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Paper

Ownership of Tobacco Companies and Implications on Health

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Ownership of cigarette production around the world has been an activity that is highly complicated, diverse, and full of economic, political, social and cultural implications. The ownership and its dynamic process is gigantic, involving regional and international trade, finance, and diplomacy. It has great implications on the health of the people and tobacco control of countries all over the globe. Yet this magnanimous endeavor has been least studied and there has been generally little interest among anti-smoking advocates.

There are several types of ownership of production of tobacco products. Each has different degree of socio-economic implications on the host countries and their people's health and wellfare.

NORTH – NORTH ACQUISITION OF OWNERSHIP

There have been changes of ownership among tobacco producers of the countries which are home bases of the big transnational tobacco companies (TTCs). These involve invasion and takeover two decades ago and the newly developed events, e.g. creating partnership, sale of certain cigarette brands, and sale of operations.

INVASION AND TAKEOVER

In the 1970s, the TTCs invaded Western Europe, fighting the monopolies of France, Spain, and Italy. Today, the transnationals control majority of the market. Philip Morris is the largest company in the region.[1].

PARTNERSHIP

An example for this type of ownership is the case that Rothmans International of the U.K. taking a 4 percent stake in the holding company of France 's Bollore Technologies, making Rothmans one of Bollore's major stockholders. The two planned to form a 50-50 joint firm to develop common projects. They will look for synergies in Africa, Vietnam and Cambodia, as well as in Europe.[2]

SALE OF BRANDS

Because of poor selling of some brands of cigarettes a transnational producer sells these brands to another bigger TTC. In early 1999 Philip Morris bought L&M, Lark, and Chesterfield for $300 million from cigarette maker Liggett Group Inc., a subsidiary of Brooke Group Inc. Liggett would keep it sole successful cigarette brand, Eve, as well as its discount and private-label business. Philip Morris had owned the international rights to Liggett's three brands for 20 years. Martin Feldman, analyst for Salomon Smith Barney, commented: "It makes complete sense given that Philip Morris has been very successful in exploiting the L&M and Chesterfield brands in Europe and Lark in Southeast Asia. It makes entire sense for the company to have entire control of its big brands." As a result of the deal, Liggett would join the $206 billion tobacco settlement that was unanimously accepted by US state attorneys general on November 20, 1998.[3]

SALE OF OPERATIONS

Sale of some part or the whole of a cigarette transnational to another cause a great socio-economic impact on a wide scale, depending on the size of the transaction.

Rothmans International tobacco company bought Burrus Group, a Swiss tobacco manufacturer in July 1996.[4] In December 1998 it was reported that Seita SA, the principal Frence tobacco company was to buy Consolidated Cigar Holdings, the US premium cigar maker for $530 million in a move it said would make it the world's leading cigar company.[5] In January 1999 The Finnish Office of Free Competition approved the selling of RJR Finland to the Frence company Seita. The deal included local cigarette and rolling tobacco brands as well as the contract to sell Camel cigarettes in Finland. The company would be renamed Seita Tupakka.[6] In April 1999 the American Competition Authorities approved Swedish Match's acquisition of American General Cigar. This means an increased turnover of 800 million SEK (US$97.6mn) for Swedish Match which acquires US General Cigar's market operations including the brands Garcia Y Vega, White Owl, Tiparillo and Tijuana Smalls. Included in the acquisition would be production units in Dothan Alabama, Santiago, Dominican Republic and the U.S. It was claimed that after this acquisition Swedish Match would become the leading cigar producer in the world.[7] In June 1999 Swedish Match announced the sale of its cigarette operations to Austria Tabak for $560 million and said it will use the proceeds to expand globally in cigar, pipe tobacco and smokeless tobacco products.[8]

British American Tobacco (BAT) Industries, the world's second largest cigarette producer, have been buying out other transnationals at a fast pace in the last few years. In early 1994 BAT acquired American Brands' domestic tobacco business, American Tobacco Company for US$1 billion. The purchase, which consolidate BAT's position as the third largest tobacco market in the U.S., will lessen competition and keep tobacco price stable. American Brands would be retaining its international business, however. American Tobacco Company is one of the smallest and weakest U.S. cigarette companies, with a portfolio of fading brands including Pall Mall, Lucky Strike and Tareyton. The deal will boost BAT's U.S. market share to 17 percent. Its major brands include Kool, Raleigh, Viceroy and Belair. BAT would also acquire the rights to Silk Cut outside Europe and a long term manufacturing agreement with Gallaher which makes Silk Cut in the U.K. BAT's buyout caused an increase in the stock value of other tobacco companies. The buyout not only brightened the tobacco industry's profit outlook by eliminating a price cutting competitor, but also encouraged investors to refocus on the strong cash flow and earning power of the domestic tobacco industry. Through its purchase, BAT assumed American Tobacco's litigation risk. Avoiding the liability risk associated with selling tobacco risk products was a "huge" reason why American Brands, American Tobacco's parent company, decided to sell to BAT.[9]

The sale of R.J.R. Nabisco Holdings Corp.'s international tobacco business to Japan Tobacco Company Inc. (JT) in early 1999 was the biggest buyout in the tobacco industry's history. The US$8 billion deal would make JT the third largest TTC in the world, after Philip Morris and BAT. It won over the bids, for RJR's non-US tobacco assets, submitted by five companies. The other four were Philip Morris, BAT, a joint bid by SEITA of France, and Tabacalera of Spain.[10] The deal enabled JT to sell Camel, Winston and Salem brands around the world. Under the takeover, JT obtained 22 RJR International factories operating in 18 countries, including main plants in Germany, Russia and Turkey. This came on the top of JT's own overseas factories, such as one in Manchester, Britain.

RJR decided to sell its international tobacco unit because of disappointing sales in both Eastern Europe and the countries of the former Soviet Union[11]. Another reason was that RJR Nabisco Holdings Corp. was hobbled by years of tobacco litigation and heavy debt so it decided to dismantle itself.[12] Although RJR would continue to sell cigarette in the U.S. the company planned to divide its food and tobacco business, leaving Nabisco to trade without the share price being dragged down by the uncertainties surrounding tobacco companies.

