

**IMPERIAL TOBACCO LTD. CANADA
TOBACCO STRATEGY GROUP - MAY 19/93
AGENDA ITEM: 11 iii**

SUMMARY OF COMPETITIVE ENVIRONMENT

The following summarizes the competitive environment during the last twelve months:

OVERALL

As was the case in 1992, price continues to dominate the competitive environment. IIL's major competitors, RBH and RJR continue to be aggressive in meeting consumer demand for more affordable tobacco products. Furthermore, small tobacco companies and independent entrepreneurs continue to capitalize on this demand.

Smuggling of exported Canadian cigarettes back into the country continues in 1993. Although concentrated primarily in Quebec and Southern Ontario, there are now indications that the smuggling network is starting to extend across the country. IIL's CTMC member competitors have been and continue to fully participate in this alternative distribution network. Due to the federal government's unwillingness to lower tobacco taxes as a means to discourage smuggling, IIL products, in February of 1993, were made available for full distribution.

Roll-Your-Own (RYO) tobacco continues to be a popular legitimate alternative for consumers looking for lower priced alternatives. Low weight RYO, now maintains 46% of the total RYO market, even though it has been on the market for only just a little more than three years. Since the third quarter of 1992, all the industry's major player's, including IIL are now fully participating in this segment with their major trademarks.

A significant development during 1992-93 has been the continued emergence of raw leaf tobacco in the province of Quebec. Through a loophole which exempted unprocessed tobacco leaf from provincial cigarette taxes, local entrepreneurs have created a 1.2 billion cigarette industry. Recently, the Quebec government has eliminated the tax advantage of raw leaf. This now prices raw leaf at a slightly lower cost to the consumer than that of low weight RYO. As a result, it is expected that this industry will decline to 1/4 of its current size.

For the industry as a whole, IIL's 12 month share of the total tobacco industry is 55.0%, down 1.5 share points from the previous year. This is mainly due to our previous commitment not to supply smuggling channels and our slow entry into the low weight RYO market. Alternatively, RBH's share is 25.7%, up .6 share points from a year ago. Contrary to IIL, RBH products have been fully available in illicit channels, and the company has been an established participant in low weight RYO. For its part, RJR's share in March 1993 has risen 1.1 share points to 19.3%. This share is understated due to their continued off-shore production of Export for sale to Canadian consumers. In 1993, we estimate RJR's Puerto Rico production to be 1.0 billion cigarettes.

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