



Passport

TOBACCO IN IRAN

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TOBACCO IN IRAN

EXECUTIVE SUMMARY

Cigarettes Maintains Growth Potential Due To Low Unit Prices and the Rising Number of Smokers

The number of smokers in Iran continued to grow during 2013 despite widespread advertising in the mass media highlighting the negative health effects of smoking. Young Iranians face a complete ban on alcoholic drinks and many find smoking attractive as it is one of the few guilty pleasures which is actually permitted in the country. The rapid rise in the number of people using the form of water pipe tobacco known as ghalioun during 2013 is an example of the positive trend in the number of smokers in Iran. It is worth mentioning that the very affordable unit prices of cigarettes—less than US\$1 for a pack of 20 sticks—continues to play a key role in the development of cigarettes as high rates of inflation have made Iranian consumers extremely price-sensitive.

Low Pricing Strategy and Effective Distribution Remain Key Pillars of Success for Tobacco Companies

Iranian consumers remain very price-sensitive when it comes to cigarettes and it is very common for them to switch brands even when faced with even a minimal increase in the unit price of their favourite cigarette brand. Visibility and the number of cigarette packs which can be seen on retail shelves in both wholesale and retail environments are of maximum importance as using different forms of promotional materials such as point-of-sale materials is permitted in Iran and thus there is high competition among tobacco companies to increase their shelf space and visibility within each retail outlet.

British American Tobacco Has the Potential To Strengthen Its Position During 2013

After the sudden jump recorded in the unit price of JTI's cigarette brands in 2012, the company lost considerable volume share as its consumer base shrank appreciably. BAT took full advantage of this opportunity and by adopting an attractive affordable pricing strategy replaced JTI as the leading multinational player. BAT also benefitted from its merchandising team, which is taking care of both sales and merchandising within each retail outlet and thus maximising the availability and visibility of the company's products. One of the key pillars of success for BAT in recent years has been its retail engagement program (REP), which uses anonymous promotional agents inside outlets to influence adult shoppers to switch to BAT brands.

Demographic Changes Influence Smoking Prevalence

Smoking prevalence continued to grow in Iran during 2013, a trend which was mainly the result of the rising demand for tobacco products among young consumers, especially cigarettes and smoking tobacco for water pipes. The sudden increase recorded in the number of female smokers in Iran was another significant trend during 2013. Many young Iranian women now consider smoking as a 'cool' way of relaxing. The Iranian authorities also announced that consumption patterns for tobacco products have recently shifted towards younger people, which

is a consequence of the limited awareness of the harmful effects of tobacco products as well as the superior availability of international cigarette brands, which appeal to younger consumers.

Future Outlook for Cigarettes Highly Dependent on the Performance of the Illicit Trade and the Possible Entry of Philip Morris International Into Iran

The performance of the Iranian tobacco industry, especially cigarettes, is set to be highly dependent on the illicit trade volume over the forecast period. If the Iranian government is able to maintain better control over its borders and the retailing of cigarettes, then retail volumes can be expected to continue recording strong positive growth as a result of the wider availability of cigarettes and the strong desire among young Iranians for cigarettes. However, if government control on the flow of illicit cigarettes into the country loosens, as happened during the review period, then there will inevitably be a major slowdown in growth in legitimate sales of cigarettes. There is also a strong possibility that Philip Morris will enter the Iranian tobacco industry in the near future, a move which would completely change the current balance of the Iranian tobacco industry due to high popularity of this company's brands among Iranian consumers.

OPERATING ENVIRONMENT

Legislation

Legislative overview/FCTC ratification

- Iran has one of the strongest legislative frameworks for tobacco in the Middle East region. There has been a long dispute between two key organisations involved in the setting of Iran's tobacco control legislation. The first of these is the Ministry of Health and Hygiene (MOH), which is doing its best to control the rapid growth in the consumption of tobacco products by applying restrictions to the sale, marketing and distribution of tobacco products, while the Iranian Tobacco Company (ITC)—the state owned company which is responsible for the production and distribution of tobacco products under the auspices of a monopoly—is engaging in strong efforts to increase its revenues by persuading the consumers of tobacco products in Iran to switch from illicit products to official locally produced products and officially imported products. Although both of these organisations belong to the Iranian government, this does not mean they are able to compromise on the country's tobacco legislation.
- At the same time that the Iranian Government signed the World Health Organisation's Framework Convention for Tobacco Control (FCTC) on 16 June 2003, the Iranian Anti-Tobacco Association (IATA) with the collaboration of the Iranian Ministry of Health and Hygiene began to compile the preliminary documents for a Comprehensive National Tobacco Control Law and the IATA took the serious measures of lobbying the Iranian Parliament. All of these efforts led Parliamentary representatives to present a related project which was studied by various commissions of the Iranian Parliament with areas of competence including public health, economy, commerce and industry.
- This project was separately approved by each of the commissions mentioned above and the result was that proposals were presented during the open session of the Iranian Parliament. Given the discordant views of the Iranian Government and its parliament, the final decision on tobacco control was postponed until the following round of the consultation process. Finally, Iran's tobacco control laws were ratified on 6 September 2006. However, the Constitutional Council of Guardians of Iran raised a number of objections to these new laws. Effective and persistent lobbying by IATA members to the Secretary General of the Council of Guardians

resulted in its final approval on 27th of September 2006. At long last on 3 October 2006, the FCTC was ratified by the Iranian Parliament in the form of 20 Articles and 3 Notes and the Iranian president officially notified the executive instruction of the enactment of Iran's tobacco control laws on 16 October 2006.