For JT the move was a defensive one because JT would have faced a grim future if Philip Morris or BAT acquired the unit.[13] The acquisition allowed it to boost its 'meager' international presence at a time when its core Japanese market was sluggish and faced increasing challenges. JT, known for brands such as Mild Seven and Cabin, saw its market share eroded in recent years by aggressive foreign companies.

MERGER

There are occasional merger among western small cigarette makers. In 1996 Switzerland's Compagnie Financiere Richemont AG announced plans to merge its Rothmans international tobacco business with South Africa's Rembrandt Group Ltd to cut costs and help the company's expansion to the new markets of Asia, Eastern Europe and Africa.[14] In 1998 the Danish manufacturer Skandinavia Tobakskompagni (ST) and Tiedemanns of Norway merged to become the largest tobacco company in Scandinavia. The merger was due to ST's threat to withdraw Tiedemanns' licence to produce cigarette brand Prince after the year 2000. Tiedemanns would own a 17.2

percent stake in ST. Prince has a 57 percent share of the Norwegian market[15]. With effect from 31 March 1999 Austria Tabak and the German wholesalers CG and Tobaccoland merged their Hungarian subsidiaries.[16]

The grand merger

The most significant development among the TTCs for decades was the grand merger involved BAT plc, the second largest tobacco company in the world, and Rothmans International BV, the world's fourth largest. BAT bought Rothmans from Cie. Financiere Richemont AG and Rembrandt Group Ltd. Through a stock swap. BAT paid US$7.5 billion and acquired a 16 percent of the estimated global market of around 5.5 trillion, second only to Philip Morris, which had a 17 percent. After the merger the powerful new group, which would retain the BAT name, would produce more than 900 billion cigarette a year and own the brands Kent, Lucky Strike, Dunhill and Rothmans. According to Sanford Bernstein analyst Gary Black, "This is likely to trigger a consolidation wave unlike anything we've ever seen."[17]

The merging had to pass through regulatory problems in various countries and regions. The transaction raised antitrust concerns in Canada, South Africa, and Australia. At the beginning analysts reported that the European Commission might require cigarette brand disposals in the Netherland before approving the takeover.[18] Finally BAT won EU approval in March 1999.[19] In Canada BAT had to sell Rothmans' Canadian cigarette unit after the merging because of the subsequent complications. Rothmans was the second largest cigarette maker in Canada and BAT already owned a large stake in Imperial Tobacco, Canada's leading cigarette manufacturer.[20] In New Zealand the NZ Commerce Commission had to investigate the proposed merger of

BAT(28% market share) and Rothmans (70% market share). The merger would give the enlarged BAT 98 percent of the market. In the domestic air passenger industry the NZ Ansett Company was forced to split from its parent company to avoid this monopoly situation. Otherwise there would be no need for two cigarette factories in New Zealand : and the Rothmans Napier factory was the bigger of the two.[21] In Australia when the domestic merger was proposed in January 1999 the competition watchdog outlined serious concerns. The Australian Competition and Consumer Commission (ACCC) said the proposed merger was likely to lesson competition in the Australian cigarette market. Such a result would place the deal in breach of the merger provisions of the Trade Practices Act, allowing the ACCC to block it domestically. The ACCC said the merged group would control "nearly all" of the major Australian cigarette brand and would have an overall market share of 62 percent. It said the prospect of competition was low as there were high barriers to entry to the market and limited prospects for increased imports. ACCC chairman Allan Fels said the commission' concerns "are not necessarily insurmountable. But nor is it obvious that there are ways that the companies can overcome these concerns". The commission would hold a two-month investigation into the matter. He might consider blocking the merger by taking the players to Federal Court if it believed the merger had very substantial competition implications by reducing the number of cigarette suppliers from three to two.[22] In Canada BAT unveiled plans to sell the Canadian operations of Rothmans to appease the Canadian Competition Bureau. In the beginning the companies declined to canvass such options in Australia, although they could assuage the ACCC by divesting some of their brands. Later BAT and Rothmans decided to sell AU$325mn of cigarette and tobacco assets to England's

Imperial Tobacco, which would become the first new player in the AU$5bn Australian tobacco market in around 40 years. The new merged firm would control about 45 percent of the domestic market and Imperial Tobacco Australia would begin with a 17 percent market share. BAT Australia would acquire BAT's New Zealand business for AU$188mn in cash and would sell its Indonesian business, PT Rothmans of Pall Mall Indonesia, to BAT for AU$38mn.[23] The Imperial sale was part of a series of "mopping up" operations covering BAT and Rothmans businesses in South Africa, Singapore, Australia and New Zealand.[24] In June 1999 the Australian regulators approved the revised plan which would allow the BAT – Rothmans merger, called BAT Australasia, to go ahead. The ACCC approved the AU$1.2bn merger of Rothmans holdings Ltd and WD&HO Wills Holdings Ltd. In Australia. The merger was the final part of the world-wide merger worth AU33bn by the parent companies BAT and Rothmans.[25]

In developing countries the grand merger never had to get over a hurdle. Rothmans International and BAT unveiled a £128mn deal to merger their operations in Malaysia in July 1999.

In March 1999 France's Seita and Spain's Tabacalera began the process of merger after having been beaten by Japan Tobacco in a joint bid to take over RJR International tobacco business.[26] In October Seita confirmed that it has agreed a merger deal.[27] The merger would create the world's fourth largest tobacco group. Tabacalera said the merger "between equals" would create a group with operational headquarters in Paris and legal headquarters in Madrid, with stock market listings in both. It would also be the biggest cigar producer in the world. The new merged company is to be called Altadis. In the face of rapid consolidation in the world tobacco industry, the two mid-sized tobacco groups had been expected to merge after years of limited co-operation.

" It is very important for both of them because, to start with, it allows them to be big enough to fend off an eventual predator," one Paris-based sector analyst said. An alliance could save money through plant closures, but the driving force behind the talks was the threat both companies felt from recent merger in the industry, the analyst said.

