Smoking Tobacco

January 2012

LIST OF CONTENTS AND TABLES

Smoking Tobacco in Israel - Category analysis 1
Headlines 1
Trends 1
the Role and Effect of Cannabis/mar juana. 2
Distribution 3
Competitive Landscape 3
New Product Developments 4
Prospects 4
Category Data 4
Table 1 Sales of Smoking Tobacco by Category: Volume 2005-2010 4
Table 2 Sales of Smoking Tobacco by Category: Value 2005-2010. 4
Table 3 Sales of Smoking Tobacco by Category: % Volume Growth 2005-2010 5
Table 4 Sales of Smoking Tobacco by Category: % Value Growth 2005-2010 5
Table 5 Company Shares of RYO Tobacco 2006-2010. 5
Table 6 Brand Shares of RYO Tobacco 2007-2010. 5
Table 7 Company Shares of Pipe Tobacco 2006-2010 6
Table 8 Brand Shares of Pipe Tobacco 2007-2010 6
Table 9 Sales of Smoking Tobacco by Distribution Format: % Analysis 2005-2010 6
Table 10 Forecast Sales of Smoking Tobacco by Category: Volume 2010-2015 7
Table 11 Forecast Sales of Smoking Tobacco by Category: Value 2010-2015 7
Table 12 Forecast Sales of Smoking Tobacco by Category: % Volume Growth 2010-2015 7
Table 13 Forecast Sales of Smoking Tobacco by Category: % Value Growth 2010-2015 8

Smoking Tobacco in Israel - Company Profiles 9
Devidas Group Ltd in Tobacco (israel) 9
Strategic Direction 9
Key Facts. 9
Summary 1 Devidas Group Ltd: Key Facts 9
Company Background. 9
Production 9
Competitive Positioning. 10
Summary 2 Devidas Group Ltd: Competitive Position 2010. 10

Tobacco in Israel - Industry Overview 11
Executive Summary 11
Tobacco Witnesses Strong Retail Value Sales Growth in 2010 11
New Legislation Increases Cigarette Taxation in 2010 11
Local Manufacturer Dubek Witnesses the Largest Decline in Retail Volume Sales Share in 2010 11
Vending Machines Are Expected To Slowly Disappear From Tobacco in Israeli. 11
Retail Value Sales Are Expected To See Positive Growth Over the Forecast Period. 11
Operating Environment 12
Legislative Overview/ Fctc Ratification 12

Summary 3 Legislation Summary at a Glance ... 14
Minimum Legal Smoking Age ... 15
Smoking Prevalence ... 15
Table 14 Smoking Prevalence in Adult Population 2005-2010 ... 16
Table 15 Number of Smokers by Gender 2005-2010 ... 16
Tar Levels ... 17
Health Warnings ... 17
Advertising & Sponsorship ... 17
Point-of-sale Display Bans ... 18
Smoking in Public Places ... 18
Electronic Cigarettes ... 19
Litigation ... 19
Death by Cause ... 20
Table 16 Death by Cause 2005-2010 ... 20
Taxation and Pricing ... 21
Duty Paid Packet Marks ... 21
Taxation Rates ... 21
Table 17 Taxation and Duty Levies 2005-2010 ... 21
Average Cigarette Pack Price Breakdown ... 22
Table 18 Average Cigarette Pack Price Breakdown: Brand Examples 2010 ... 22
Production/imports/exports ... 22
Table 19 Production/Imports/Exports 2005-2010 ... 23
Illicit Trade in Cigarettes ... 23
Market Indicators ... 23
Table 20 Illicit Trade Estimate of Cigarettes by Volume 2005-2010 ... 23
Market Data ... 24
Table 21 Sales of Tobacco by Category: Volume 2005-2010 ... 24
Table 22 Sales of Tobacco by Category: Value 2005-2010 ... 24
Table 23 Sales of Tobacco by Category: % Volume Growth 2005-2010 ... 24
Table 24 Sales of Tobacco by Category: % Value Growth 2005-2010 ... 25
Table 25 Forecast Sales of Tobacco by Category: Volume 2010-2015 ... 25
Table 26 Forecast Sales of Tobacco by Category: Value 2010-2015 ... 25
Table 27 Forecast Sales of Tobacco by Category: % Volume Growth 2010-2015 ... 25
Table 28 Forecast Sales of Tobacco by Category: % Value Growth 2010-2015 ... 26
Definitions ... 26
Summary 4 Research Sources ... 26

