

# **Globalization of the Tobacco Industry – One Economist's Perspective**

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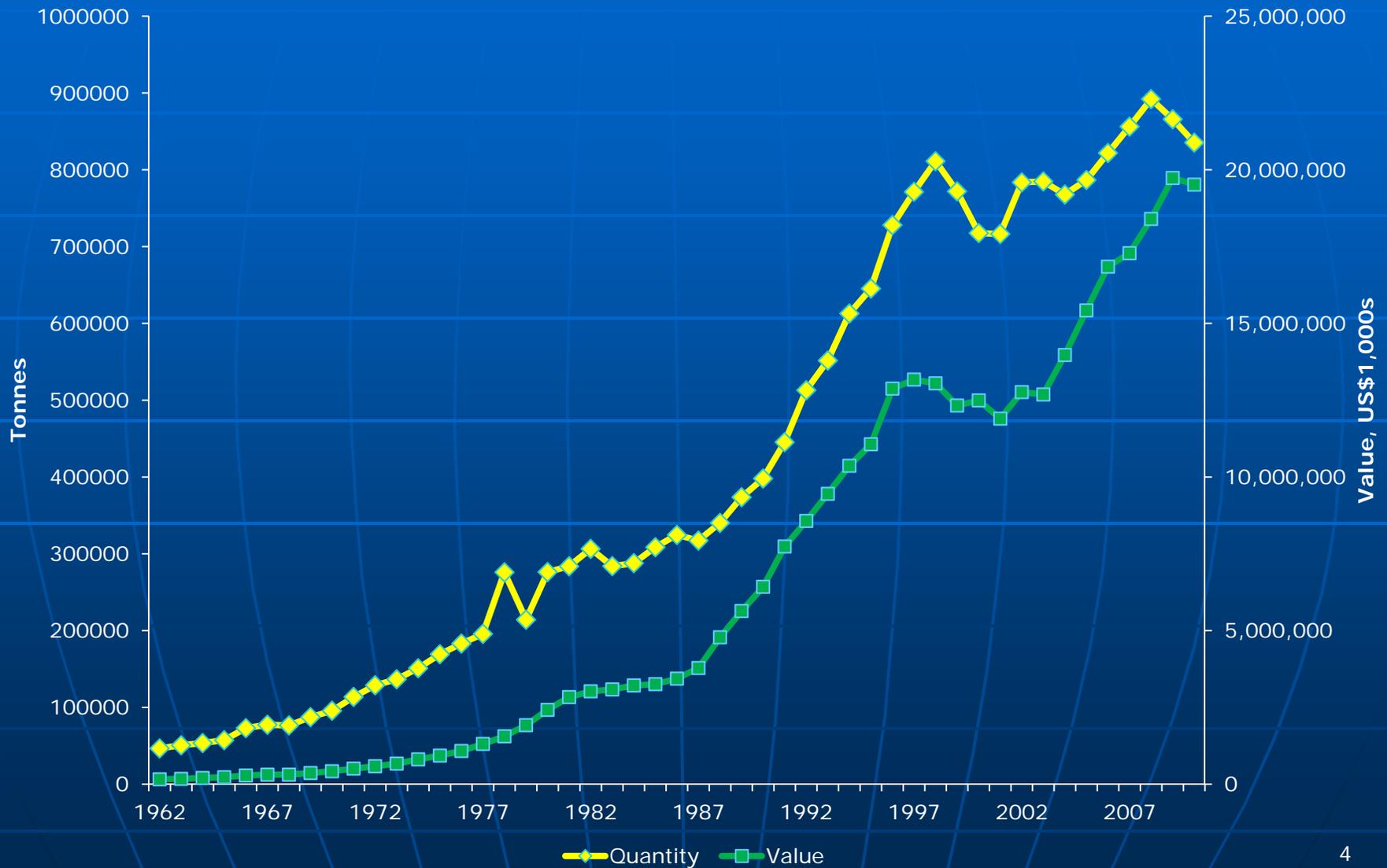
# Globalization and Tobacco

# Global Trade in Cigarettes Exports 1962-2009



Source: FAOSTAT 2012

# Global Trade in Cigarettes Imports, 1962-2009



Source: FAOSTAT 2012

# Factors Contributing to Globalization

- Opening of markets through bilateral, regional, and global trade agreements
- Loosening of restrictions on foreign direct investment
- Privatization of government run tobacco companies
  - A few significant exceptions
- Consolidation among multinational tobacco companies