The merged firm would rank the fourth largest tobacco group in the world, excluding China, in terms of product volume after PM, BAT and Japan Tobacco. It would create a European tobacco giant with combined market capitalization of 6.7 billion Euros ($7.18 billion).[28]

NORTH – SOUTH ACQUISITION OF OWNERSHIP

The TTCs invaded South America in the 1960s. In this region, rather than the state monopoly becoming more competitive in an open market, most of the national companies were seriously weakened. They were unable to compete with the massive advertising and low prices of the transnationals and by 1976 the TTCs had acquired 12 subsidiaries in 17 countries in the region.[29]

The TTCs over the past decade have been expanding their production bases and businesses in Eastern Europe and the Asia-Pacific region. In almost all countries in these parts of the world the TTCs have set up joint venture or bought former state tobacco monopolies. Philip Morris, BAT and RJR each own or lease cigarette plants in at least 50 different countries around the globe.

FACILITATING FACTORS FOR ACQUISITION OF OWNERSHIP IN EASTERN EUROPE AND ASIA

There are several factors that the TTCs must acquire ownership in these 2 regions. The transnationals have been threatened by stronger laws and regulations in their countries and they must expand overseas. They try to shield an increasing proportion of their assets from lawsuits in developed countries. The TTCs would reap huge benefit from locating cigarette manufacturing factories closer to tobacco growing areas. They also enjoy cheaper labor and transport costs.

In Eastern Europe and the former Soviet Union the countries voluntarily opened up to attract foreign investment through the provision of tax incentives, lifting of import duties and changes of investment laws and regulations. Western tobacco companies made post-communist offers that are hard to refuse: hundreds of millions of dollars in investment and hundreds of thousands of jobs.

In some of the countries of Asia, unlike Eastern Europe, the governments and tobacco control advocates resisted the TTCs invasion. The transnationals had to mobilize their governments' help and the international financial institutions' conditions to acquire ownership.

THE POLITICAL ECONOMY

There are several factors that have driven this overseas expansion.

Back in early 1990s about half of the world's cigarettes were sold in closed markets. Many countries restricted cigarette sales to those produced by their monopolies to prevent loss of scarce consumer capital for a nonessential foreign goods. The TTCs broke into the closed markets by political and economic clout.

Former UK prime minister Margaret Thatcher became a consultant to Philip Morris with several responsibilities, one of which was dealing with restrictions on foreign ownership of tobacco companies in Malaysia, Indonesia, and government smoking control programs in Singapore. Several US politicians, especially those from the tobacco-growing states, solidly backed the US Trade Representatives in using Section 301 of the US 1974 Trade Act to force open the closed markets in Japan, Taiwan, South Korea and Thailand.,

TRADE LIBERALIZATION

REGIONAL

NAFTA

Following the signing of the North American Free Trade Agreement (NAFTA) there has been a sharp rise in the activities of the TTCs in Mexico. Although Mexico used to export few cigarettes to the US, that would change as U.S. tariffs on Mexican exports are reduced under NAFTA.

In July 1997, PM and BAT paid a combined $2.1 billion to buy Mexico's 2 cigarette companies. These acquisitions would irrevocably change the cigarette business in Mexico and have disastrous implications for the health of the Mexican people as well as tobacco control effort in the U.S.[30] The acquisition was part of TTCs' preparation to flood the US with black market cigarettes should cigarette taxes in the US rise steeply.

AFTA

The Association of South East Asian Nations (ASEAN) consists of 10 member countries ,i.e. Thailand, Malaysia, the Philippines, Indonesia, Singapore, Brunei, Myanmar, Laos, Cambodia and Vietnam. In January 1992 the ASEAN's Free Trade Area (AFTA) was established. The agreement on the Common Effective Preferential Tariff (CEPT) scheme would reduce intra-regional tariffs on all manufactured items. The TTCs established new and consolidated old production facilities in the ASEAN countries to receive benefit of CEPT scheme, leading to lower price for their cigarettes and subsequent rise in their market share and smoking consumption of the people. For Thailand two successive reductions in import duties resulted in remarkable rise of consumption of imported cigarettes. From the first year of cigarette entry in 1992 to 1996 annual sale of foreign cigarettes had been between 1.0 to 1.5 billion pieces, with the market shares stable between 2.20 to 3.34 percents. But after the AFTA effect the consumption rose in 1997 and 1998 to 2.01 and 3.28 billion pieces respectively.

INTERNATIONAL TRADE AND FINANCE

THE WORLD TRADE ORGANIZATION (WTO)

The TTCs have been waiting to take advantage of the international trade rules to break open into China and Taiwan which want to be the WTO members but have to allow foreign investment, including tobacco, in their countries.

On June 4, 1999 the ***Taiwan*** Legislature passed the third reading of the Alcohol & Tobacco Law that lays the groundwork for the eventual end to the government's monopoly on the production of those products. It would become effective when Taiwan is admitted into the WTO. Taiwan was hoping it would be admitted into the WTO at the end of the year.[31]

China has been in discussions to join the WTO for 13 years. In his U.K. visit in October, 1999 president Jiang

Zemin told a gathering of around 300 leading business people that China would not sacrifice its national interests in order to join the WTO.[32]

MULTILATERAL AGREEMENT ON INVESTMENT (MAI)

If adopted MAI would have a horrendous implications. MAI would require governments to treat Big Tobacco no more or no less favourably than their domestic cigarette companies. It would also give private investors the same legal standing as governments to seek to enforce the terms of agreement. Fortunately MAI has been in a moribund state.