SMOKING TOBACCO IN ISRAEL - CATEGORY ANALYSIS

HEADLINES

- Retail volume sales see growth of 9% in 2010 to reach 120 million units
- In 2010, organic RYO tobacco gains popularity, as consumers seek better-for-you tobacco products
- While the average unit price of RYO tobacco decreases by 6% in current value terms in 2010, that of pipe tobacco increases marginally
- Nakhla Tobacco remains the leading distr butor in 2010, in accounting for a retail volume sales of 47%
- Retail volume sales of smoking tobacco are expected to see a CAGR of 6% over the forecast period to reach 162 million units in 2015

TRENDS

- Israeli water pipes (nargila) are traditionally popular in Israel. The Israeli population is influenced by neighbouring Arab countries in many different industries, such as packaged food, drinks and tobacco. Different flavoured water pipe tobacco products are highly popular among younger consumers in Israel, and until quite recently such items were available in certain pubs and cafés. Water pipes are popular mostly among Jewish Israelis aged under 30 and Arab-Israelis of all ages. In general, the Israeli population is unaware of the dangerous impacts of water pipes. In 2010, a new research study was conducted by the Rambam Hospital, which found that half an hour of water pipe smoking results in serious lung damage, increased blood pressure and pulse rate, and a decrease in blood oxygen levels.
- Not much change was seen in 2010 in terms of new trends. Smoking tobacco continued to witness impressive performance in 2010, with retail volume and value sales registering growth of 9% and 8%, respectively. ROY tobacco continued to see the most dynamic retail volume and value sales growth of 25% and 18%, due to the burgeoning desire of Israeli consumers to switch to healthier tobacco products and the increasing attractiveness of ROY tobacco in light of increasing cigarette prices.
- In 2009, Esh-Li Cigars and Tobacco launched Domingo, a new 100% organic RYO tobacco brand. This new organic brand was in line with the growing health trend in Israel, whereby consumers were seeking healthier products relating to all areas of their lifestyles, including tobacco products. In 2010, organic and natural RYO tobacco saw increasing demand and increased presence. Two main indicators of this growing trend towards organic products were seen in 2010, namely the rise in demand for more organic complimentary products, such as rolling paper, and the growing number of organic and more natural brands which retailers stocked. For example, brands such as Manitou and Bali Nature had a stronger presence in Israel in 2010.
- Smoking tobacco saw retail volume sales growth of 9% in 2010, much faster than the CAGR of 5% recorded over the review period. This was driven by the strong performance seen by RYO tobacco, which served to boost the performance of smoking tobacco overall.

- Smoking tobacco saw retail value sales growth of 8% in 2010, compared to the CAGR of 7% seen over the review period. Despite the significant decline seen in the average unit price of RYO tobacco in 2010, much stronger retail volume sales growth than in previous review period years boosted retail value sales performance.
- The average unit price of RYO tobacco decreased by 6% in current value terms to NIS1,044 per kg in 2010. This resulted from intensifying competition, as more brands were made available and retailers lowered their prices in order to attract consumers.
- Water pipe tobacco remained significantly cheaper than RYO tobacco and pipe tobacco.
- According to a survey conducted by the Israel Anti-Drug Authority in 2008, 27% of students aged between 12 and 18 had smoked a water pipe in the month prior to the survey. Meanwhile, some 57% of those aged between 12 and 18 not studying in a formal structure had smoked water pipes in the previous month. According to a survey conducted by the Israeli parliament, 30-40% of all students smoke water pipes. As water pipe smoking is very popular in Israel, the range of different product types available is very wide in terms of water pipe sizes, as well as tobacco and coals for use with water pipes. In addition, accessories, such as special pipes and water pipe heads of different shapes and sizes, are available.