- It should be noted that the Comprehensive National Tobacco Control Law was only ratified due to the serious and persistent efforts of IATA members as well as other benevolent and charitable people. Based on Article 18 of this law, the executive instructions are to be set by the Ministry of Health with the cooperation of IATA. Article 18 of this law also stipulates that the Ministry of Health should prepare the executive instructions to be approved by the Government within three months of the Order of the President.
- Article 1 of this law mandates the foundation of a committee for the control of tobacco consumption, the members of which are of the Minister of Health as director, the Minister of Culture, the Minister of Education, the Minister of Commerce, the High Command of Disciplinary Force and a representative of an NGO active in tobacco control personally selected of the Health Minister, acting as the representative of all related NGOs. It is noteworthy that during November 2006, the Iranian Anti-Tobacco Association was selected to represent the various relevant NGOs on this committee.
- All of the efforts to limit the consumption of tobacco products in Iran have been highlighted in this law. According to Article 1, the Committee has the following responsibilities:
 - Providing executive procedures concerning the definition, scope and features of tobacco advertising;
 - Providing and ratifying educational programmes and research programmes with the cooperation of related bodies;
 - And the determination of the types of messages, warnings, pictures and plans concerning the adverse social, economic, health and sanitary effects of tobacco products and the time periods for the imposition of these messages.
- Any decision made by this Committee shall be effective and be implemented after approval by the President of the Committee.
- According to Article 3, any support, promotion, direct and indirect encouragement or provocation of people to smoke tobacco products shall be completely forbidden. According to Article 4, policy-making, supervision and issuance of permission for importing tobacco products shall be solely conducted by the Government and according to Article 6, health warnings and smoking hazards related to the damage caused by tobacco products shall be pictorial and cover at least 50% of the area of each side of all cigarettes packs, with this stipulation applying to both locally manufactured cigarettes and imported cigarettes.
- Article 6 expresses that all tobacco products shall be supplied in packaging with special labels and bearing the batch number of the Iranian Tobacco Company (ITC). The insertion of the phrase "specific for sale in Iran" must be printed on the packaging of imported tobacco products.
- According to Article 8, the price of tobacco products shall increase by 10% annually, with this increase effected through tax increases. Up to 2% of the entire amount of tax derived from tobacco products deposited into the Iranian treasury account shall be allocated to the annual budget of related public associations and organisations and NGOs to support the development of educational programmes, research programmes and cultural programmes for the purpose of discouraging tobacco consumption.
- Article 9 outlines that the Ministry of Health and Medical Education shall be obliged to carry out preventive, curative and rehabilitative measures for smokers and consultative services for smoking cessation aids in addition to primary health care services and to provide

development contexts and support for nongovernmental consultative and cessation clinics which are active in the promotion of smoking cessation and the discouragement of the use of tobacco products.

- The law also outlines considerable fines for breaches of tobacco control regulations. According to Article 10, the use of any advertising material which contravenes the Act and its executive by-laws shall be considered a crime which attracts a fine between IRR500,000 and IRR50 million. In addition to these financial penalties, the prosecuting court shall be obliged to order the confiscation of all products which are the subject of the offending advertisement. In addition, according to Article 11, the sale and supply of tobacco products outside of outlets which have been approved and certified for this purpose, the supply of tobacco products lacking specific batch numbers and approved marks and the repeated non-payment of tobacco taxes shall result in a fine between IRR500,000 and IRR30,000,000. The level of these financial penalties shall be subject to increases based on the rate of inflation declared by the Central Bank of Iran and upon approval of the Minister's Cabinet.
- Another key point of this law is Article 12, which stipulates that selling and supplying tobacco products to persons aged under 18 years old or through such persons shall result in a fine of between IRR100,000 IRR and IRR500,000 plus the confiscation of any tobacco products sold to a minor. Repeat infractions of Article 12 can lead to the offender being fined IRR10 million.
- Finally, according to Article 14, the sale, supply and possession of smuggled illicit tobacco products by a legal or real person is strictly prohibited and shall be subject to the punishments set out in the Regulations Concerning the Smuggling of Goods.
- Although the Comprehensive National Tobacco Control Law is a very restrictive law on paper, it still has not been fully implemented in reality. In terms of its execution, numerous articles of this law have been neglected by both the Iranian government and Iranian consumers. For instance, the use of words such as mild and light on the packaging of cigarettes and smoking tobacco which is banned under the law. Nevertheless, the use of these banned terms remains widespread and even the Iranian Tobacco Company labels some of its products using these prohibited words.
- The above points imply that Iran has very tight regulations for the control of the sale and use of tobacco. However, most of the legislative framework faces serious issues in its application. The public smoking ban, for instance, has had little very effect in reality and Iranian people continue to smoke in public buildings, particularly younger people, and the government cannot enforce the law effectively in most cases.
- During 2008, the Iranian Government banned smoking in all cafés and all other enclosed public areas. However, following strong protests from café owners, many of whom demanded that the civil right of Iranians to smoke traditional ghalioun (water pipes) be respected, the Government was forced to reconsider this rule. Much of Iran's current tobacco control legislation is very strict and as a result there is a high chance of it being ignored by the majority of the Iranian population.
- Overall, the FCTC did not have a significant impact on volume sales of tobacco products, which was mainly the result of the low awareness of the laws among Iranian consumers and the strong appeal of tobacco products among young Iranians. For instance, smoking is illegal whilst driving and the Iranian traffic police are responsible for issuing fines to all drivers seen smoking. However, in practice, being fined for smoking while driving is virtually unheard of on Iranian roads, despite the fact that smoking while driving is a widespread practice in the country.
- The Ministry of Health and Hygiene is the principal governmental organisation with regards to tobacco control and the Ministry continues to play a key role in the coordination of anti-smoking activities. There were numerous conflicts between the State-run ITC and the Ministry

of Health and Hygiene in relation to a number of controversial issues during the review period. For instance, the local production of Winston cigarettes, which was started officially from February 2009, has been criticised heavily by the Ministry of Health and Hygiene as it was considered to be contributing to unit price declines, which are encouraging increased consumption of cigarettes.