INTERNATIONAL MONETARY FUND (IMF)

In ***Thailand*** the TTCs had been trying to gain a foothold for manufacturing by courting the government's Thailand Tobacco Monopoly (TTM) for years without success until August 1997 when Thailand's economic bubble bursted. A total of US$17,000 million was granted by the IMF to rescue the crumbled economy. One of the conditions put forward by the IMF was privatization of state enterprises. The 1st to the 4th letter of intent, sent from the Minister of Finance to the IMF, mentioned privatization of energy, public services, communication and transport sectors. In the 5th letter dated 25 August 1998 it stated for the first time in the section on privatization that "study of direction for the TTM to be finished within the first trimester of 1999". In the first week of February 1998 a big group of American corporation executives came to Bangkok and paid visits to the Prime Minister and several ministers and stated that they were keen in joint venture of the soon to be privatized state enterprises namely Thai Airways International, Telephone Organization, The Petroleum

Authority, The Communication Authority, and *"Tobacco Business Organization"*, according to the newspapers. It was obvious tobacco merchants were in the group. My article " Effects Of The IMF's Bitter Medicine Upon Tobacco Consumption of Thai People" was published in a newspaper on April 30, 1998 and this was sent along with a letter to the Prime Minister on May 21 asking him not to support the move. On June 18 The Wall Street Journal published the news *"…Freeing the monopoly from the government's control could be controversial because of public health concern, as well. "We don't think the tobacco monopoly should be privatised at all," said Hatai Chitanondh, president of the Asia Pacific Association for Control of Tobacco, a Bangkok based antismoking group that submitted a petition against such a move to the government in May. "This isn't a kind of agency whose efficiency the government should improve. I think it's even better that the management of the tobacco monopoly remains inefficient, so that they wouldn't be so good at what they're doing."* During October to December international tobacco control colleaques had intensive consultations that culminated in a letter signed on December 8, 1998 by 3 US senators and 14 US representatives to the Director of the IMF expressing concern about apparent IMF support for privatization of state-owned tobacco operations. It said whatever the merits of privatization of other sectors of the economy, tobacco represents a grave public health menace that must be treated differently. Policies relating to tobacco must be guided above all by public health considerations.[33]

South Korea met the same fate as Thailand and had to seek help from the IMF. For a company as large and lucrative as government-owned Korea Tobacco and Ginseng Corp. (KT&G), the notion of privatization was unthinkable. The government limited each foreign investor to hold not more than 7 percent and the total foreign share holder would not be more than 25 percent. BAT and PM called for an open bid but the Koreans were wise and patriotic as an official said, "Foreign firms aim to hold managerial rights in the KTG rather than the acquisition of stakes.[34]

On November 5, 1999 the parliament of ***Moldova*** voted against legislation that would have allowed the privatization of the state-owned wine and tobacco industries, a condition imposed by the IMF for the release of a $35 million Expanded Fund Facility loan. An IMF official told a news service that the IMF would freeze the support on the same day. The IMF's decision also affected the $30 million World Bank loan and $15 million European Union loan which were linked to the approval of the IMF loan.[35]

EASTERN EUROPE

The western tobacco companies have capitalised on the opening of markets in former communist countries and have invested an estimated US$2 billion across the region.[36] Often they makes post-communist offers that are hard to refuse: hundreds of millions of dollars in investment and hundred of thousands of jobs. Their acquisition of ownership may be summarized as follows:

Armenia -1997 - joint venture of a domestic company and Canada's *Grand Tobacco*.[37]

Azerbaijan -1997 - 50-50 joint venture of the country's only cigarette maker *Baku Tobacco* factory and *RJR*, forming *RJR Tobako Baku* in Baku.[38]

Belarus -1996 - 50-50 joint venture of domestic manufacturer *Kosmos* and *RJR.*[39]

Bulgaria –1994 - *Rothmans International* purchased 8.65% of new shares in the Bulgarian tobacco factory *BT-Sofia*.[40]

- 1998 – preparation for privatization of state-owned tobacco company *Bulgartabak Holdings*.[41]

Croatia –1994 – *PM* gave licensing to Croatia's second largest *Rovinj Tobacco* factory to make Marlboro cigarettes.[42]

-1998 – *PM* bought majority of stock and took control of the *Zagreb Tobacco.*[43]

-1999 – *BAT* acquired a controlling interest, initially owning 80.5%, in *Tvornica Duhana Zadar (TDZ)*.[44]

Czech Republic – 1992 – *PM* bought 30% of *Tabak Kutna Hora*. Later in 1993 *PM* took full control.[45]

Estonia – 1993 – joint venture between *Swedish Tobacco Inc.* and *Tubakavabrik Leek.*[46]

Georgia – 1999 – Canadian businessman Arcane Nasser invested in building new factory.[47]

Hungary – 1991 – *PM* acquired 80% and Austria's *Tabak Werke* 20% of state-owned *Egri Donhanygyar.*[48]

- 1992 – Germany's *Reemtsma* acquired *Debrecan Tobacco* factory.[49]
- 1992 – *RJR* bought *Satoraljaujhely* factory.[50]
- 1993 – a US tobacco trader and processor *Universal Leaf Tobacco* took over *Nyidofer*,Hungary's main supplier of tobacco.[51]
- 1996 – Germany's *DTV-Hungaro* bought 53% of Hungarian tobacco wholesaler *Hungarotabak.*[52]

Kazakstan –1993 – *PM* bought 49% of Kazakstan's only cigarette producer *Almaty Tobacco Kombinat.* This was increased to 97% in 1994.[53]

- 1997 – UK's *Gallaher* built a cigarette factory.[54]
- 1998 – joint venture between *Gallaher* and *Reemstma.*[55]

Kyrgyzstan -1995 – Greek's *Hellas Ltd. Group* was reported to plan to build a factory.[56]

Lithuania – 1993 – *PM* won a tender to buy control of *Klaipeda* state tobacco company.[57]

Moldova –1996 – *Reemtsma* won the tender to privatize state cigarette factory. Later it was reported in 1997 that the tender results were withdrawn to allow BAT a new chance to win the deal.[58]

Poland -1994 – RJR opened a cigarette manufacturing factory.[59]
-1996 – *BAT* bought 65% of state-owned *PWT Augustow Tobacco* plant.[60]
-1996 – *PM* bought Poland's largest factory *Zaklady Przemyslu Tytoniowego (ZPT)Krakow*.[61]
-1996 – *Seita* bought *ZPT Radom.*[62]
-1996 – *Reemtsma* acquired state-owned *Wytwomia Wyrobow Tytoniowych (WWT) SA* in Poznan.[63]
-1999 – *Reemtsma* opened its second factory in Jankowice.[64]