the Role and Effect of Cannabis/marijuana

- While cannabis/marijuana is illegal in Israel, it is widely available and becoming increasingly popular. However, in 2009, the Israeli parliament authorised the use of cannabis/marijuana for medical purposes. This was the first time in Israel that cannabis/mar juana smoking had been legally permitted within Israeli hospitals and at home for specific medical purposes. In 2010, some 4,500 Israelis were permitted to use cannabis for medical purposes, 22 of whom were children or teens. These people were permitted to either grow cannabis/marijuana themselves or purchase it from a certified grower. The Ministry of Health has issued five cannabis/marijuana growing licenses to local growers. The Israeli parliament is discussing methods to regulate this new law.

DISTRIBUTION

- Newsagent-tobacconists/kiosks remained the leading channel for smoking tobacco in Israel in 2010, in accounting for a retail volume sales share of 42%. Newsagent-tobacconists/kiosks remained a highly favoured distr bution channel amongst younger Israeli consumers, with an estimated 2,500 kiosks in Israel in 2010. While this channel targets all audiences, a special emphasis is placed on smokers, as such outlets stock a wide range of tobacco products and also sell single cigarettes to meet the demands of those trying to quit or those who do not wish to purchase a pack. Independent small grocers was the second ranked distribution channel, with a 24% share of retail volume sales in 2010. Independent small grocers witnessed a slight decline in retail volume sales share in 2010, mainly as a result of the improved performance seen by forecourt retailers. In 2010, forecourt retailers continued to witness impressive outlet expansion, with an estimated 75 new outlets opened.

COMPETITIVE LANDSCAPE

- Nakhla Tobacco remained the leading distributor of smoking tobacco in Israel in 2010, in accounting for a retail volume sales share of 47%. Following was Devidas Group on a retail volume sales share of 40%. Nakhla Tobacco remained the leading player in pipe tobacco in 2010, in accounting for a retail volume sales share of 67%.

NEW PRODUCT DEVELOPMENTS

- Two main trends drove product innovation and sales within smoking tobacco in Israel in 2010, namely growing demand for more natural and organic products, and the rising unit price of cigarettes. Despite the fact that no significant new product launches or campaigns were seen in smoking tobacco in 2010, stronger demand was witnessed for such products, particularly for RYO tobacco. Since the launch of Domingo in 2009, demand for more natural and organic RYO tobacco has been on the rise, as more consumers switched to better-for-you tobacco products. Leading retail channels also began to stock a wider variety of such products. In addition, the ongoing increase in the unit price of cigarettes had a strong impact on demand for smoking tobacco, particularly as less expensive economy cigarette brands became less attractive in 2010.

PROSPECTS

- Over the forecast period, RYO tobacco is expected to continue to attract smokers away from cigarettes, due to being increasingly fashionable, as well presenting an attractive option to more price-sensitive consumers. Over the forecast period, more Israeli smokers are expected to smoke RYO tobacco, due to it being considered a relatively healthy, as well as more affordable, option compared to cigarettes. In addition, demand for more natural and organic RYO tobacco is expected to continue to grow over the forecast period, while new product launches are expected as players look to meet this demand.

CATEGORY DATA

Table 1 Sales of Smoking Tobacco by Category: Volume 2005-2010

Tonnes

	2005	2006	2007	2008	2009	2010
RYO Tobacco						
Pipe Tobacco						
Smoking Tobacco						

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

Table 2 Sales of Smoking Tobacco by Category: Value 2005-2010

NIS million	2005	2006	2007	2008	2009	2010
RYO Tobacco						
Pipe Tobacco						
Smoking Tobacco						

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

Table 3 Sales of Smoking Tobacco by Category: % Volume Growth 2005-2010

% volume growth	2009/10	2005-10 CAGR	2005/10 Total
RYO Tobacco			
Pipe Tobacco			
Smoking Tobacco			

