(RECONSTITUTED TOBACCO USED IN ANY CIGAR COMPONENT)***

<u>Cigar Size</u>	<u>UNITS</u>		<u>DOLLARS</u>	
	<u>Reconstituted</u>	<u>No Reconstituted</u>	<u>Reconstituted</u>	<u>No Reconstituted</u>
<u>Little</u>				
1996	99.9%	.1%	99.3%	.7%
1997	99.9%	.1%	99.2%	.8%
<u>Medium</u>				
1996	99.2%	.8%	97.3%	2.7%
1997	98.7%	1.3%	95.6%	4.4%
<u>Large</u>				
1996	92.7%	7.3%	64.4%	35.6%
1997	90.3%	9.7%	53.5%	46.5%

* Cigars containing any amount of reconstituted tobacco in any component are included in the Reconstituted columns.

TABLE 8
DOMESTIC MARKET SHARE OF CIGARS CONTAINING HEAT CURED TOBACCO
(HEAT CURED TOBACCO USED IN ANY CIGAR COMPONENT)*

<u>Cigar Size</u>	<u>UNITS</u>		<u>DOLLARS</u>	
	<u>Heat Cured</u>	<u>Air Cured</u>	<u>Heat Cured</u>	<u>Air Cured</u>
<u>Little</u>				
1996	0.1%	99.9%	0.2%	99.8%
1997	0.1%	99.9%	0.3%	99.7%
<u>Medium</u>				
1996	26.7%	73.3%	24.2%	75.8%
1997	34.1%	65.9%	30.8%	69.2%
<u>Large</u>				
1996	3.4%	96.6%	5.5%	94.5%
1997	4.2%	95.8%	6.4%	93.6%

* Cigars containing any amount of heat cured tobacco in any component are included in the Heat Cured columns.

TABLE 9
CONSUMPTION OF LARGE AND SMALL CIGARS: 1960 to
1998
(millions of units)

Year	Small Cigars	Large Cigars	Total
1960	142	7,052	7,194
1961	146	7,038	7,184
1962	156	7,054	7,210
1963	264	7,282	7,546
1964	350	9,108	9,458
1965	435	8,641	9,076
1966	435	8,296	8,731
1967	430	8,096	8,526
1968	504	7,946	8,450
1969	728	7,968	8,696
1970	889	8,108	8,997
1971	1,083	7,861	8,944
1972	3,933	7,294	11,227
1973	4,334	6,969	11,303
1974	3,066	6,356	9,422
1975	2,892	5,804	8,696
1976	2,162	5,373	7,535
1977	1,854	4,994	6,848
1978	1,558	4,702	6,260
1979	1,441	4,304	5,745
1980	1,411	4,001	5,412
1981	1,364	3,893	5,257
1982	1,265	3,667	4,932
1983	1,334	3,605	4,939
1984	1,234	3,471	4,705
1985	1,218	3,197	4,415
1986	966	3,055	4,021
1987	1,154	2,728	3,882
1988	1,160	2,531	3,691
1989	1,141	2,470	3,611
1990	1,214	2,345	3,559
1991	1,292	2,246	3,538
1992	1,302	2,219	3,521
1993	1,271	2,138	3,409
1994	1,377	2,337	3,714
1995	1,397	2,568	3,965
1996	1,504	3,054	4,558
1997	1,587	3,551	5,138
1998	1,602	3,749	5,351

Source: USDA, Commodity Economics Division, Economic Research Service, Tobacco Situation and Outlook Report, (Apr. 1999)