Romania–1995 – *RJR* opened a cigarette factory in Bucharest.[65]
-1996 – *BAT* built a factory in Ploiesti.[66]
-1998 – *PM* was to build a plant near Bucharest.[67]

Russia –1992 – *RJR* reached partnership agreement with *AS Petro,* forming *RJR Petro***.**[68]

-1992 – *PM* and Administration of the Leningrad Region announced agreement for construction of a factory in Leningrad in early 1993.[69]

-1993 – *PM* bought 49% stake in a cigarette manufacturer *Krasnodar.*[70]

-1994 – *BAT* took a 75% stake in the *Saratov* factory on the Volga River.[71]

- 1994 – *RJR* purchased a controlling interest in *Yelets Experimental Tobacco* factory, a tobacco processing plant, to serve as a central tobacco processing facility for RJR's cigarette manufacturing in Central and Eastern Europe.[71]

-1994 – *RJR* acquired a controlling stake in *Armavirtabak,* a cigarette manufacturer in *Krasnodar* region, and renamed *RJR-Armavirtabak.*[72]

-1995 – *BAT* invested in the *Yava* cigarette plant in Moscow.[73]

-1996 – *BAT* modernized a tobacco plant in Saratov.[74]

-1996 – *Svensk Tobak* started joint Russian-Swedish tobacco production in St. Petersburg.[75]

-1996 – Finland's *Amer Tobacco* set up joint venture with *Nevo Tobacco* of St Petersburg.[76]

-1997 – Bulgaria's *Bulgartabak* set up joint venture with *Gremyachinsk Cigarette Factory* of the Gremyachinsk municipality in the Perm region of the Urals.[77]

-1997 – *Rothmans* opened a new plant in St Petersburg.[78]

-1998 – *PM* constructed a new factory in St Petersburg.[79]

-1998 – *RJR-Petro* opened a new factory, Petro 2, in St Petersburg.[80]

-1999 – *Liggett-Ducat* cigarette plant was opened in Moscow.[81]

Serbia **-**1997 – Serbia's *Duvanska Industrija Vranje (DIV)* resumed production cigarette brands under licence from *RJR* after ceasing production for RJR in May 1992.[82]

Ukraine -1992 – *RJR* and Ukrainian government announced a joint venture with government-owned factories in Lviv and Kremenchug.[83]

-1994 – *Reemtsma* acquired a 65% share in the second largest cigarette plant *Cherkassy.*[84]

-1994 – *PM* purchased a 51% stake in the *Kharkov Tobacco Factory.*[85]

Uzbekistan -1996 – *BAT* constructed a factory in Samarkand and increased its share in the joint venture with *UzBAT.*[86]

ASIA

The TTCs have been setting subsidiaries and production bases in most countries except the former communist nations, South Korea, Taiwan, Japan, and Thailand. With political and economic clout the U.S. helped the transnationals to enter the previously closed cigarette markets of Korea, Taiwan, Japan during the mid 80s. For Thailand bilateral dialoque was ineffective and GATT had to rule the case - open the market but Thailand could protect its people's health by indiscriminate measures, i.e. advertising prohibition, raising excise tax, control of sale, and demanding ingredient disclosure. The TTCs' acquisition of ownership of tobacco production in Asia may be summarized as follows:

Bangladesh *BAT* owned 66% of its subsidiary, *Bangladesh tobacco Company.*[87]

Cambodia - 1995 – A partnership between *BAT, SUTL Investment* of Singapore took over *Cambodia Tobacco Company (CTC).*[88]

Hong Kong -1998 - *Swedish Match* bought the Hong Kong-based tobacco distribution company *M Beraha.*[89]

India -1993- *RJR* set up a 50-50 joint venture with *Modipon Fibers Co.* to form *Modi RJR.*[90]

-1995 – *Indian Tobacco Company (ITC),* which is part-owned by *BAT,* set up a new plant near Bangalore.[91]

-1996 – *PM* acquired 36% stake in *Godfrey Philips India Ltd.*[92]

Indonesia -1996 – a cousin of President Suharto took 5% interest in Rothmans subsidiary, *PT Rothmans of Pall Mall Indonesia.*[93]

-1998 – *PM* was to buy a cigarette manufacturer.[94]

Iran -1993 – *The Iranian Tobacco Organization,* in agreement with *RJR,* would sell Winston cigarette.[95]

Japan -1992 – *Japan Tobacco Inc. (JTI)* purchased a small British company *Manchester Tobacco.*[96]

-1993 – *JTI* set up joint venture with French *Seita* to manufacture Gitanes Blondes cigarettes in Japan.[97]

Jordan -1995 – *Rothmans* signed licensing agreement with *The Jordanian International Tobacco Co.* to produce Rothman and other brands.[98]

Korea, South –1997 – The government-owned *Korea Tobacco and Ginseng Corp.* *(KT&G)* began selling shares to the public.[99]

-1999 – *PM* and *BAT* called for an open bid. The government stated that it did not want foreign firms to hold managerial rights.[34]

Malaysia **-**1993 – *JTI* gave production and marketing right to *RJR subsidiary Malaysian Tobacco Company.* [100]

-1995 – *PM* constructed its first tobacco processing plant in Asia.[101]

-1996 – *RJR* expanded its plant in Shah Alam.[102]

-1998 – *Rothmans of Pall Mall (Malaysia)* expanded its production.[103]

Myanmar – 1994 – *Rothmans* entered into a 60% joint venture with the *Union of Myanmar Economic Holdings.*[104]

Pakistan -1995 – *Pakistan Tobacco Company (PTC),* a subsidiary of *BAT* diversified into edible oils.[105]

-1998 – *BAT* invested more in *PTC.*[106]

Singapore – *BAT* closed its plant in June 1990.[107]

Sri Lanka -1995 - *The Ceylon Tobacco Company, a BAT* subsidiary restructured.[108]

Vietnam -1995 – *PM* received license to produce cigarettes in cooperation with a state-owned *Vietnam National Tobacco Corporation (Vinataba)* factory in Ho Chi Min City.[109]

-1995 – *RJR* signed a joint venture agreement with state-owned *Da Nang Cigarette Factory.*[110]

-1995 – *BAT Singapore subsidiary* took license to produce cigarettes in cooperation with a Vinataba's factory.[110]

-1999 – The Prime Minister ordered that no further licenses should be issued for foreign investments in cigarette production through joint ventures. The move followed a plea from Vinataba*.*[111]

SOUTH – SOUTH ACQUISITION OF OWNERSHIP

Most of the activities involve among cigarette makers of developing countries have been business establishment and joint ventures.