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

Table 4 Sales of Smoking Tobacco by Category: % Value Growth 2005-2010

% current value growth	2009/10	2005-10 CAGR	2005/10 Total
RYO Tobacco			
Pipe Tobacco			
Smoking Tobacco			

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

Table 5 Company Shares of RYO Tobacco 2006-2010

% retail volume Company	2006	2007	2008	2009	2010
Total	100.0	100.0	100.0	100.0	100.0

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

Table 6 Brand Shares of RYO Tobacco 2007-2010

% retail volume Brand	Company	2007	2008	2009	2010

Total	100.0	100.0	100.0	100.0

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

Table 7 Company Shares of Pipe Tobacco 2006-2010

% retail volume

Company	2006	2007	2008	2009	2010
Total	100.0	100.0	100.0	100.0	100.0

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

Table 8 Brand Shares of Pipe Tobacco 2007-2010

% retail volume

Brand	Company	2007	2008	2009	2010
Total		100.0	100.0	100.0	100.0

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

Table 9 Sales of Smoking Tobacco by Distribution Format: % Analysis 2005-2010

% retail volume

	2005	2006	2007	2008	2009	2010
Store-Based Retailing						
- Grocery Retailers						
- - Supermarkets/ Hypermarkets						
- - Discounters						
- - Small Grocery Retailers						
- - - Convenience Stores						
- - - Independent Small Grocers						
- - - Forecourt Retailers						
- - Food/drink/tobacco specialists						
- - - Food/drink specialists						

- - - Tobacco specialists						
- - Other Grocery Retailers						
- - - Newsagent-tobacconists/kiosks						
- - - Street vendors						
- Non-Grocery Retailers						
- - Department Stores						
- - Parapharmacies/ Drugstores						
- - Other Non-Grocery Retailers						
Non-Store Retailing						
- Vending						
- Internet Retailing						
Non-retail channels						
- Bar-tobacconists						
- Hotels/restaurants/bars						
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

Table 10 Forecast Sales of Smoking Tobacco by Category: Volume 2010-2015

Tonnes

	2010	2011	2012	2013	2014	2015
RYO Tobacco						
Pipe Tobacco						
Smoking Tobacco						

Source: Euromonitor International from trade associations, trade press, company research, trade interviews, trade sources

Table 11 Forecast Sales of Smoking Tobacco by Category: Value 2010-2015

NIS million

	2010	2011	2012	2013	2014	2015
RYO Tobacco						
Pipe Tobacco						
Smoking Tobacco						

Source: Euromonitor International from trade associations, trade press, company research, trade interviews, trade sources

Table 12 Forecast Sales of Smoking Tobacco by Category: % Volume Growth 2010-2015

% volume growth

	2014/15	2010-15 CAGR	2010/15 Total
RYO Tobacco			
Pipe Tobacco			
Smoking Tobacco			

Source: Euromonitor International from trade associations, trade press, company research, trade interviews, trade sources

Table 13 Forecast Sales of Smoking Tobacco by Category: % Value Growth 2010-2015

% constant value growth

	2010-15 CAGR	2010/15 TOTAL
RYO Tobacco		
Pipe Tobacco		
Smoking Tobacco		

Source: Euromonitor International from trade associations, trade press, company research, trade interviews, trade sources

SMOKING TOBACCO IN ISRAEL COMPANY PROFILES

DEVIDAS GROUP LTD IN TOBACCO (ISRAEL)

strategic Direction

~ Devidas Group Ltd targets high-end consumers with its premium product portfolio. Its main goal is to improve the shopping experience and smoking culture of its consumers. Smoking accessories, humidors, and limited editions of premium and super premium brands are among the added-value products that the company offers its consumers.

Key Facts

Summary 1 Devidas Group Ltd: Key Facts

Full name of company:	Devidas Group Ltd
Address:	8 Hamenofim, Hertzliya, Israel
Tel:	+972 (2) 622 2722
Fax:	+972 (2) 622 2633
www:	www.cigar.co.il
Activities:	Importer of premium tobacco products, specialising in cigars

Source: EuromonitorInternationalfrom companyreports, companyresearcn, trade press, trade sources

Company Background

~ Devidas Group was established in 1974 by the Devidas family. Its main activities are the importation of premium and super premium tobacco products, particularly cigars. At the end of the review period, the company was managed by Moshe Devidas and his son Eyal Devidas.