# Globalization of Tobacco Control: WHO FCTC

- Gives priority to public health
- Recognizes need for international action and cooperation
- Evidence-based
- Mindful of potential social and economic impact of tobacco control efforts
- Concerned about role of industry



# Globalization of Tobacco Control: MPOWER Framework

- MPOWER Framework
  - “Monitor” the tobacco epidemic
  - “Protect” non-smokers
  - “Offer” help to quit
  - “Warn” about the harms
  - “Enforce” marketing bans
  - “Raise” taxes
- Most cost-effective components of WHO FCTC



# Trade Agreements and Tobacco

# Trade in Tobacco Products

- Global/Multilateral treaties:
  - 1994, Uruguay round of the General Agreement on Tariffs and Trade
    - 124 countries (98 LMICs)
    - Creates the World Trade Organization
    - Includes many separate agreements addressing barriers to trade in variety of goods and services
  - WTO currently:
    - 153 members; 30 observers (those seeking to join)
    - Covers 97% of global trade
    - Doha round talks began in early 2000; greater emphasis on trade in agricultural products and services
- Led to reduced tariff/non-tariff barriers to trade in tobacco and tobacco products

# Trade in Tobacco Products

- Regional Agreements: similar efforts that lead to more significant reductions in trade barriers among countries in given region:
  - European Union
  - North American Free Trade Agreement
  - Association of South East Asian Nations
  - Common Market of East and Southern Africa
  - Economic Community of Western African States
  - Organization of American States
- Have further reduced tariff/non-tariff barriers to trade in tobacco and tobacco products

# Trade in Tobacco Products

- Bilateral Agreements: similar efforts that lead to more significant reductions in trade barriers between two countries:
  - China- ASEAN free trade market
    - Facilitates trade in tobacco/tobacco products between China and ASEAN
    - Zero tariffs and elimination of other barriers by 2015
  - US-Kazakhstan bilateral agreement
    - Reduced barriers to investments
    - Led to considerable PM investment in new production capacity
  - Section 301 “agreements” between US and Japan, Taiwan, South Korea and Thailand (1986-1990)
    - Forced open cigarette markets in these countries given threat of retaliatory trade sanctions from US

# Trade in Tobacco Products

- Impact of freer trade on tobacco use
  - Chaloupka & Laixuthai (1996) – examined impact of Section 301 agreements on tobacco use, market share
    - Fixed effects models for data from 10 Asian countries, 1970-1991; trade agreement indicators, GDP
    - Market share of US firms up 600% by 1991 compared to what it would have been had markets remained closed
    - Per capita cigarette consumption 10% higher in 1991 than had markets remained closed
    - Why higher consumption?
      - More competition, lower prices, more extensive marketing, higher incomes
      - Confirmed by other country specific studies (e.g. Hsieh and Hu, 1997, for Taiwan; Sessler, 1993, and Hagihara and Takeshita, 1995, for Japan)

# Trade in Tobacco Products

- Impact of freer trade on tobacco use
  - Taylor, et al. (2000)
    - 42 countries, 1970-1995; trade openness measures, GDP; separately for high, middle, and low-income countries
    - Positive impact of openness on tobacco consumption, with greatest impact in low-income countries, no significant impact in high-income countries
  - Perucic, et al., (in press)
    - Similar approach, 125-141 countries, 1970-2003 or 1990-2004 depending on data;
    - Comparable findings that impact of freer trade was higher tobacco consumption; greatest impact on low-income countries

# Trade Disputes

## ■ US-Thailand and GATT/WTO

- After relatively easy success in Japan, Taiwan, and South Korea, US tried to open Thai cigarette markets
- Thai government fought back
- Key issues:
  - Near total ban on cigarette imports
  - Differential taxes on foreign and domestically produced cigarettes
  - Comprehensive ban on advertising and promotion
- Dispute brought before GATT in 1990
  - Ban, differential taxes are violations of agreement
  - Ad/promo ban is allowable
  - Decision depends on whether or not measures are applied equally to domestic and foreign products

