



Federal Trade Commission

Cigarette Report

For 2004 and 2005

ISSUED: 2007

the price of cigarettes to consumers (*e.g.*, off-invoice discounts, buy downs, and voluntary price reductions), which accounted for expenditures of \$10.93 billion in 2004 (up f

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 categories.

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.

supra), which means that in 2004 and 2005, unlike in prior years, the companies did not report any “sports and sporting event” expenditures other than sponsorships.

In 2001, the Commission began requiring the major cigarette manufacturers to report expenditures on advertisements directed to youth or their parents that are intended to reduce youth smoking. For 2004, the companies reported spending \$62.7 million on such advertising, a decrease from the \$72.9 million spent in 2003.¹³ In 2005, they reported spending \$55.5 million. These figures do not include contributions to third parties that engage in such programs.

Cigarette manufacturers reported that they paid no money or other form of compensation in connection with the production or filming of any motion pictures or television shows in either 2004 or 2005, and that they paid no money or other form of compensation to anyone engaged in product placement in motion pictures or television shows. The companies also reported that neither they nor anyone working for them solicited the appearance of any cigarette product in any motion picture or television show, or granted permission for the appearance of any cigarette product in any motion picture or television show.

The data on cigarette “advertising and promotional” expenditures reported in Tables 2 through 2C were not collected in their present form until 1975. Therefore, Table 3 reports cigarette advertising expenditures from 1963 through 1974.

IV. TAR RATINGS, FILTERS, LENGTH, AND FLAVOR

Tables 4 and 4A give the domestic market share of cigarettes with tar ratings of 15 milligrams (mg.) or less for the years 1967 through 2005. The data for the years since 1982 are further broken down into sub-categories according to tar ratings, *e.g.*, 3 mg. or less, 6 mg. or less, etc. (categories are

¹³ These expenditures are not included in the \$14.15 billion and \$13.11 billion reported in Table 2C.

presented cumulatively). In 2004, cigarettes with tar ratings of 15 mg. or less constituted 84.8 percent of the domestic cigarette market, while cigarettes with tar ratings of 3 mg. or less – the lowest rated portion of the market – made up 0.8 percent of the market. In 2005, those figures were 83.5 percent and 0.6 percent, respectively.

As shown in Tables 5 and 5A, filtered cigarettes have dominated the market since the Commission began collecting this information in 1963. Filtered cigarettes held 99 percent of the market in both 2004 and 2005.

Table 6 provides the domestic market share of the various cigarette length categories. The King-size (79-88 mm.) category continues to be the biggest seller, with 62 percent of the market in both 2004 and 2005. This category is followed by the Long (94-101 mm.) group, which held 35 percent of the market in both years. Ultra-Long (110-121 mm.) and Regular (68-72 mm.) cigarettes accounted for two percent and one percent, respectively, of the market in both 2004 and 2005.

Table 7 gives the market share of menthol and non-menthol cigarettes. In 2004 and 2005, the market share of menthol cigarettes was 27 percent, while non-menthols held 73 percent of the market.

Tables 8 and 8A relate to whether “tar” ratings are displayed on cigarette packaging. Table 8A shows: (1) the percentage of the overall cigarette market represented by varieties with different tar ratings, and (2) within each tar group, the percentage of those varieties that discloses tar ratings on their packs.¹⁴ Table 8A shows that cigarette varieties that printed tar ratings on their packs represented only 1.2 percent of the overall market in 2004 and 0.9 percent in 2005.¹⁵ Cigarettes with

¹⁴ Prior to 2002, the Commission asked whether “tar and nicotine ratings” were displayed on cigarette packaging.

¹⁵ Table 8A also corrects several figures that were reported erroneously in prior Reports.

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 the

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TABLE 1A

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

	UNITS	TOTAL NUMBER	UNIT CHANGE IN SOLD AND GIVEN	PERCENT CHANGE IN SOLD AND GIVEN	USDA
_____	_____	_____	_____	_____	_____

TABLE 2

DOMESTIC

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	\$95,810	\$105,783	\$76,993	\$71,174	\$48,212	\$35,467	\$36,220	\$24,143	\$19,122