~ Since the company was formed, its main activity has been the importation and distribution of a wide variety of tobacco products, including cigarettes, smoking tobacco, cigars and other smoking devices. The main cigarette brands imported by the company are Davidoff, Golden Gate and Prima, while the main cigar brands are Cohiba, Montecristo and Romeo y Julieta.

~ Devidas Group owns and operates three retail outlets in Israel, which are located in Tel Aviv, Jerusalem and Hertzliya, where its headquarters are located.

~ It launched a new superslim cigarette product under the Davidoff brand in mid-2009.

Production

~ The company does not manufacture any tobacco products and is only responsible for importing, marketing and distribution.

Competitive Positioning

- ~ Devidas' main strength lies in cigars, where it is dominates the premium price band, due to having exclusive marketing and distr bution lights for Corporaclon Habanos' brands. In 2010, the company ranked second in cigars in terms of retail volume sales share, but was the leading player in terms of retail value sales share. The company saw a significant decline in retail volume sales share over the review period, due to the increasing popularity of economy cigars.
- ~ Devidas also markets premium cigarettes, RYO tobacco, pipe tobacco and cigarillos. In addition, the company operates three retail outlets in prestigous locations. This gives the company a unique position in tobacco in Israel as a premium marketer, and enables it to provide an advanced shopping experience, including lectures and VIP smoking rooms, amongst other things.
- ~ The company ranked second in smoking tobacco in 2010. Devidas led RYO tobacco in 2010, in accounting for a retail volume sales share of 90%. Over the review period, the company saw a significant gain in retail volume sales share in RYO tobacco, due to the strong performance of its leading brands Drum and Golden Virginia.

Summary 2 Devidas Group Ltd: Competitive Position 2010

Product type	Volume share	Rank
Cigarettes	0.5%	4
Cigars excluding cigarillos	23.4%	2
Smoking tobacco	39.5%	2

Source: EuromonitorInternationalfrom companyreports, companyresearch, trade press, trade sources, trade interviews

TOBACCO IN ISRAEL - INDUSTRY OVERVIEW

EXECUTIVE SUMMARY

Tobacco Witnesses Strong Retail Value Sales Growth in 2010

Tobacco in Israel witnessed healthy retail value sales growth in 2010. This was largely due to two main reasons, namely the stable growth of smokers in 2010 with insignificant decreases in the number of existing smokers, alongside a significant increase in the tax on cigarettes, which served to increase unit prices dramatically. As cigarettes remained the largest tobacco category, significant unit price increases, coupled with stagnant retail volume sales growth, helped drive the development of tobacco as a whole in 2010.

New Legislation Increases Cigarette Taxation in 2010

Tobacco products remained subject to high taxation rates in Israel in 2010. In July 2010, the tax on cigarettes was raised once again, following the previous tax hike in April 2009. In July 2010, the tax on cigarettes included an ad valorem excise duty of 260.6% on the price to retail, which means that for every NIS1for the importer out of the price to retail, an excise tax of NIS2.606 is charged. This ad valorem tax is in addition to the fixed tax of NIS214.5 per 1,000 sticks (NIS4.29 a pack). This new law affects all parties: importers and distributors, manufacturers and retailers, as well as the consumer. It is important to mention that there is a minimum tax of NIS475 per 1,000 sticks or NIS9.50 per pack.

Local Manufacturer Dubek Witnesses the Largest Decline in Retail Volume Sales Share in 2010

Dubek, the only local tobacco manufacturer in Israel, tends to carry a wide variety of local and imported economy brands. In 2010, economy cigarettes suffered a drastic decrease in retail volume sales, as consumers who previously smoked lower-end economy brands traded up to higher quality, upper-economy and mid-priced brands, mainly Next, Pall Mall and Winston. This had a significant negative impact on Dubek's performance.