- The Iranian Anti-Tobacco Association (IATA) is the only NGO active in anti-tobacco activities in Iran. However, its capabilities are very limited and the IATA has a limited impact on Iranian smokers and its activities have thus far barely even made an impact on the public perception of smoking.
- In addition, the existence of the dominant state-owned tobacco player ITC suggests a mixed and ambivalent government attitude towards smoking. As long as the Iranian government continues to generate substantial income from its monopolised tobacco industry, it faces serious conflict in terms of how to deal with the adverse health consequences of smoking such as the prevalence of smoking-related ailments and deaths. The Government's opening of Iran's largest ever tobacco production and processing factory in March 2005 and its yearly increases in cigarette output suggest that the Iranian Government is not yet ready to fully support its recently imposed public smoking ban. Following agreements between the State-owned ITC and foreign tobacco giants BAT Plc and Japan Tobacco Inc, a considerable number of foreign cigarette brands are now produced and distributed in Iran by ITC.

Summary 1 Legislation Summary at a Glance

A	B	C	D	E	F	G	H	I
FCTC ratification	Minimum smoking age	Tar cap	Verbal pack health warning	Graphic pack health warning	Advertising ban or restriction	Retail point-of-sale restrictions	Public smoking ban	Restaurant/bars public smoking ban
2003	18	13 mg	Yes	Yes	Yes	No	Yes	Yes

Source: Euromonitor International

Notes: (B) raised from 15 to 18 in 2005

Country-specific Legislation

Minimum legal smoking age

- During 2005, the Iranian Government banned the sale of tobacco to persons under the age of 18 and it has also prohibited the involvement of people below the age of 18 in the sale of tobacco. However, tobacco vendors which flout these restrictions generally go unpunished. Consequently, the number of young smokers in Iran remains high. In addition, many Iranian parents continue to send their children out to buy cigarettes for them.
- In spite of strict legal regulations, the average smoking age fell considerably in Iran over the course of the review period. Previously, only people aged over 18 years were consumers of cigarettes; however, over the course of the review period, increasing numbers of Iranians aged between 15 and 18 years old began smoking. Many Iranian retailers continue to sell cigarettes to underage consumers, many of whom are still high school students, and there appears to be little concern among retailers about incurring penalties or fines for doing so. According to the Ministry of Health and Hygiene, more than 80% of Iran's tobacco consumers started smoking when they were aged under 15 years old. The Iranian government is very

worried about the sudden decline in the age at which Iranian people are taking up smoking, which is threatening the long-term health of Iran's young population.

Smoking prevalence

- Smoking prevalence continued to grow in Iran during 2013, a trend which was also obvious throughout the entire review period. Iran currently has a total of 11.1 million smokers. 31% of the adult male population of Iran are regular consumers of tobacco products, while this percent for adult women has been estimated at 9%. According to the Ministry of Health and Medical Education (MOHME), 25% of Iranians aged over 15 years old are at risk of picking up the smoking habit, which is a serious concern for the Iranian authorities. Although male smokers considerably outnumber female smokers in Iran, trends and forecasts indicate that female smoking prevalence and the number of female smokers will both increase at a faster rate than the same measures for male smokers over the forecast period, mainly due to ongoing changes in the prevailing culture in Iran. These cultural changes mean that female smoking is now a symbol of freedom and modernity and more Iranian women are starting to smoke due to this shift in perception.
- The social acceptance of smoking increased in Iran over the review period. Smoking was previously considered to be a very bad habit and smokers often went to great lengths in order to hide their habits from friends and family. By the end of the review period, however, it had become normal and accepted for Iranian people to smoke.
- Despite the legal smoking age in Iran having increased in recent years, smoking is still common among Iranians aged under 18. Legislative restrictions such as the imposition of a smoking ban in public areas including all restaurants and cafés in Iran has restricted smoking to some extent. However, due to the new wave of smoking among young people in Iran, legislation has not yet proved to be particularly effective as the majority of tobacco control legislation is simply not enforced.
- Public awareness of the risks and dangers of smoking remained very limited in Iran at the end of the review period. The Government attempted to initiate some health awareness campaigns but its efforts did not make any significant impact in terms of reducing the awareness of the risks and dangers of smoking among the general population. The considerable increase recorded in the consumption of tobacco products in Iran during the review period confirms this lack of awareness. If this trend continues, the number of young smokers in Iran is expected to increase rapidly over the forecast period.
- With the increasing number of anti-smoking clinics in Iran, nicotine replacement therapy (NRT) products have become more widely available. Most of these products are sold as over-the-counter medicines. The majority of anti-smoking clinics in Iran prescribe their own imported NRT products. However, these activities are not thought to have had a major effect on the number of smokers in Iran due to a lack of awareness of the benefits of NRT.
- Existing trends indicate that cigarette consumption will increase in Iran over the forecast period. However, the outlook for the use of smoking tobacco in water pipes is still unclear. There is a major and ongoing disagreement between the Iranian Tobacco Company and MOHME concerning the use of traditional water pipes in cafés and teahouses. The Ministry is desperately trying to implement a complete ban on water pipes due to the major threat posed to health by this form of smoking. However, the Government is planning to allow water pipes to be used in selected cafés and teahouses. Cigars did not perform well over the review period due to very high unit prices, and this trend is expected to continue over the forecast period.
- The future outlook for smoking prevalence seems to be very dynamic. Smoking is expected to become more popular among Iranian young population, many of whom consider it to be an

acceptable vice at worst and a genuine hobby at best. With very strong restrictions on many activities such as consuming alcoholic drinks, young people often use smoking as an alternative source of pleasure and relaxation. In particular, the number of female smokers in Iran increased considerably over the review period and is expected to continue rising over the course of the forecast period.

- It is worth mentioning that the relatively low unit price of tobacco products was one of the key reasons for the rising smoking prevalence in Iran during the forecast period. Currently, a pack of 20 mid-price cigarettes carries an average unit price of US\$0.50, which is very affordable for the majority of Iranians of all income levels, making cigarettes a very tempting option.