In 1989 the *Indian Tobacco Company* established its global trading headquarter in Singapore to expand its exports of products, e.g. tobacco, oilseeds, paper and computer software.[112]

In China the first wholly owned *Ningjiu Rolling Tobacco Ltd.* (translated name), which is incorporated with Hong Kong and Filipino interest, has been established in Ninghua, Fujian Province. The company will make use of Ninghua's locally grown tobacco to produce rolling tobacco.[113]

In 1992 a cigarette factory was set up in Macau by *Golden Leaf Cigarette* Company, a joint venture between

Hong Kong's *Win Fat Tobacco Company*, Macau's *Na Yuet Company*, and China's *Guangzhou Cigarette Factory.*[114]

In Myanmar, *Bursa Myanmar Tobacco Company Ltd.,* a joint venture between *Bursa Tobacco Corporation* of Indonesia and Myanmar's *Zaykaka Company Ltd.* was formed in 1995 to produce cigarettes.[115]

In United Arab Emirates' Dubai a cigarette factory was set up in 1995 by the *Executive Mayor of Jinan Province* of China in collaboration with a local business group.[116]

A joint venture between Turkey's *Tekel AS* and Cuban state monopoly *Habanos SA* in 1999 is expected to take over 60% of Turkey's $10 million a year cigar market.[117]

South Korea's state-owned KT&G in 1999 bought tobacco leaves from the North Korea state firm and agreed to build a joint venture cigarette plant and develop joint cigarette brands.[118]

THE CONSEQUENCES

There are several outcomes culminated from various forms and sizes of ownership of tobacco production.

JOBS CUT

Laying off workers have been frequent both in home bases and in foreign establishments. Reduction of the workforce as a process of reorganization has been carried out because of several reasons, e.g. tobacco price war, fall of profits, decline in smoking rates, decrease in domestic sale and export, and economic crisis.

AMERICAN TOBACCO COMPANY

- In 1994 the American Tobacco Company announced that it would cut about 8 percent of its workforce at its

Reidsville, North Carolina cigarette manufacturing plant. The cuts were a result of tobacco industry price war.[119]

BAT

- In 1994 BAT cut 70 jobs in the USA as part of a reorganization of its U.S. subsidiary, Brown & Williamson, whose profits fell 70% a year arlier.[120]

PM

- In May 1998 PM was to cut 1900 jobs, 11% of its US tobacco workforce, through voluntary early retirement. It said it was cutting costs because of falling US smoking rates.[121]
- In July 1998 PM announced plans to cut another 130 hourly jobs from its Louisville, Kentucky cigarette factory. In February, the company announced a reduction of 400 Louisville jobs through early retirement or voluntary seperation. The chief reason for the cutbacks was "uncertainty in the markets," resulting from state lawsuits against the tobacco industry. Another reason was a decline in domestic volume and export orders.[122]

REEMTSMA

Reemtsma in 1996 cut 10% of jobs at its Polish plant *WWT SA* due to diminishing deman.[123]

RJR

- In early 1998 RJR cut 2,600 jobs in its international tobacco unit and almost 400 in its domestic unit. Industry analysts thought the cuts were to make more funds available for advertising and brand development overseas, particularly in the former Soviet Union. Three high-ranking executives in its international tobacco unit retired at the end of 1997.[124]
- In January 1998 RJR closed its Hong Kong production line, with the loss of 195 jobs, citing increased costs and worldwide reorganization of its manufacturing. RJR's Asia Pacific headquarters would remain in Hong Kong, with 150 administrative and marketing staff.[125]

- At the end of 1998 *RJR* announced plans to cut 4,200 jobs – 17 percent of the global tobacco workforce because of dramatically changed business conditions on the US and Russia and other Commonwealth of Independent States, where sales had suffered a steep decline amid the region's economic upheaval.[126]

-In Malaysia *RJR* restructured its plant in Shah Alam, to produce more low priced cigarettes, and 150 workers were made redundant.[127]

- In the U.S. RJR announced plans to cut about 3.6 percent of its US workforce by the end of March 1999. Most of the 315 employee expected to be cut were factory workers who would be offered early retirement.[128]

ROTHMANS

- In New Zealand nineteen staff are to be laid off at Rothmans' Napier factory, following an 8% sales slump in 1998. Rothmans industry affairs director blamed a higher government tax for the latest fall. In 1991 Rothmans laid off 77 staff also after a tax rise, and in 1997, 22 staff, as tobacco sales continued to slide. The company said it was reorganizing its manufacturing flows and packaging in Napier in order to hold costs.[129]

CLOSURE OF FACTORIES

The government-owned tobacco monopolies always care for the wellfare of their employees and, no matter how well they are doing, they never lay off their workers. On the contrary the TTCs never care for such matter and they always close their plants whenever they are not profitable, mostly after economic slow down resulting in decline in sale. The transnationals restructure their operation to improve efficiency and cost competitiveness by closing their plants.