# Trade in Tobacco Products

## ■ US-Thailand and GATT/WTO

- Article XX of GATT allows for protection of public health over interests in trade:
- “Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary and unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade, ***nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures...necessary to protect human ...health (or) necessary to secure compliance with the laws or regulations which are not inconsistent with the provisions of this Agreement***”

# FDI, Privatization and Tobacco

# Direct Investment & Privatization

- Opening of markets has also resulted in increased openness to direct investment
  - Investment in new production facilities/capacity owned and operated by multinational tobacco companies
    - By far the most widespread
  - Privatization of former government owned/operated tobacco companies
    - for example, Turkish TEKEL acquired by BAT in 2008 after being on the market for many years)
    - Partial privatization of Egypt Tobacco Company (government still retains controlling interest)
  - Joint ventures between local monopoly and multinational tobacco companies
    - For example, PMI and China National Tobacco company

# Direct Investment & Privatization

- Public health concerns about FDI and privatization
  - Government efforts to attract investors/buyers can lead to agreements that government won't adopt higher taxes, strong tobacco control policies
  - Increased presence of multinationals will lead to widespread use of sophisticated marketing practices
  - Tobacco use will be higher than it would be otherwise
- Public health benefits of privatization
  - Eliminates conflict of interest between revenues generated from production/sale of tobacco and health/economic benefits of tobacco control

# Direct Investment & Privatization

- Case Study - Ukraine

- Privatization of domestic monopoly after the collapse of the Soviet Union

Manufacturer Market Share, 2000-2006							
	% Volume						
	2000	2001	2002	2003	2004	2005	2006
Philip Morris Ukraine	22.6	28.5	27.2	32.5	32.8	33.4	33.6
Reemtsma-Ukraine	34.0	23.0	27.2	21.7	19.5	18.7	18.7
Gallaher	*	2.4	7.5	11.6	14.5	16.2	16.6
A/T BAT-Prilucky	16.8	22.0	18.8	16.5	17.0	16.2	15.1
JTI	8.6	8.6	11.2	12.5	12.3	12.9	13.7
Others	18.0	15.5	8.1	5.2	3.9	2.6	2.3