Table 1 Smoking Prevalence in Adult Population 2008-2013

% adult population	2008	2009	2010	2011	2012	2013
Adult Male Population	28.5	29.2	29.9	30.3	30.5	30.7
Adult Female Population	7.1	7.5	7.9	8.2	8.4	8.9
Total Adult Population	17.9	18.5	19	19.4	19.6	19.9

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 Adult Smokers by Gender 2008-2013

'000	2008	2009	2010	2011	2012	2013
Male No of Smokers	7,305.8	7,659.5	8,005.4	8,263.4	8,461.0	8,651.8
Female No of Smokers	1,770.7	1,919.1	2,067.6	2,189.5	2,284.3	2,458.8
Total No of Smokers	9,076.6	9,578.6	10,073.0	10,452.8	10,745.2	11,110.6

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

Tar levels

- The most recent announcement by ITC states that there are no tar limits in place for domestically produced cigarettes. However, the following tar limits and rules relating to tar content apply to imported brands:
 - For mid tar cigarettes, the maximum tar level should be 13mg per stick.
 - For low tar cigarettes, the maximum tar level should be 8mg per stick.
 - For ultra-low tar cigarettes, the maximum tar level should be 6mg per stick.

- Although high tar cigarettes have traditionally been very popular in Iran, during the review period there was a gradual shift towards lower tar cigarettes, which is expected to continue over the forecast period.

Health warnings

- Under Iranian law, health warnings must be shown on the packaging of all tobacco products. The text of the health warning must be in Farsi and must be approved by the Government. The warning itself should be printed in black text on at least one side of the pack in a black box with a white background. The warning must be shown on the inside of the cigarette carton lid on both domestic and imported cigarettes. A typical health warning might read 'Tobacco is the main cause of cancer and damages health'.
- Graphic health warnings which were introduced for all tobacco products in 2009 continued to be an essential part of packaging during 2012 and 2013. The initial warning featured an attractive coloured design depicting two lungs. One of them is healthy and has a label of 'life' and the other one is marked with many black ugly spots and has a label of 'death'. At the top there is a label which reads 'judge for yourself'. The image is required to be printed on both sides of the packaging and must cover 50% of the total packaging surface. In addition these images are supposed to change every year.
- The second graphic warning which became visible on the packaging of tobacco products in 2011 is a man whose leg has been handcuffed to a cigarette stick. Beside his picture there is text which says 'Warning, cigarettes are so addictive'. During the last months of 2012, a third graphic warning was introduced which shows a person trampling sticks of cigarettes under his shoes. The text behind this warning says 'Quitting cigarettes causes health and long life'.
- The introduction of the graphic health warning had an effect on the legal sales of cigarettes in Iran. Consumers started to look for illicit tobacco, as these packs do not feature graphic health warnings on them. Many Iranians strongly believed that the packs featuring warnings were counterfeit products of inferior quality. This made them eager for illicit substitutes which seemed to many consumers to be genuine, bona fide imported tobacco. It is believed that one of the main reasons for the sudden increase in the size of the illicit tobacco trade in Iran during 2010 was the introduction of graphic health warnings.
- Health warnings on tobacco packaging had little impact on smoking prevalence over the review period, although this may change with more graphic warnings expected to be introduced during the forecast period. However, after the introduction of three graphic warnings it has become obvious that authorities really don't want to see the negative effect on sales of cigarettes by these warnings as recent warnings are much milder compared to previous ones and cannot be considered repelling at all.
- Although the sale of single sticks of cigarettes is banned in Iran, the practice is still very common and is unlikely to abate during the forecast period. As single sticks are sold unpackaged, this practice also negates the effectiveness of health warnings on packs. Meanwhile, the Government is pinning its hopes on more direct and aggressive anti-smoking strategies, such as heavier fines for smoking in public places and the confiscation of traditional water pipes.
- According to the law, warnings printed on the cigarette and other tobacco product packages must be modified once every two years. A six-month grace period for bringing the new warnings to market and selling off the old packages has been included. During this time, both types of tobacco product packaging bearing old and new warnings will be in the market. However, this law has not been executed effectively as lung cancer warnings are still available.

Advertising and Sponsorship

Advertising through media (television, radio, billboards, consumer press, trade press, cinema, etc)

- Tobacco advertising was totally banned in June 2003 by MOHME. The ban was introduced due to reports that smoking-related deaths were rising. The ban followed on from the Government's ratification of the FCTC in 2003. There is no advertising for tobacco on Farsi-language television channels, either terrestrial or satellite, on the radio or in the print media.

Advertising through retail point-of-sale

- Point-of-sale advertising for tobacco products is permitted in Iran which is mainly known as ISF (in-store furniture). Following the ban on tobacco advertising, distribution became an increasingly important focus for the marketing of tobacco companies. Players now strive for the widest possible visibility in order to promote their brands and build consumer loyalty.
- Tobacco companies are also making attempts to gain advantageous positioning for their products in retail outlets. Point of sales material especially ISF play a key role in the success of key cigarette suppliers. Another popular activity is using two sided glue tapes to increase facing share of cigarettes. The packs are stuck to these glues on the shelves of small grocery stores.
- No advertising or point-of-sale promotional material was visible in Iranian horeca outlets during 2013, which was a consequence of restrictions for these kinds of practices in non-retail outlets.

Sponsorship of sporting/music events

- ITC has sponsored some teams in the Iranian leagues of certain sports such as football, but this participation is very limited. Although no rules or regulations exist against this kinds of activity, none of the multinationals currently active in tobacco in Iran have shown any enthusiasm for getting involved in event sponsorship.