TABLE 2B

DOMESTIC CIGARETTE ADVERTISING AND PROMOTIONAL EXPENDITURES
FOR YEARS 1996-2001 (DOLLARS IN THOUSANDS)*

	1996	1997	1998	1999	2000	2001
Newspapers	\$14,067 0.3%	\$16,980 0.3%	\$29,444 0.4%	\$50,952 0.6%	\$51,652 0.5%	\$31,676 0.3%
Magazines	\$243,046 4.8%	\$236,950 4.2%	\$281,296 4.2%	\$377,364 4.6%	\$294,916 3.1%	\$172,853 1.5%
Outdoor	\$292,261 5.7%	\$295,334 5.2%	\$294,721 4.4%	\$53,787 0.7%	\$9,262 0.1%	\$8,241 0.1%
Transit	\$28,865 0.6%	\$26,407 0.5%	\$40,158 0.6%	\$5,573 0.1%	\$4 0.0%	\$0 0.0%
Point-of-Sale	\$252,619 4.9%	\$305,360 5.4%	\$290,739 4.3%	\$329,429 4.0%	\$347,038 3.6%	\$284,319 2.5%
Promotional Allowances	\$2,150,838 42.1%	\$2,438,468 43.1%	\$2,878,919 42.8%	\$3,542,950 43.0%	\$3,913,997 40.8%	\$4,452,709 39.7%
Sampling Distribution	\$15,945 0.3%	\$22,065 0.4%	\$14,436 0.2%	\$33,711 0.4%	\$22,330 0.2%	\$17,175 0.2%
Specialty Item Distribution	\$544,345 10.7%	\$512,602 9.6%	\$355,835 5.3%	\$335,680 4.1%	\$327,826 3.4%	\$333,394 3.0%
Public Entertainment	\$171,177 3.4%	\$195,203 3.4%	\$248,536 3.7%	\$267,379 3.3%	\$309,610 3.2%	\$312,366 2.8%
Direct Mail	\$38,703 0.8%	\$37,310 0.7%	\$57,772 0.9%	\$94,610 1.2%	\$92,902 1.0%	\$133,947 1.2%
Endorsements & Testimonials	\$0 0.0%	\$0 0.0%	\$0 0.0%	\$0 0.0%	\$0 0.0%	\$0 0.0%
Coupons		\$552,550 9.8%	\$624,199 9.3%	\$531,004 6.5%	\$705,299 7.4%	\$602,110 5.4%
Retail-Value-Added	\$1,308,708** 25.6%	\$970,363 17.1%	\$1,555,391 23.1%	\$2,559,883 31.1%	\$3,453,446 36.0%	\$4,761,792 42.5%
Internet	\$432 0.0%	\$215 0.0%	\$125 0.0%	\$651 0.0%	\$949 0.0%	\$841 0.0%
Other***	\$46,696 0.9%	\$50,207 1.0%	\$61,584 0.9%	\$54,658 0.7%	\$63,395 0.7%	\$104,797 0.9%
Total	\$5,107,700 100%	\$5,660,014 100%	\$6,733,157 100%	\$8,237,631 100%	\$9,592,627 100%	\$11,216,220 100%

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

** Prior to 1997, Coupons and Retail-Value-Added were reported as a single category.

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

TABLE 2C

DOMESTIC CIGARETTE ADVERTISING AND PROMOTIONAL EXPENDITURES
FOR YEARS 2002-2005 (DOLLARS IN THOUSANDS)*

	2002	2003	2004	2005
Newspapers	\$25,538 0.2%	\$8,251 0.1%	\$4,913 0.0%	\$1,589 0.0%
Magazines	\$106,852 0.9%	\$156,394 1.0%	\$95,700 0.7%	\$44,777 0.3%
Outdoor	\$24,192 0.2%	\$32,599 0.2%	\$17,135 0.1%	\$9,821 0.0%
Transit	\$0 0.0%	\$0 0.0%	\$0 0.0%	\$0 0.0%
Point-of-Sale	\$260,902 2.1%	\$165,573 1.1%	\$163,621 1.2%	\$182,193 1.4%
Price Discounts	\$7,873,835 63.2%	\$10,808,239 71.4%	\$10,932,199 77.3%	\$9,776,069 74.6%
Promotional Allowances – Retailers	\$1,333,097 10.7%	\$1,229,327 8.1%	\$542,213 3.8%	\$435,830 3.3%
Promotional Allowances – Wholesalers	\$446,327 3.6%	\$683,067 4.5%	\$387,758 2.7%	\$410,363 3.1%
Promotional Allowances – Other	\$2,767 0.0%	\$2,786 0.0%	\$1,323 0.0%	\$1,493 0.0%
Sampling Distribution	\$28,777 0.2%	\$17,853 0.1%	\$11,649 0.0%	\$17,211 0.1%
Specialty Item Distribution – Branded	\$49,423 0.4%	\$9,195 0.1%	\$8,011 0.0%	\$5,255 0.0%
Specialty Item Distribution - Non-Branded	\$174,201 1.4%	\$254,956 1.7%	\$216,577 1.5%	\$225,279 1.7%
Public Entertainment – Adult-Only	\$219,016 1.8%	\$150,889 1.0%		