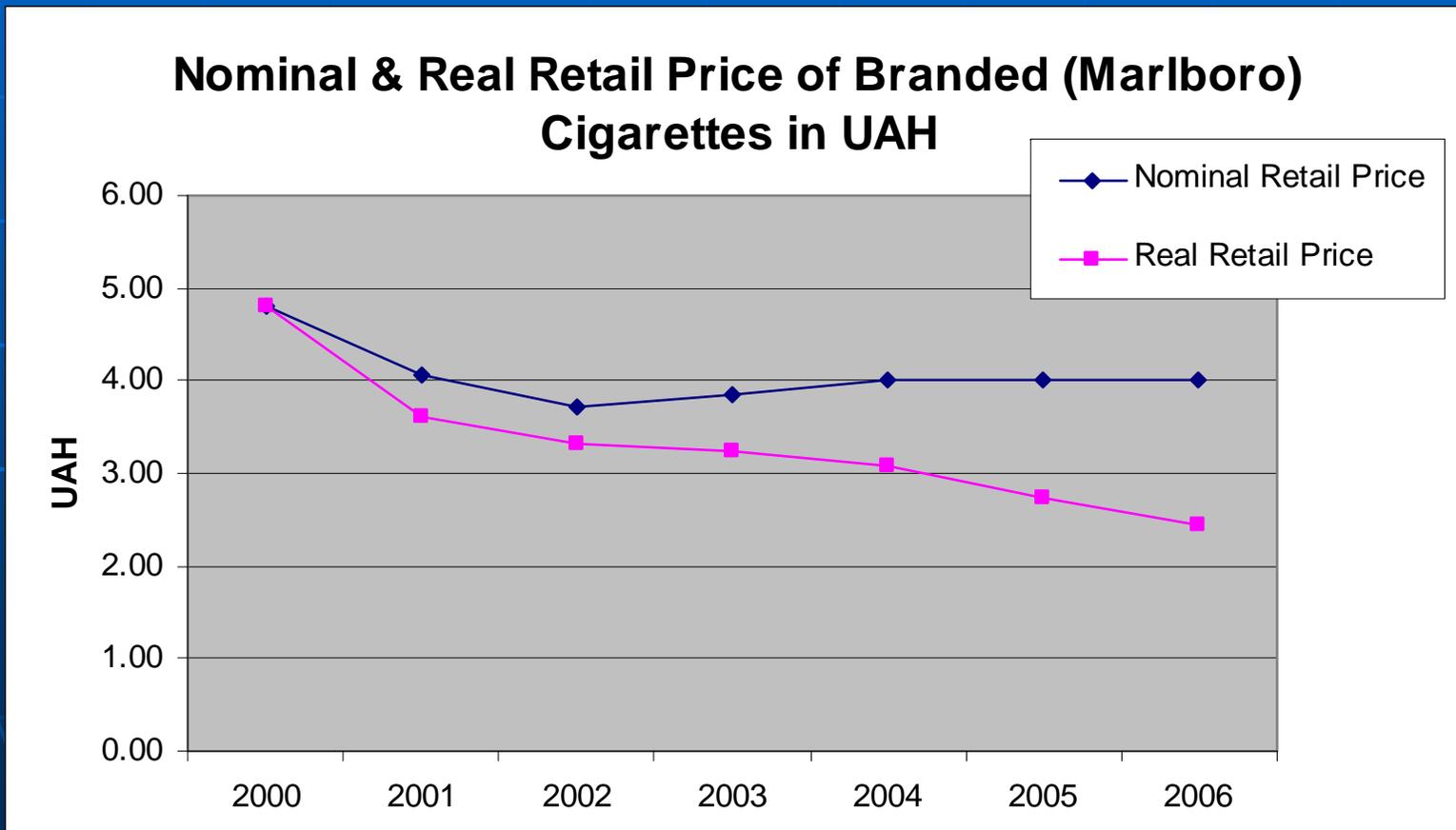
# Direct Investment & Privatization

## ■ Case Study - Ukraine

- Weak tobacco control policies in years following privatization:
  - No real increases in tobacco taxes
  - Voluntary code of conduct with respect to advertising and promotion
  - Weak, partial limits on advertising (broadcast)
  - Minimum purchase age law
  - Very weak smoke-free policies (do not cover restaurants, bars, private workplaces)
- Ratified FCTC in 2006
  - Until recently, no progress in adoption & implementation of tobacco control measures