Distribution of tobacco branded gifts (eg cigarette branded lighters, pens, etc)

- No branded tobacco gifts such as lighters or free packs of cigarettes are allowed in Iran. There is a heavy restriction on these kinds of activities and even ITC with its government backing has never had the chance to utilise these types of marketing initiatives. However, tobacco companies do offer lighters and pens to retailers and tobacco shoppers but these only carry the brand design and not have the exact brand name on them.
- The Ministry of Health and Hygiene is very sensitive to cigarette promotion of any kind at any level, and does not allow for any kinds of promotional efforts which are likely to encourage sales of tobacco or cigarettes. However, non-visual activities such as trade and wholesale promotions remain on the table for key suppliers as an alternative to consumer promotion. It is a very common practice for tobacco companies to give packs of cigarettes free of charge to retailers if they order a certain amount.
- Another way for by-passing restrictions regarding consumer activities has been the Retail Engagement Program which is known as REP and has been used mainly by British American Tobacco Company. This program is implemented by using young men inside grocery shops without any obvious branding positioned in close proximity to the cash register. Whenever an adult tobacco shopper asks for a brand of cigarette which is not a BAT brand, these representatives engage the shopper and attempt to convince them to switch to a BAT brand depending on the tar and nicotine level of the consumer's initial cigarette choice.

Point-of-sale Display Bans

- As mentioned earlier, point of sale displays are allowed in Iran, but only in independent small retailers outlets and supermarkets. Sales of cigarettes are not allowed in hypermarkets. All forms of point-of-sale displays ranging from stands to stickers, shelf talkers and wobblers are used widely inside stores by tobacco companies.

Smoking in Public Places

- Article 13 of the Iranian smoking control law stipulates that smoking tobacco products in public places (public places includes religious sites, hospitals, polyclinics, theatre halls, cinemas, public spaces in hotels and inns and guesthouses, restaurants, coffee shops and teashops, factories, museums, passenger terminals, large stores, cultural centres, sport facilities, public libraries, schools, universities and educational and research centres, means of public transport, governmental and public institutions and organisations, Islamic Revolution institutions, banks and municipalities and any other collective centre or place) shall be prohibited and shall result in punitive action being taken against the offending smoker. This Article also mandates that the smoking of tobacco products in public places or public transportation vehicles shall be penalised by law subject to pecuniary punishment of IRR200,000.
- Although Iran's smoking ban legislation is very strict on paper it is generally not enforced. For instance, in many private companies, smoking is routinely undertaken in offices, and many restaurants have special smoking areas. Furthermore, many Iranians persist in smoking while driving despite the illegality of this act and virtually none of them face any consequences for breaking the law. However, in government buildings the ban is, generally speaking, completely obeyed.
- The ban on smoking in public places did not have a significant effect on the smoking population in Iran in 2013. Furthermore, the number of smokers in Iran who insist on ignoring these laws appears not to be diminishing. Healthy growth in both volume and value terms across all tobacco categories in 2013 shows that the effectiveness of the new rules is in serious doubt. Iranian consumers ignored the new law in most cases and the general acceptance of smoking continued to rise. Although Iranians tended to shift towards smoking at home and at private parties, resulting in less harm to non-smokers in public areas from passive smoking, the overall number of smokers in Iran showed no sign of falling during 2013.

Low Ignition Propensity (lip) Regulation

- Low ignition propensity cigarettes are not yet available in Iran. As a result, there is no regulation pertaining to them currently in force or on the cards for the forecast period. It is unlikely that this new technology will target Iranian consumers at any time during the forecast period.

Flavoured Tobacco Product Ban

- There are currently no plans afoot to place limits on the importation or production of flavoured tobacco in Iran and these products can be sold freely without any restrictions.

Plain Packaging

- Plain packaging is not expected to be implemented for tobacco products Iran and it is not expected that this will be the subject of discussion among authorities for at least for the next five years.

'reduced Harm'

- The only available reduced harm tobacco product available in Iran at the end of the review period was British American Tobacco's Kent HDi brand. This is a triple core filter product with a hole in its filter. The company claims that this hole in the filter results in smoke going directly to the lungs and thus does not harm the mouth and teeth.

Electronic Cigarettes

- The electronic cigarette is a very new concept in Iran, although it is one with the potential to develop rapidly from a zero base based on the widespread advertising for these products on satellite television channels. These products are advertised as being a useful tool to help people to quit smoking rather than being a tobacco product in and of themselves. Electronic cigarettes became highly visible in many independent small grocers outlets and kiosks and even chemists/pharmacies over the course of 2013. However, the Iranian Ministry of Health and Hygiene recently announced that none of the brands in this category have the approval of the Iranian government and, moreover, that they could possibly be more harmful than regular cigarettes.

Litigation

- There is a complete absence of a litigation culture in Iran and private legal proceedings are invariably costly and lengthy. There is also little interest among consumers with regard to suing companies for financial gain. While Iranian smokers are increasingly aware of the damage to health caused by smoking, they would be unlikely to blame the tobacco companies and more likely to blame themselves for any damage caused to their health and wellbeing. Consequently, there has been no litigation against tobacco companies in Iran from consumers seeking damages for ill health or death caused by smoking.

Death by Cause

- According to the Ministry of Health and Hygiene, the total number of deaths caused by smoking in Iran during 2013 was almost 70,000. This increased from 50,000 in 2006 and 55,000 in 2008. However, these figures only include those who died as a direct result of smoking, and do not include the estimated 140,000 people suffering from chronic diseases which are related to but not a direct consequence of smoking. Despite anti-tobacco legislation and health awareness campaigns relating to the dangers of smoking, there is still a growing tendency towards the consumption of more tobacco products in Iran.
- The number of deaths directly caused by smoking in Iran is predicted to reach 80,000 per year over the forecast period. As such, from the end of 2009, the Government has permitted tobacco suppliers to increase their retail prices by 10% annually. Some of the additional revenue raised will be used by MOHME to support efforts to control illnesses caused by smoking in Iran.
- Iranians are more often than not well aware of the harmful effects of smoking, and anti-smoking organisations are working to increase this awareness. Nevertheless, the number of smokers in Iran continues to grow. The only significant trend noticed in this respect during the review period was that many Iranian smokers showed a tendency to smoke lower tar cigarettes, and this trend is likely to continue into the forecast period.
- The rising number of smokers in Iran means that the prevalence of smoking-related diseases will continue to increase over the forecast period. Such diseases include heart and circulatory

problems, respiratory diseases, lung cancer and other serious health problems, many of which are life-threatening.