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					

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 5

DOMESTIC MARKET SHARE OF FILTER
AND NON-FILTER CIGARETTES

<u>YEAR</u>	<u>NON-FILTER</u>	<u>FILTER</u>	<u>CHARCOAL</u>	<u>NON-CHARCOAL</u>
1963	42%	58%	*	*
1964	39%	61%	*	*
1965	36%	64%	*	*
1966	32%	68%	*	*
1967	28%	72%	*	*
1968	26%	74%	6%	68%
1969	23%	77%	6%	71%
1970	20%	80%	6%	74%
1971	18%	82%	6%	76%
1972	16%	84%	6%	87%
1973	15%	85%	5%	80%
1974	14%	86%	5%	81%
1975	13%	87%	5%	82%
1976	12%	88%	4%	84%
1977	10%	90%	4%	86%
1978	10%	90%	3%	87%
1979	9%	91%	3%	88%
1980	8%	92%	3%	89%
1981	8%	92%	2%	90%
1982	7%	93%	2%	91%
1983	7%	93%	2%	91%
1984	7%	93%	2%	91%

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%
1985	28%	72%
1986	28%	72%
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%	

TABLE 8A					
DISCLOSURE OF TAR RATINGS ON CIGARETTE PACKS (2002-2005)					
		2002	2003	2004	2005
% of overall market that discloses ratings on the pack		1.4% *	1.2%	1.2%	0.9%
more than 15 mg. tar	market share of varieties in tar group	15.1%	15.1%	15.2%	16.5%
	% that discloses ratings on pack	0.0%	0.0%	0.0%	0.0%
12-15 mg. tar	market share of varieties in tar group	28.8%	28.9%	30.3%	28.3%
	% that discloses ratings on pack	0.0%	0.0%	0.0%	0.0%
8-11 mg. tar	market share of varieties in tar group	43.0% *	43.2% *	42.5%	43.3%
	% that discloses ratings on pack	0.9%	0.8% *	0.7%	0.6%
4-7 mg. tar	market share of varieties in tar group	12.2%	12.0%	11.2%	11.3%
	% that discloses ratings on pack	1.8%	1.5%	1.5%	1.2%
3 mg. tar or less	market share of varieties in tar group	0.9% *	0.8% *	0.8%	0.6%
	% that discloses ratings on pack	88.7% *	89.9% *	91.6%	90.7%

* These figures were reported erroneously in the Commission's previous report.

APPENDIX A

2004-2005 Advertising and Promotional Expenditure Categories

Newspapers: Newspaper advertising; but excluding expenditures in connection with sampling, specialty item distribution, public entertainment, endorsements, sponsorships, coupons, and retail-value-added.

Magazines: Magazine advertising; but excluding expenditures in connection with sampling, specialty item distribution, public entertainment, endorsements, sponsorships, coupons, and retail-value-added.

Outdoor: Billboards; signs and placards in arenas, stadiums, and shopping malls, whether they are open air or enclosed; and any other advertisements placed outdoors, regardless of their size, including those on cigarette retailer property; but excluding expenditures in connection with sampling, specialty item distribution, public entertainment, endorsements, sponsorships, coupons, and retail-value-added.

Audio-visual: Audio-visual or video advertising on any medium of electronic communication not subject to the Federal Communications Commission's jurisdiction, including screens at motion picture theaters, video cassettes, and monitors in stores; but excluding expenditures in connection with Internet advertising.

Transit: Advertising on or within private or public vehicles and all advertisements placed at, on or within any bus stop, taxi stand, transportation waiting area, train station, airport, or any other transportation facility; but excluding expenditures in connection with sampling, specialty item distribution, public entertainment, endorsements, sponsorships, coupons, and retail-value-added.

Point-of-Sale: Point-of-sale advertisements; but excluding expenditures in connection with outdoor advertising, sampling, specialty item distribution, public entertainment, endorsements, sponsorships, coupons, and retail-value-added.

Price discounts: Price discounts paid to cigarette retailers or wholesalers in order to reduce the price of cigarettes to consumers, including off-invoice discounts, buy downs, voluntary price reductions, and trade programs; but excluding retail-value-added expenditures for promotional purposes but excluding r Tm(:)Tj0.778 0

visual, transit, direct mail, point-of-sale, price discounts, and