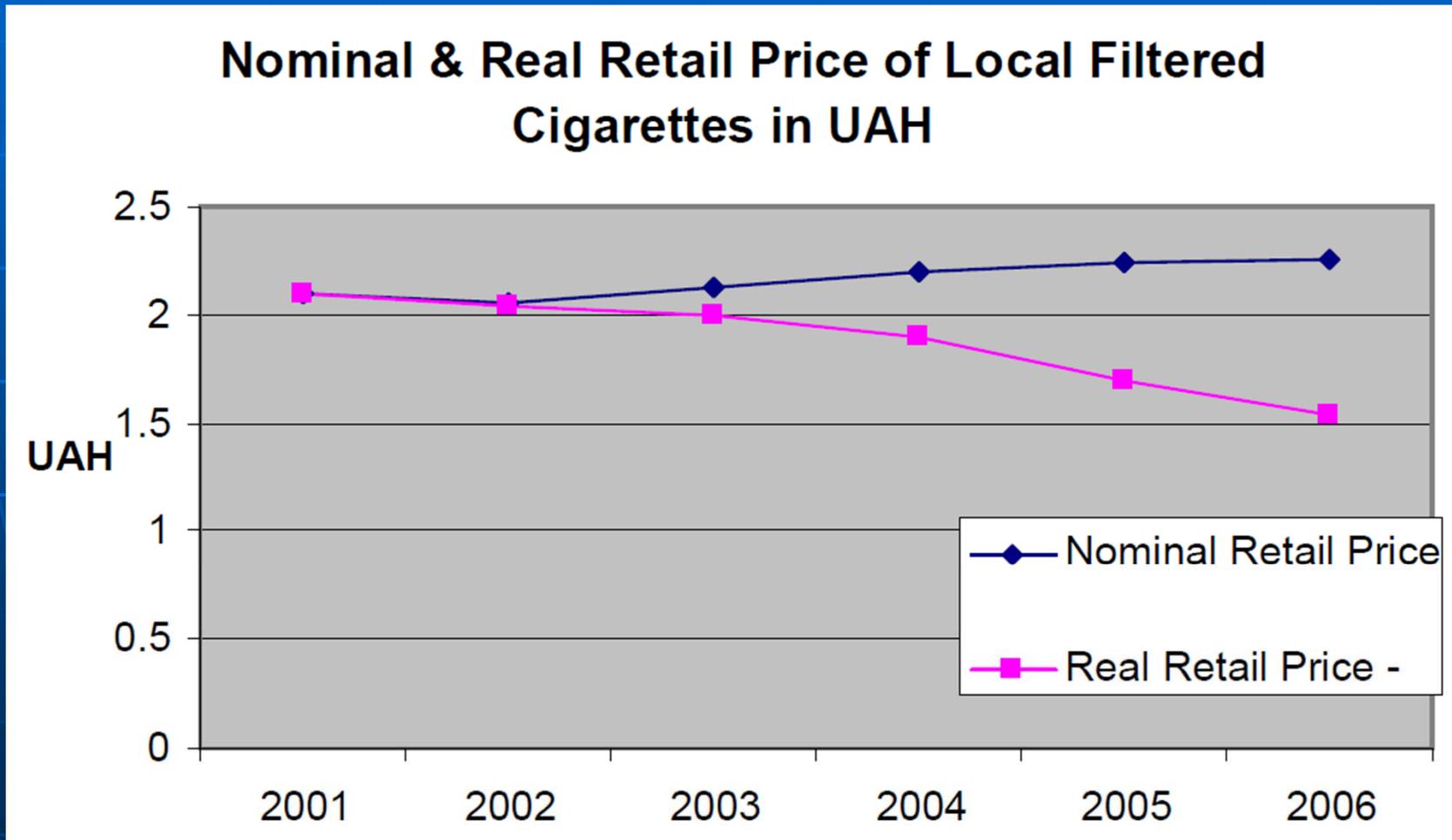
# Direct Investment & Privatization

## Cigarette Prices, Ukraine, 2000-2006



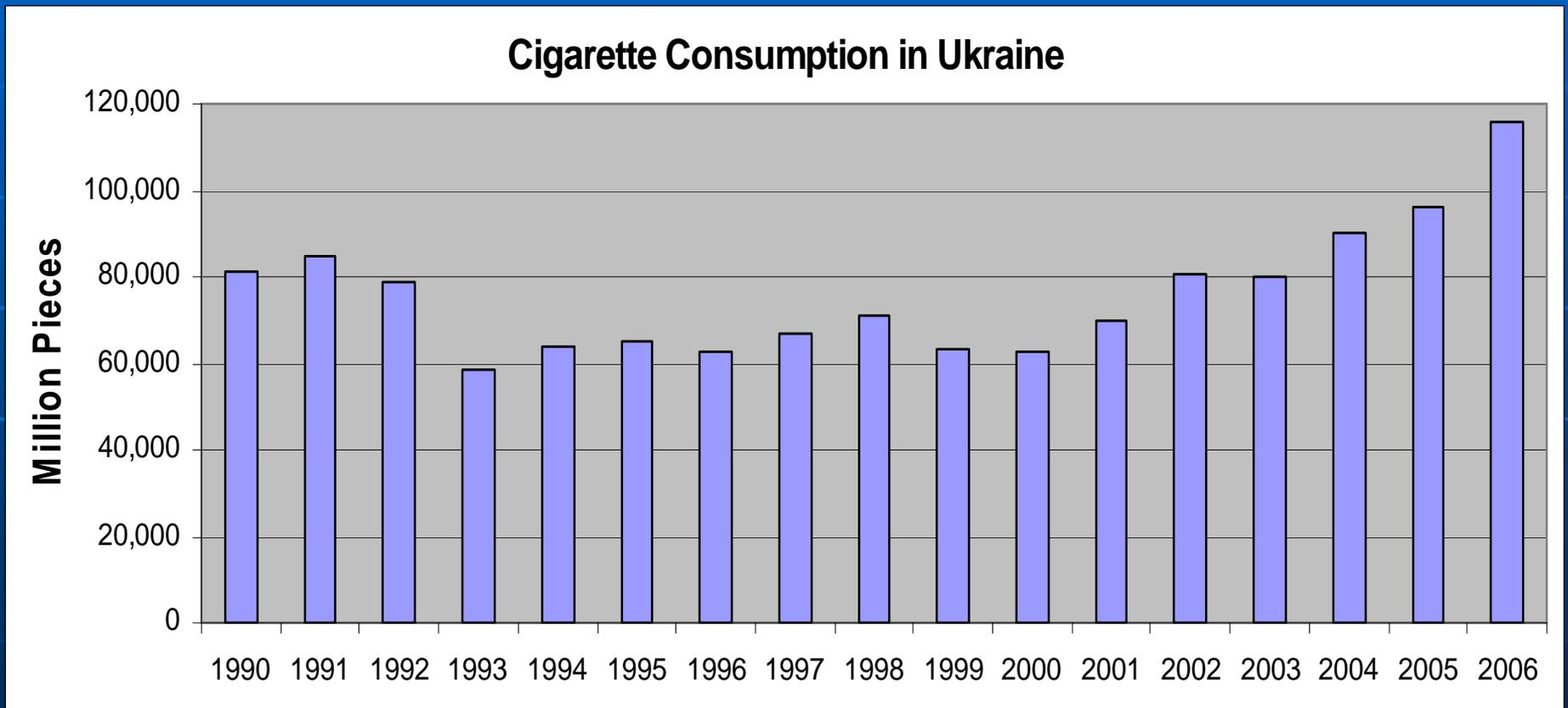
# Direct Investment & Privatization

## Cigarette Prices, Ukraine, 2000-2006



# Direct Investment & Privatization

## Cigarette Consumption, Ukraine, 1990-2006



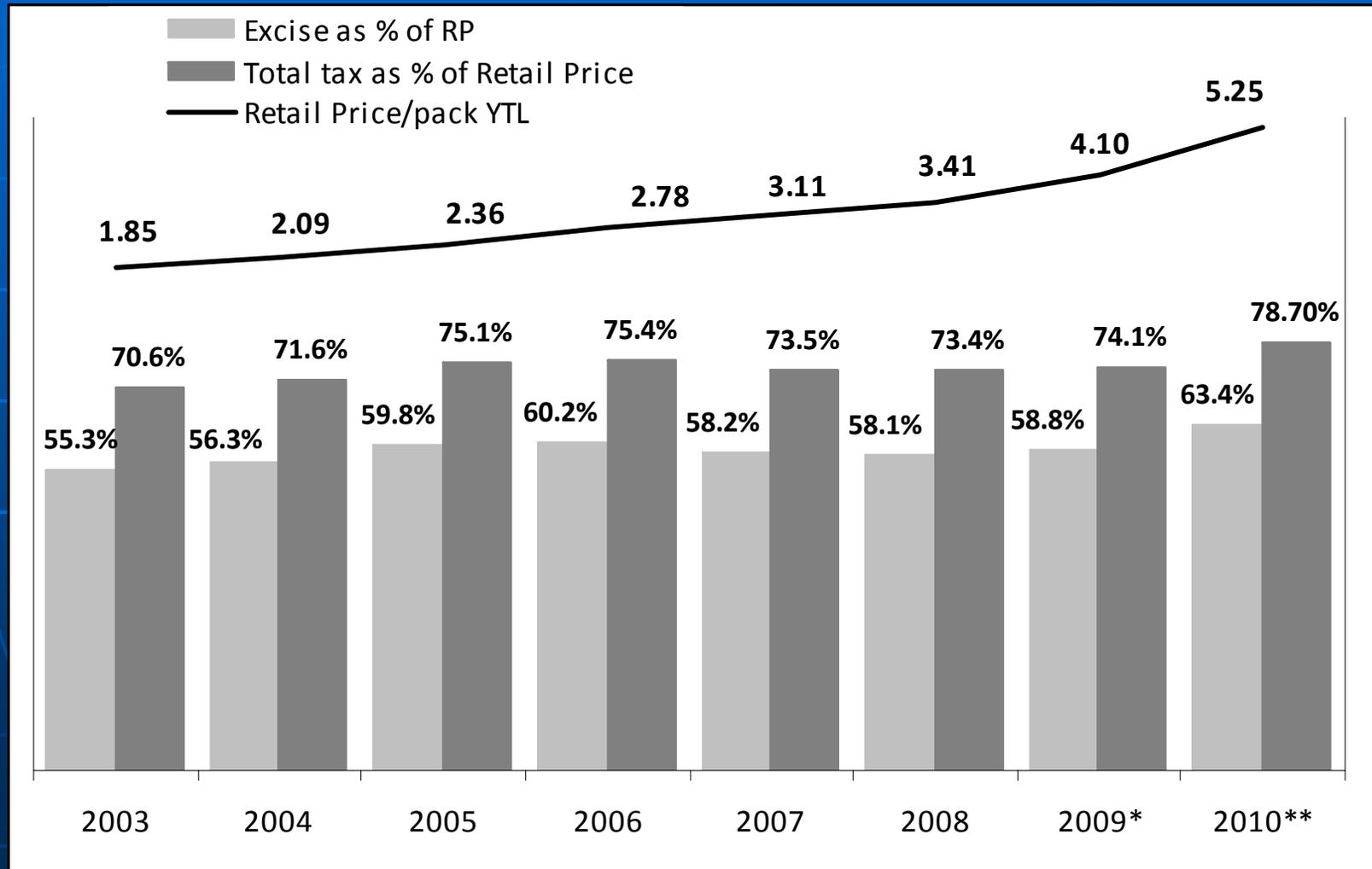
# Case Study - Turkey

- Government monopoly – TEKEL – completely controlled market until 1984
  - 1984 – allowed for sale of foreign cigarettes, but had to go through TEKEL which controlled pricing and distribution
  - 1991 – allowed multinationals to sell directly, without going through TEKEL
  - 1994 – allowed direct investment by multinational companies
    - Gain 30% market share by 1997
    - TEKEL passed by Philsa in 2005
  - 2003, 2005 – initial efforts to sell TEKEL
  - 2008 – TEKEL sold to BAT
  - 2008 structure: Philsa 41%, BAT 35%, JTI 18%, limited others

# Tobacco Control in Turkey

- Limited control policies until recently
  - Partial advertising ban; weak warning labels; some smoking restrictions; limits on youth access
- WHO Framework Convention on Tobacco Control
  - Signed in April 2004; ratified in December 2004
- Tobacco Control and Prevention of Hazards Caused by Tobacco Products Law (number 5727)
  - Enacted in January 2008
  - Expanded smoke-free policies to make several venues 100% smoke free
    - Since July 2009 includes hospitality sector
    - MoH and TAPDK enforce smoke-free policy
  - Requires televised antismoking advertising
  - Graphic, pictorial warnings – spring 2010