- Smokeless tobacco is not yet available in Iran. As a result, there has been no impact registered from the use of this type of tobacco on the prevalence of respiratory diseases.

Table 3 Death by Cause 2009-2013

Deaths per 100,000 inhabitants	2009	2010	2011	2012	2013
Death by diseases of the respiratory system	46.89	45.80	44.87	44.09	43.47
Deaths from heart disease	99.92	97.84	97.14	96.16	95.23
Deaths from lung cancer	4.68	4.50	4.47	4.39	4.33
Causes of death for smoking related diseases (total)	148.15	146.47	144.64	143.03	151.49

Source: Euromonitor International from official statistics

TAXATION AND PRICING

Duty Paid Packet Marks

- Cigarettes sold in Iran must, by law, feature a duty paid mark in the form of a hologram. The Government has focused strongly on reducing the level of the trade in contraband cigarettes. This policy has seen stricter controls placed on the use of duty paid packet marks. By the end of the review period, the sale of tobacco products without a serial number and an approved packet mark had fallen dramatically due to more stringent penalties for offenders. However, in 2010, the illicit tobacco trade started to rise again, which was largely as a consequence of Iranian consumers erroneously believing that the graphic health warnings which began to be featured on packets of legitimate cigarettes were in fact a sign that the products were counterfeit. By better control of borders illicit trade declined again during 2011 a trend which continued also throughout 2012 and 2013.

Taxation Rates

- In 2002, the Iranian Government initiated a new programme with the aim of limiting the illicit trade in tobacco products in Iran. As part of this programme, the importation of foreign produced tobacco products was allowed in Iran for the first time and different rates of tax were assigned to these newly available imported tobacco products. The Government's primary aim was to control imports of cigarettes into Iran by easing legal importation regulations. As part of the move towards more commercial freedom for tobacco companies in Iran, major international tobacco players also entered into special agreements with ITC for the production and distribution under licence of their products and brands in Iran. One of two different taxation procedures is now applied to all cigarettes and tobacco products.
- For imported products, eight different levels of tax were applied until 2013, when one of the tax bands was removed. The first tax band is a 4% import duty or ad valorem which is levied on a product's CIF price. Second, IRR35 per stick was levied as specific Import duty, although this tax rate was removed in 2012. Third, 40% of a product's FOB price is added as customs tax, a rate which changed to 20% in 2012. Fourth and fifth, two taxes are levied consisting of

1% and 2% of the retail selling price and these are contributions to the local municipality in which the product is sold and MOHME respectively. Sixth, IRR18 per stick is levied, which is paid to the Iranian National Sports Organisation. Seventh, 17% VAT and finally IRR8.5 per stick is paid to cover the cost of printing the holograms which appear on cigarette packaging to verify that they are legitimate and authentic products on which duty has been paid.

- For domestically produced cigarettes, the taxation structure is different and is divided into six stages. Firstly, 15% value added tax is levied, followed by two taxes consisting of 1% and 2% of the retail selling price, which are contributions to the local municipality in which the products are sold and MOHME respectively. Fourth, IRR18 per stick is levied to be paid to the Iranian National Sports Organisation. Fifth, 5% of a product's msp is added as ad valorem excise tax and finally IRR8.5 per stick is levied to cover the cost of printing the holograms which appear on cigarette packaging to verify that they are legitimate and authentic products on which duty has been paid.
- Any changes in the tax structure for cigarettes in Iran usually applies from the beginning of the Iranian year, which is 21 March as per the Gregorian calendar. Usually, the Iranian Parliament approves taxation changes during February at the same time as it approves the national budget.
- Although the Iranian Government goes to great lengths to control the consumption of cigarettes by applying different types of tax, their goals in terms of reducing smoking prevalence in Iran could not be attained during the review period. Iranian tobacco consumers have shown ample willingness as well as the means to pay the current levels of tobacco tax. In fact, many Iranian smokers shifted from domestic cigarettes to imported brands regardless of the fact that imported brands carry far higher tax levels. It is also worth mentioning that in the current situation, illicit tobacco products are sold for higher unit prices in comparison to legitimate tobacco products because they are often associated with brand authenticity, higher quality and superior flavour.

Table 4 Taxation and Duty Levies 2008-2013

	2008	2009	2010	2011	2012	2013
VAT (% of rsp-I&D)	12	12	12	15	16	17
Contribution to Municipality (% of rsp-I&D)	1	1	1	1	1	1
Contribution to Ministry of Education (% of rsp-I&D)	2	2	2	2	2	2
Contribution to Iranian National Sports Organisation NA (IRR per stick -I&D)	18	18	18	18	18	18
Import duty – specific (IRR per stick-I)	35	35	35	35	0	0
Import duty - Ad valorem (% of CIF price-I)	4	4	4	4	4	4
Ad valorem excise (% of msp-D)	10	10	10	20	5	5
Customs tax (% of FOB price-I)	15	20	40	40	20	20
Hologram cost (IRR per stick-I&D)	8.5	8.5	8.5	8.5	8.5	8.5

Source: Euromonitor International from trade interviews

Average Cigarette Pack Price Breakdown

- The different cigarette pack price breakdowns for imported brands and domestically produced cigarettes in Iran are calculated according to two separate tax scenarios. For example, 79% of the unit price of a pack of an imported premium brand such as Vibes is made up of taxes, while for a domestic economy brand such as Bahman, 68% of the unit price is made up of tax.
- This leaves 21% of the unit price of premium imported cigarette brands such as Kent for the manufacturer and retailer. For economy domestic brands such as Bahman, 32% of the unit price is retained by the manufacturer and retailer. Iranian Tobacco Co uses this variation in taxation as a tool to help maintain its virtual monopoly on the manufacturing and distribution of tobacco in Iran.
- For domestic cigarette brands, unit price increases usually occur annually on 21 March, which is the beginning of the Iranian year, while for imported cigarettes unit price increases can happen at any time of year, depending on the global economic situation. However, 2013 was an exception to this general rule as the rapid surge in the average unit price of cigarettes which occurred during 2012 meant that the unit prices of cigarettes in Iran either remained unchanged or, in some cases, declined over the course of 2013.