Vending Machines Are Expected To Slowly Disappear From Tobacco in Israeli

In late 2010, the Economic Affairs Committee of the Israeli Knesset approved the first reading of the proposed law to restrict the sale of cigarettes through vending machines in Israel. This new law is meant to further protect underage teens from smoking. The new law is set to come into force in 2013. This in turn is expected to have an impact on the distribution of cigarettes in Israel in the years following its introduction.

Retail Value Sales Are Expected To See Positive Growth Over the Forecast Period

Tobacco in Israel is projected to see an ongoing decline in retail volume sales over the forecast period, driven by further declines in the country's smoking population. In addition, tough anti-tobacco legislation, such as the new ban on vending, coupled with further tax increases to discourage the purchasing of tobacco products, is also expected to weaken demand. However, retail value sales are expected to continue to see positive growth over the forecast period, driven by price increases.

OPERATING ENVIRONMENT

Legislative Overview/ Fctc Ratification

Summary 1 Legislation Summary at a Glance

A	B	C	D	E	F	G	H	
FCTC ratification (year)	Minimum smokingage (years)	Tar cap (max mg)	Verbal pack health warning	Graphic pack health warning	Advertising ban or restriction	Retail point-of-sale restrictions	Public smoking ban	Restaur *anti* bars public srnoking ban
Yes (2005)	18	No	Yes	No	Yes	Yes	Yes	Yes

Source: Euromonitor International

Minimum Legal Smoking Age

-
-

Smoking Prevalence

-
-
-
-
-
-

Table 1 Smoking Prevalence in Adult Population 2005-2010

% adult population	2005	2006	2007	2008	2009	2010
Adult Male Population						
Adult Female Population						
Total Adult Population						

Source Euromonitor International from national statistics
Note Definition of adult smokers: daily smokers who are older than the minimum legal smoking age in the country

Table 2 Number of Smokers by Gender 2005-2010

000	2005	2006	2007	2008	2009	2010

Male No of Smokers
Female No of Smokers
Total No of Smokers

Source: Calculated using above % prevalence and Euromonitor International Country Population Data

Tar Levels

▪

▪

Health Warnings

▪

▪

▪

Advertising & Sponsorship

Advertising through media

▪

Advertising through retail point-of-sale

Sponsorship of sporting/music events

Distribution of tobacco branded gifts

Point-of-sale Display Bans

- There is currently no point-of-sale (POS) ban in Israel regarding tobacco products.

Smoking in Public Places

Electronic Cigarettes

Litigation

Death by Cause

Table 3 Death by Cause 2005-2010

Deaths per 100,000 inhabitants

	2005	2006	2007	2008	2009	2010
Diseases of the respiratory system						
Ischaemic heart disease						
Trachea bronchus and lung						
Death from smoking related diseases						

Source: Official statistics

TAXATION AND PRICING

Duty Paid Packet Marks

▪

Taxation Rates

▪

▪

▪

▪

▪

Table 4 Taxation and Duty Levies 2005-2010

	2005	2006	2007	2008	2009	2010
Ad valorem excise						
Specific taxes						
VAT/sales taxes						

Source: Official statistics

Average Cigarette Pack Price Breakdown

Table 5 Average Cigarette Pack Price Breakdown: Brand Examples 2010

Price in NIS

	NIS	Premium Mar boro %	NIS	Mid-Priced L&M %	NIS	Economy LD %
Manufacturer						
Retailer						
Specific tax						
AD V						
VAT						
Total tax						
End Price						

Source: Trade Interviews

PRODUCTION/IMPORTS/EXPORTS

Table 6 Production/Imports/Exports 2005-2010

Million sticks

	2005	2006	2007	2008	2009	2010
Cigarettes - Production						
Cigarettes - Import						
Cigarettes - Export						

Source: Euromonitor International from national sta istics

Illicit Trade in Cigarettes

-
-
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-
-
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MARKET INDICATORS

Table 7 Illicit Trade Estimate of Cigarettes by Volume 2005-2010

million sticks

	2005	2006	2007	2008	2009	2010

Legal sales	
Illicit trade	
% penetration of illicit trade	
Actual consumption	

Source: Euromonitor International from official statistics, trade associations, trade interviews