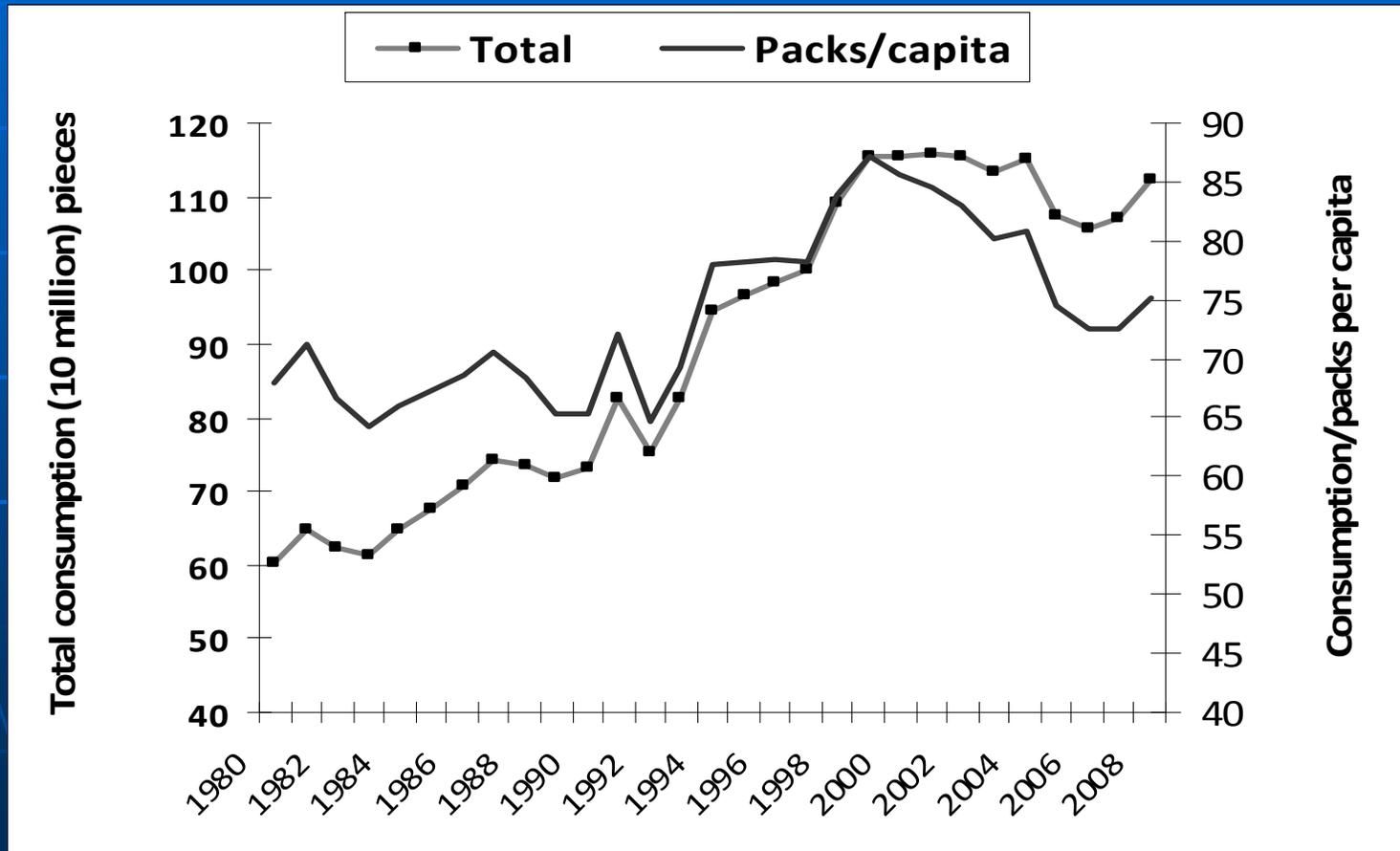
# Cigarette Taxes and Prices 2003-2010



Source: TAPDK; MoF; Yürekli, et al., 2010

# Direct Investment & Privatization

## Cigarette Consumption, Turkey, 1980-2008



Source: Yurekli, et al., 2010

# What to Do?

# Trade in Tobacco Products

- Controversy remains over whether or not public health interests take precedence over trade
  - GATT decision in US/Thai case indicates that public health concerns trump trade issues
    - Key is uniform application to all tobacco products regardless of origin, even if effect may be uneven
  - Recent decisions suggest that this principle is being applied in other decisions
    - European Free Trade Association Court on Philip Morris challenge to Norway's tobacco products display ban
    - Australia High Court forthcoming decision on industry challenges to plain packaging legislation

# Direct Investment & Privatization

- Can be good or bad for public health – depends on how it's done
- “best practices” for public health:
  - Make no agreements with multinational tobacco companies that would inhibit government's ability to adopt strong tobacco control policies
  - Ratify FCTC, adopt comprehensive tobacco control policies
    - Regular tax increases that reduce the affordability of tobacco products
    - Strong, comprehensive smoke-free policies
    - Comprehensive ban on tobacco product marketing
    - Other effective policies/programs

# Globalization and Tobacco

## ■ My view

- Governments should not impose unilateral trade restrictions in efforts to reduce demand for tobacco products
  - Can negotiate exclusion of tobacco and tobacco products from trade agreements as part of international, multilateral, and bilateral trade agreements (e.g. ongoing negotiations for the Trans-Pacific Partnership agreement)
- Instead, adopt comprehensive tobacco control policies and programs that apply evenly to all tobacco products, regardless of origin
  - Higher taxes; comprehensive restrictions on advertising, promotion, and sponsorship (including display bans, plain packaging); comprehensive smoke free policies; graphic warning labels; mass media public education campaigns; support for cessation; and other evidence-based policies and programs