Table 5 Average Cigarette Pack Price Breakdown: Brand Examples

P = 'price' in Iranian rial

	P	Premium Springwa ter (Pack of 20) %	P	Mid Priced Kent (Pack of 20) %	P	Economy Bahman (Pack of 20) %
Wholesale	33,990.00	45.32	13,797.20	43.12	7,222.80	40.13
Retailer	9,000.00	12.00	3840.00	12.00	2,160.00	12.00
TOTAL Retained	42,990.00	57.32	17,637.20	55.12	9,382.80	52.13
Specific Excise	700.00	0.93	700.00	2.19	700.00	3.89
Ad valorem Excise	3,750.00	5.00	1600.00	5.00	900.00	5.00
Additional taxes	9.00	23.71	9.00	24.66	9.00	25.94
VAT	21.80	13.04	18.89	13.04	13.08	13.04
TOTAL Tax	32,010.00	42.68	14,362.80	44.88	8,617.20	47.87
End Price	75,000.00	100.00	32,000.00	100.00	18,000.00	100.00

Source: Calculated from store check data and Taxation and Duty Levies Table.

Notes: Figures may not sum up to 100% due to rounding

PRODUCTION/IMPORTS/EXPORTS

- Since 2004, ITC has produced brands for British American Tobacco Co and Japan Tobacco Inc in Iran. This has resulted in increases in domestic cigarette production in Iran.
- During 2012, a decline of over 17% in illicit trade volumes occurred in cigarettes in Iran, which was mainly the result of a dramatic decline in the exchange value of the Iranian rial with various major global currencies. For this reason, illicit products became very expensive and unaffordable for many consumers. Many smokers were forced to switch to legitimate cigarettes, which boosted volume growth, especially for domestic brands and international brands produced locally under joint-ventures between ITC and foreign multinational tobacco companies.

- Illicit trade volumes continued to decline in cigarettes in Iran during 2013, although declines were recorded at a slower pace in comparison with 2012. This was mainly the result of the much higher unit prices charged for illicit products compared with legitimate cigarettes. The superior availability of legitimate cigarettes in comparison with illicit products also encouraged consumers to shift to legal imports.
- Some of Iran's cigarette production is exported to the countries which lie over Iran's eastern border such as Afghanistan and Pakistan, while some are destined for Iran's northern neighbours such as Azerbaijan. However, export volumes are very low in comparison to imports and domestic production.

Table 6 Trade Statistics – Cigarettes 2009-2013

Million sticks	2009	2010	2011	2012	2013
Production	28,700.0	29,800.0	28,990.0	39,000.0	40,500.0
Import	20,688.0	5,097.0	13,340.0	8,000.0	10,000.0
Export	695.0	86.0	262.0		

Source: Euromonitor International from national statistics

Illicit Trade in Cigarettes

- A sudden rise was recorded in the illicit trade in cigarettes in Iran during 2010 and this had resulted in a decline in legitimate sales of cigarettes. In response, the Iranian government decided to tighten the supervision of goods arriving in the country at border crossings and it also engaged in a stronger inspection programme in retail outlets. This programme resulted in declines of 22% and 18% in illicit trade volumes during 2011 and 2012 respectively. As mentioned earlier, the sudden decline in the exchange value of the Iranian rial during 2012 also played a key role in the decline of illicit trade volumes during the year as the plummeting value of the rial made clandestinely imported cigarettes unaffordable for the majority of Iranian consumers. It is estimated that the illicit trade accounted for 24% of total cigarette volume sales in Iran in 2013 in spite of the declines recorded in the illicit trade during 2011 and 2012, not to mention the declines recorded during 2013.
- The international cigarette industry has long viewed Iran as ripe fruit waiting to be picked, albeit a difficult fruit to reach as a result of the difficult political situation which has prevailed in Iran for many years.
- There are several reasons for the intense interest of the global tobacco giants in Iran, including its large population and rising living standards, as well as relatively moderate levels of cigarette consumption which leave ample room for growth. Furthermore, the global shift away from state tobacco monopolies encourages interest. Moreover, Iran is conveniently located, wedged between the tobacco industry's established smuggling centres in the Middle East and the burgeoning tobacco markets in the Indian subcontinent and Russia.
- It is difficult to imagine how the tens of billions of smuggled cigarettes required to supply a significant proportion of the Iranian tobacco market each year could be effectively supplied without the complicity of the manufacturers of those cigarettes. The volumes involved and the level of organisation required is just too great for the illicit cigarette trade to be attributed solely to opportunistic independent traders taking advantage of occasional lapses in border control.

- Multinational players such as BAT and JTI have used the illicit trade as a lever to penetrate the Iranian tobacco monopoly. They also look to tobacco in Iran not only as a market in itself, but also as a conduit for the supply of contraband cigarettes to other countries.
- One of the principal illicit cigarette brands which is widely available and even has new product launches each year is Marlboro from Philip Morris. In spite of its illicit status, the Marlboro brand benefits from a very strong image among Iranian consumers and very effective distribution.
- The illicit cigarette trade is expected to increase in Iran over the forecast period as a result of higher taxes on legally imported cigarettes and lack of strong supervision on borders. The Iranian Government will continue do everything possible to put a stop to illicit trade by granting multinational companies permission to operate in Iran, establishing new factories and even easing its tobacco control regulations but the huge demand for products without graphic warnings continues to fuel the growth for illicit trade.

