Tobacco

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Sector identification

The tobacco sector can be identified according to two phases; the first one characterized by the cultivation of tobacco, the
second by the processing of tobacco for the manufacturing activity related to smoking products.

The report focuses on the companies processing tobacco to be used by the manufacturing industry.

Through the processing phase tobacco leaves are selected and grouped; in this phase they are preserved through specific thermic treatment with the specific aim to remove moisture excess and introduce improving transformation of biochemical nature into the leaves.

The most important production factor used by the first processing industry is tobacco coming from cultivation, which is first being processed and then distributed to the manufacturing industry for the production of smoking products for the final consumers.

The sector is characterized by the presence of two kinds of companies:

First 'pure' transformers, i.e. companies making a first processing of tobacco, which in most cases is limited to a first simple selection and drying of tobacco;

transformers-exporters that after having completed the first tobacco processing making it usable for manufacturing production, distribute their products also at international level.

Only those companies belonging to the latter group directly face the needs of the manufacturing companies. However the processing companies present in Italy that complete the cycle (leaves selection, beating, drying, seasoning, packaging) are not more than ten.

Usually bigger companies in terms of turnover, have direct relations with the manufacturing industry, while the majority of the remaining companies operate as simple intermediaries between the tobacco cultivator and these restricted realities.

Competitors reports, carried out with interviews to the sector companies, analyze the market evolution and trends by business areas and segments, key success factors, competitive forces, threats and opportunities, competitors' positioning and major companies' shares and main competitive results.

List of Analysed companies (22 companies ; out of which 4 with (*) competitor analysis)

AAA Company….	BBBBB Company….	CCC Company
XXXXX Company…(*)	YYY Company…(*).	ZZZ Company….(*)

Major sector indicators

Summary data, 2007

Value of production (Mn. euro)(a)	210,0
Production change 2007/2006 (%)	-16,7
Production share of the top 4 companies (% in value)(b)	65,5
Production share of the top 8 companies (% in value)(b)	75,0
Value of the market (Mn. euro)(a)	52,0
Market change 2007/2006 (%)	-49,2
Production development forecasts:	
- short term (% in volume)	-10/-12
- medium term	decrease

a) – final year forecasts
b) - 2006 figures

Trend of the demand

From the pre-final year closing forecasts relative to 2007, **a significant 16.5%**
reduction of processed tobacco (in volume) is expected.

From the analysis of the balance of trade **a strong recovery of imports has emerged** (+ 44.7% in volume) after the strong drop in 2006; import trends are closer to 2005 figures even if they have remained far below the past five-years' average.

Exports have remained stable in volume following the continuous significant drops of the past years (justified by the increase of the weight of extra-EC production); this trend demonstrates an increased attention of foreign manufacturers towards national production, which has also improved from a qualitative point of view.

Sector forecasts on the current year are not very positive; critical signals are emerging. The sector will be **more concentrated** and the search for increased **production efficiencies** becomes an obligation for the companies that will survive.

A further 10/12% shrinkage of national production is expected in volume. This is caused by a reduction of the volumes of tobacco cultivated during the year 2007.

Imports of processed tobacco are expected to increase, while exports will probably record a not particularly significative drop.