BAT

- In 1997 *BAT* closed a factory in Berlin with the loss of 450 jobs despite earlier assurances.[130]
- In Malawi, *BAT* halted operation in the only cigarette manufacturing plant, blaming a 40% decline in sales.[131]
-Following the merger with Rothmans, BAT restructured its operations in Switzerland. Production would be concentrated in the factory of Rothmans subsidiary Burrus in Boncourt. The Burrus head office in Lausanne would become the administrative headquarters of the merged group. Geneva, where BAT has so far had its Swiss headquarters and a factory, would be abandoned completely. Altogether some hundred jobs would be lost in the restructuring process.[132]
- PT BAT of Indonesia threatened to shut operations after the government regulation setting a minimum retail price of cigarettes. BAT estimated its sales in 1999 could fall by up to 88% because of the regulation, under which the price of a cigarette could not be lower than Rp225(3 US cents). The stricture became operational from April. BAT had appealed to cigarette makers in Indonesia to unite against the government's excise policy.[133]

IMPERIAL TOBACCO

- The financial Times reported that Imperial Tobacco planned to close one of the three Dutch plants acquired only 10 months ago after the take-over of Douwe Egberts Van Nelle. The chief executive told the meeting that the closure of the Van Nelle Tabak plant was part of an 18-month project to improve efficiency and control costs in the hand rolling tobacco operations.[134]

JAPAN TOBACCO

- Japan Tobacco Inc. closed its plant in Kumamoto in September 1993 due to decreasing demand for Japanese cigarettes. This was the third plant that were closed by *JTI* since it was privatized in April 1985.[135]

PHILLIP MORRIS

- In early 1999 *PM* closed one of its Brazilian plants and cut the workforce by as many as 1,000 employees. *PM* decided to shut the Curitiba factory, which exported 90 percent of its output to Eastern Europe, after economic problems in Russia reduced sales in the region.[136]
- *PM* planned to phase out cigarette production at its Kentucky plant by December 2000 to consolidate production at other manufacturing facilities to maintain cost competitiveness [137]
- The Czech unit of PM, Tabak AS, announced that it was to close one of four tobacco plants because demand for imported cigarettes had fallen. Cigarettes order from the former Soviet countries were decreasing as consumers switched to cheaper domestic brands.[138]

SEITA

- SEITA closed its Chateauroux (Indre) based cigarette manufacturing plant which employed 277 staff. The plant had produced 'brown' cigarettes for more than a century, demand for which continued to fall.[139]
- On 10 November 1998, *SEITA* announced a restructuring plan, which would lead to the loss of 504 jobs and the closing down of two plants.[140]

TABACALERA

- Spain's *Tabacalera* claimed it would only know how many plants it would be closing once the number of job cuts was finally determined.[141]

DIVESTMENT

In early 1999 there was a report that the Volvo car company expected to sell its tobacco group, *Swedish Match,* which included the Swedish Tobacco Company, EBAS, and the US Pinkerton group. Volvo aimed to concentrate on making cars; tobacco was regarded as a "foreign element" in its work.[142]
Burdened by debt and the continued threat of lawsuits, *RJR Nabisco* completed the sale of its international tobacco unit to *Japan Tobacco Inc.* on 12 May 1999 and expected to complete the spin off of its cigarette business from the Nabisco food business by June 15. It would use the proceeds from the $7.8 billion sale to reduce debt and invest in other area of its business. The company said the split was not an attempt to shield the RJR Nabisco Holding Company from liability. "The litigation exposure does not change," said Carol Makovich of RJR Nabisco. The domestic tobacco company would still be responsible for liability claim in the US, and the holding company may still be liable for outstanding claims if the tobacco company goes bankrupt. Japan Tobacco Inc. would assume responsibility for lawsuits outside the US.[143] Martin Feldman, analyst at Salomon Smith Barney, believed that "For the first time since the buyout, the domestic (tobacco) business has strong cash flows that aren't trapped by a heavy debt load." Analysts noted that the plan would not shield Nabisco from liability in lawsuits filed against RJR Tobacco. If the tobacco company could not pay its legal obligations, Nabisco would be held liable.[144]

POLITICS and CORRUPTION

In the Philippines the president's chief economic manager, Mr Ramon del Rosario, was rejected by the Congressional Commission on Appointment in June 1993. He said his problems began when he supported actions to plug a loophole in the tax law that allowed Fortune Tobacco, owned by magnate Lucio Tan, to avoid billions of pesos a year in tax on cigarettes. Tan angered the government and business rivals when he subverted them in 1993 to win control of a holding company that controls the majority of Philippines Airlines. Tan and other cigarette makers had taken a tough defensive stance over how tobacco should be taxed.[145]

In an attempt to boost its market share in Indonesia, Rothmans Indonesia sold 5 % of its equity to Mr Sudwikatmono, a cousin of President Suharto, whose family controlled huge sections of the Indonesian economy and whose patronage is a virtual guarantee of commercial success.[146]

PM, together with two Czech firms, was involved in a financial scandal: three years ago, donations of around US$176,000 were given to a political party leader through a fictitious company.[147]

CONSOLIDATION OF BIG TOBACCO COMPANIES

The grand merger between tobacco giants BAT and Rothmans and *the grand sale* of RJR international business to JTI would greatly consolidate the tobacco oligopoly.

The deal brings the new BAT close to market leader PM in terms of market share, while at the same time allowing the firm to cut costs, increase its profit margins and expand its reach in what BAT calls "emerging markets".

The World Development Movement (WDM) fiercely attacked the grand acquisitions of ownership for creating a '*leaner, meaner killing machine'* to target women and children in developing countries.

The merger between BAT and Rothmans was designed to make BAT lead players in the developing country markets. As Martin Broughton, BAT Chairman said when the merger was announced: 'BAT is now the market leader in emerging markets.' WDM was deeply concerned that the new BAT would step up the aggressive marketing tactics used by both companies to hook smokers in the third world. The two transnationals already stood accused of hypocrisy for using marketing ploys in developing countries that were banned in the home base. In Sri Lanka, BAT's subsidiary employed glamorous young women in their 20's to drive around in 'Player Gold Leaf' cars and jeeps, handing out free cigarettes. In Vietnam, children wear T-shirts with the Rothmans' Dunhill's logo and an ad for the World Cup in 2002. In China. BAT sponsored the country's first rave event in 1997. BAT's logo was displayed prominantly in national games and Rothmans' Dunhill brand sponsored major national tournaments.[148].

THE CONSEQUENCES OF PRIVATIZATION OF STATE TOBACCO MONOPOLIES

Privatization has some benefits – increase in efficiency by bringing in modern technology and equipments, producing higher quality products and cheaper price for consumers, and enabling the employees to be developed and better paid. These 3 benefits are good for other products and services but not good for such hazardous products as tobacco.