MARKET INDICATORS

Table 7 Illicit Trade Estimate of Cigarettes: Volume 2008-2013

million sticks	2008	2009	2010	2011	2012	2013
Legal sales	48,209.0	49,389.0	34,897.0	42,331.0	47,000.0	50,501.0
Illicit trade	12,600.0	13,167.0	28,000.0	21,900.0	18,000.0	16,000.0
% penetration of illicit trade	20.7	21.0	44.5	34.1	27.7	24.1
Actual consumption	60,809.0	62,556.0	62,897.0	64,231.0	65,000.0	66,501.0

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

MARKET DATA

Table 8 Sales of Tobacco by Category: Volume 2008-2013

	2008	2009	2010	2011	2012	2013
Cigarettes (million sticks)	48,209.0	49,389.0	34,897.0	42,331.0	47,000.0	50,501.0
Cigars (million units)	0.1	0.1	0.1	0.1	0.1	0.1
Smoking Tobacco (Tonnes)	1,172.7	942.5	1,915.9	1,508.3	1,889.0	2,391.7
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 2008-2013

IRR billion	2008	2009	2010	2011	2012	2013
Cigarettes	13,415.9	15,582.4	12,359.5	22,583.8	52,657.2	50,532.1

Cigars	2.4	3.1	3.9	5.0	8.5	8.3
Smoking Tobacco	200.3	188.4	432.7	402.0	944.5	1,650.3
Smokeless Tobacco	-	-	-	-	-	-
Cigarettes Including RYO Stick Equivalent	13,415.9	15,582.4	12,359.5	22,583.8	52,657.2	50,532.1
Tobacco	13,618.7	15,773.9	12,796.1	22,990.8	53,610.3	52,190.7

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 2008-2013

% volume growth	2012/13	2008-13 CAGR	2008/13 Total
Cigarettes	7.4	0.9	4.8
Cigars	3.0	6.3	36.0
Smoking Tobacco	26.6	15.3	103.9
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 2008-2013

% current value growth	2012/13	2008-13 CAGR	2008/13 Total
Cigarettes	-4.0	30.4	276.7
Cigars	-2.4	27.8	240.7
Smoking Tobacco	74.7	52.5	723.9
Smokeless Tobacco	-	-	-
Cigarettes Including RYO Stick Equivalent	-4.0	30.4	276.7
Tobacco	-2.6	30.8	283.2

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 2013-2018

	2013	2014	2015	2016	2017	2018
Cigarettes (million sticks)	50,501.0	51,858.2	53,498.2	55,411.2	57,446.2	59,624.3
Cigars (million units)	0.1	0.1	0.1	0.1	0.1	0.1
Smoking Tobacco (Tonnes)	2,391.7	2,446.8	2,679.2	2,901.6	3,110.5	3,312.7
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 2013-2018

IRR billion	2013	2014	2015	2016	2017	2018
Cigarettes	50,532.1	47,279.4	44,705.5	42,869.4	41,593.4	40,675.0
Cigars	8.3	7.8	7.5	7.4	7.5	7.8
Smoking Tobacco	1,650.3	1,587.0	1,685.6	1,807.3	1,960.7	2,121.5
Smokeless Tobacco	-	-	-	-	-	-
Cigarettes Including RYO Stick Equivalent Tobacco	50,532.1	47,279.4	44,705.5	42,869.4	41,593.4	40,675.0
Tobacco	52,190.7	48,874.2	46,398.7	44,684.1	43,561.6	42,804.3

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

Table 14 Forecast Sales of Tobacco by Category: % Volume Growth 2013-2018

% volume growth	2017/18	2013-18 CAGR	2013/18 Total
Cigarettes	3.8	3.4	18.1
Cigars	2.6	2.6	13.7
Smoking Tobacco	6.5	6.7	38.5
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 2013-2018

% constant value growth	2013-18 CAGR	2013/18 TOTAL
Cigarettes	-4.2	-19.5
Cigars	-1.3	-6.5
Smoking Tobacco	5.2	28.6
Smokeless Tobacco	-	-
Cigarettes Including RYO Stick Equivalent Tobacco	-4.2	-19.5
Tobacco	-3.9	-18.0

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

DEFINITIONS

Explanations of words and/or terminology used in this report are as follows:

- Ghalioun: Iranian water pipe
- Khansar: traditional Iranian variety of smoking tobacco for use in a ghalioun
- MOHME: the Ministry of Health and Medical Education
- FOB : Free on board (FOB). This pricing term indicates that the cost of the cigarettes, including all transportation and insurance costs from the manufacturer to the port of departure (Persian Gulf), as well as the costs of loading the vessel are included in the quoted price. This means that the buyer has to bear all costs and risks of loss of or damage to the goods from that point. The FOB term requires the seller to clear the goods for export. FOB Price does not include Shipping freight and Insurance charges

- CIF: Cost, insurance and freight" means that the seller delivers when the goods pass the ship's rail in the port of shipment. The seller must pay the costs and freight necessary to bring the goods to the named port of destination but the risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time of delivery, are transferred from the seller to the buyer. However, in CIF the seller also has to procure marine insurance against the buyer's risk of loss of or damage to the goods during the carriage. CIF Price Includes the Vehicle Price + Shipping freight + Insurance Cost".

SOURCES

Sources used during research include the following:

Summary 2	Research Sources
Official Sources	Iran Ministry of Commerce
	Iran Ministry of Health & Hygien
	Iran Tobacco Research Foundation
	Islamic Republic of Iran Customs Administration
	Ministry of Industries
	Mr Salari
	National Research Institute of Tuberculosis & Lung Disease
	Tehran Chamber of commerce, Industries, Mines & agriculture
	United States Department of Agriculture (USDA) Foreign Agricultural Service (FAS)
	World Bank
Trade Associations	World Health Organisation
	Iranian Anti Tobacco Association
Trade Press	Alef
	BBC Persian Website
	Deutsche Welle
	Donya-e-eqtesad
	Eqtesade Penhan
	Etemad Newspaper
	Farsnews Agency
	Hamshahri Economist
	Hamvatan Salam
	Jamejamonline
	Javan Newspaper
	magiran.com
	Mehr News Agency
	Mehr News Media

	Rajaneews
	Salamat Newspaper
	Sarmayeh Newspaper
	Sharif news
	Tabnak
	Tobacco Journal International

Source: Euromonitor International