MARKET DATA

Table 8 Sales of Tobacco by Category: Volume 2005-2010

	2005	2006	2007	2008	2009	2010
Cigarettes (million sticks)						
Cigars (million units)						
Smoking Tobacco (Tonnes)						
Smokeless Tobacco (Tonnes)						
Tobacco (Not calculable)						

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

Table 9 Sales of Tobacco by Category: Value 2005-2010

NIS million

	2005	2006	2007	2008	2009	2010
Cigarettes						
Cigars						
Smoking Tobacco						
Smokeless Tobacco						
Cigarettes Including RYO Stick Equivalent						
Tobacco						

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

Table 10 Sales of Tobacco by Category: % Volume Growth 2005-2010

% volume growth

	2009/10	2005-10 CAGR	2005/10 Total
Cigarettes			
Cigars			
Smoking Tobacco			
Smokeless Tobacco			
Tobacco			

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

Table 11 Sales of Tobacco by Category: % Value Growth 2005-2010

% current value growth

	2009/10	2005-10 CAGR	2005/10 Total
Cigarettes			
Cigars			
Smoking Tobacco			
Smokeless Tobacco			
Cigarettes Including RYO Stick Equivalent			
Tobacco			

Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

Table 12 Forecast Sales of Tobacco by Category: Volume 2010-2015

	2010	2011	2012	2013	2014	2015
Cigarettes (million sticks)						
Cigars (million units)						
Smoking Tobacco (Tonnes)						
Smokeless Tobacco (Tonnes)						
Tobacco (Not calculable)						

Source: Euromonitor International from trade associations, trade press, company research, trade interviews, trade sources

Table 13 Forecast Sales of Tobacco by Category: Value 2010-2015

NIS million

	2010	2011	2012	2013	2014	2015
Cigarettes						
Cigars						
Smoking Tobacco						
Smokeless Tobacco						
Cigarettes Including RYO Stick Equivalent						
Tobacco						

Source: Euromonitor International from trade associations, trade press, company research, trade interviews, trade sources

Table 14 Forecast Sales of Tobacco by Category: % Volume Growth 2010-2015

% volume growth

	2014/15	2010-15 CAGR	2010/15 Total
Cigarettes			
Cigars			
Smoking Tobacco			
Smokeless Tobacco			
Tobacco			

Source: Euromonitor International from trade associations, trade press, company research, trade interviews, trade sources

Table 15 Forecast Sales of Tobacco by Category: % Value Growth 2010-2015

% constant value growth

	2010-15 CAGR	2010/15 TOTAL
Cigarettes		
Cigars		
Smoking Tobacco		
Smokeless Tobacco		
Cigarettes Including RYO Stick Equivalent		
Tobacco		

Source: Euromonitor International from trade associations, trade press, company research, trade interviews, trade sources

DEFINITIONS

This report analyses the market for tobacco in Israel. For the purposes of the study, the market has been defined as follows:

~ Cigarettes

~ Cigars

~ Smoking tobacco

~ Smokeless tobacco

Sources used during the research included the following:

Summary 2 Research Sources

Official Sources	Central Bureau of Statistics (CBS)
	Chamber of Commerce
	Israel Anti-drug Authority
	Israel Customs in Brussels
	Israeli Chamber of Commerce
	Ministry of Education, Culture & Sport
	Ministry of Health
	Ministry of Industry & Trade
	The Israel Cancer Association
	The Ministry of Health
	United States Department of Agriculture (USDA) Foreign Agricultural Service (FAS)
	World Trade Organization
Trade Associations	Calcalist
	International Tobacco Growers' Association
	Israel Export & Intemation Coorporation Institute

Trade Press	Arutz Sheva
	Cigar Magazine
	Globes on-line
	Haaretz
	Info Prod Research (Middle East)
	News First Class
	NRG
	TakdJnet
	The Jerusalem Post
	Tobacco JoumalIntemational
	YNET

www.bizreport.ir