Tobacco benefits from cigarette tax hikes

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Growth of RYO (roll-your-own) tobacco is experiencing a surge in Western Europe, as rising cigarette prices encourage smokers to switch from cigarettes to RYO tobacco, according to a new report from Euromonitor International â€“ â€œThe World Market for Tobaccoâ€•.

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The smoking tobacco sector, which only accounts for approximately 5% of the Western European tobacco industry, has now become one of the fastest growing sectors after cigars. Euromonitor International's research shows that between 1999 and 2004, smoking tobacco in Western Europe gained 13% in volume sales; whereas, volume sales of cigarettes shrank by 4%.

Tax hikes filter through Western Europe
Western Europeans are switching to lower priced RYO smoking tobacco, largely as a result of significant increases in taxes and duties on cigarettes in the region. EU directives set in 2002, required EU accession countries to harmonise their tax structures, which resulted in a massive increase in the average price of cigarettes across the board, with the Baltic countries hit the hardest.

Tax hikes in France and Germany over 2003-2004 further impacted the region's smoking habits, as rising prices encouraged more and more consumers to switch from cigarettes to RYO tobacco. In Germany, the largest smoking tobacco market, RYO tobacco experienced impressive growth of 10.6% between 2003-2004; whereas, cigarettes saw a volume decline of 12.8% between 2003-2004, from a decline of only 3.9% in 2002-2003, according to Euromonitor International.

The strong performance of RYO tobacco in the UK, which grew by an average of 5.3% between 1999-2004, also coincided with tax increases in the country. However, the widespread consumer perception that RYO tobacco is a chemical and additive-free alternative to cigarettes also helped to propel volume growth in the segment.

RYO tobacco in Spain saw phenomenal growth of 239% over the 1999-2004 period, equivalent to an additional 1.2 million tonnes. In Spain, price constitutes the primary driver for RYO tobacco volume growth, and at its relatively cheaper price than cigarettes, RYO tobacco is attracting more and more smokers, particularly young ones. Tax hikes were not solely responsible for the shift towards RYO tobacco, however. Increasing prices of other leisure activities in Spain has also pushed price sensitive smokers towards cheaper RYO tobacco, in order to reduce their overall expenses.

The future of RYO tobacco
RYO tobacco is in many countries, considered to be a cheap alternative to cigarettes, and the sector will continue to grow in Western Europe, as cigarette prices increasingly rise beyond the means of many smokers. Euromonitor International forecasts that smoking tobacco in the region will average 1.4% volume growth per year between 2004-2009. Volume sales of cigarettes, on the other hand, will decline by an average rate of 2.1% per year between 2004-2009.

In the next five years, RYO tobacco will also continue to benefit from growing health concerns, as legislation intensifies in the form of health warnings and the trend towards lower tar cigarettes. The degree of control afforded to smokers in terms of the amount of tobacco they can put in each RYO cigarette will continue to persuade a number of smokers that RYO tobacco is a healthier alternative to cigarettes in addition to a cheaper one.

â€œThe World Market for Tobaccoâ€• is a new report from Euromonitor International. It offers a comprehensive guide to the size and shape of the market at an international level. It provides the latest retail sales data, allowing you to identify the sectors driving growth. It identifies the leading companies, the leading brands and offers strategic analysis of key factors influencing the market - be they new product developments, packaging innovations, economic/lifestyle influences, distribution or pricing issues. Forecasts illustrate how the market is set to change.

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