TRANSFORMATION OF THE MARKET

In countries with government-owned cigarette manufacturers the closed market usually has little or no advertising or promotion; unflavored, harsh, hard to smoke tobacco products; a limited number of retail outlets; and high price due to no price competition.

When the state monopolies are dismantled and the TTCs acquire ownership in the low-income nations they radically transform the cigarette markets in the host countries by:

- massive poliferation of the retail outlets to make cigarettes more available,
- widening of distribution system,
- introduction of sophisticated western-style advertising – direct, indirect, and point-of-purchase, on a large scale,
- widespread sponsorship of cultural and sport events,
- introduction of highly flavored "light" cigarettes that make smoking easier and quitting harder, and result in more cigarettes being smoked per person
- buying influence by nico-philantropy, bribing, etc., and
- lobbying for weakening and repealing laws and regulations, e.g. exemption of ban on sponsorship, reducing excise and import taxes, etc.

From our studies of the privatization of state tobacco monopolies around the world we have summarized that this is not merely an ordinary privatization but it is in reality a process of **denationalization** and a form of **tobacco neo-colonialism.** The grave consequences may be summarized as follows:

1. Health and quality of life.

Privatization results in increase in tobacco consumption and consequent diseases, disabilities, and death. The World Health Organisation (WHO) stated that in the Former Socialist Economies (FSE), in 1990, around 14% of all deaths were due to tobacco use. This figures is predicted to increase so that in 2020, more than 22% of all deaths in this region will be due to tobacco. In the FSE, smoking is likely to be a major factor underlying the 56%

projected increase in male deaths from chronic disease between 1990 and 2020. In fact, the FSE region is projected in 2020 to have the highest adult male risk of death, even higher than in sub-Saharan Africa. Middle-aged men in this region were twice as likely to die from a tobacco - related death as middle - aged men in the West. About 28 percent of women in former communist countries smoked as compared with 23 percent in the West. However, it was young people who were affected most. According to WHO, smoking rates among adolescents in Eastern Europe and the former Soviet Union were increasing rapidly especially among girls.

In the Czech Republic from 1989 to the mid 1990s consumption increased 4 percent per year. In Romania smoking rates in 1989 was 25.9%(43.9 male and 11.3 female) but in 1997 these rose to 28, 42.7, and 15.2 percent respectively.

In Poland mortality from lung cancer has increased five –fold since 1950. Lung cancer among women has also been increasing. Almost 70,000 Polish men die each year from tobacco use, more than twice the number of 20 years ago. Between 1975 and 1995, the annual death rate for women from smoking-related illness more than quadrupled, to around 12,000 per year.

In Romania smoking prevalence in 1989 was 25.9 percent overall (43.9 for men and 11.3 for women). This increased to 28, 42.7, and 15.2 respectively.[151]

In Uzbekistan 40% of men and 1% of women were smokers in 1989 but in 1994 the rates increased to 49 and 9 percent respectively.

In Russia, following massive investment by western tobacco companies smoking has risen since 1985 – from 10% to 30% among women and from 50% to 60% among men. According to a WHO survey life expectancy has plunged to its lowest in 15 years, with the commonest causes of death being cardiovascular disease and cancer.

WHO said life expectancy had dropped in all 15 republics of the former Soviet Union, but the worst hit was Russia. The average Russian man could now expect to live 57.4 years compared to 61.1 years in 1981. The biggest killers of men were diseases of the circulatory system, mainly heart disorders and stroke, responsible for half of male deaths, highest in Russia, Latvia and Turkmenistan. Heart disease and strokes killed more women than men and were to blame for up to 70 percent of all female death, peaking in former Soviet Turkmenistan, Uzbekistan and Russia. The second biggest killer was cancer, the cause of between 8 and 32 percent of all male deaths and between 8 and 30 percent of all female deaths. By comparison, men in western Europe could expect to live an average 73 years compared to 63 years for their east European counterparts. Women in western Europe could look forward to living nearly 80 years compared to 74 years for women in eastern Europe.[153]

2. Laying off monopolies' workers

   After privatization the old machines that used to produce 5,000 pieces a minute are changed to a more modern ones that can produce 2 – 3 times as many. Therefore, laying of workers is inevitable. In European Union although cigarette production increased 12 percent between 1978 and 1994 but employment was reduced 49 percent.[154]

3. Unemployment of tobacco farmers

The Institute of Agricultural Economics and Food discovered that in Poland the number of tobacco farmers greatly reduced from 138,000 in 1987 to 40,000 in 1994. In overseas production the US transnationals have been using foreign leaf. They purchase mostly from three large U.S.-based corporations that dominate the global trade in tobacco leaf - Universal Corporation, Dimon Incorporated and Standard Commercial Corporation. These companies buy, process, pack and ship leaf tobacco for sale to the cigarette companies in countries all over the world.[30]

4.Weakening of tobacco control

Once the TTCs can establish a firm foothold in a developing country they would buy influence, bribe corrupt government officials and politicians and use their political and economic clout so that small and weak tobacco control groups would not be able to work properly.

Recommendations for Framework Convention for Tobacco Control – curbing the proliferation of ownership

1. Strengthening and effective enforcement of antitrust law in every country.

The tobacco companies' formation of partnership creates synergies in various countries. Sale of brands improves poor selling at home and expand international sale of these brands. Sale of operations and merger greatly builds up consolidation of the oligopoly.

All these practices should be strictly controlled by antitrust laws in countries all over the world, especially in low and middle income nations. Lesson should be learned from the Minnesota litigation case in which the state and Blue Cross alleged that the tobacco industry violated the Minnesota antitrust act by entering into a contract combination, or conspiracy in unreasonable restraint of trade in the market for cigarettes.[154]

2. WTO exempts tobacco products from regulations for trade liberalization.

The legal framework of the World Trade Organisation (WTO) is relevant to the development of the Framework Convention on Tobacco Control. Although the GATT does not make wide-ranging provisions relating to the protection of health, there are provisions relevant to ensuring public health. The GATT has always recognised that free international trade is not the only relevant policy goal for nations. It has many exceptions that give equal or greater weight to other policy goals.

The Thai cigarette case shows that measures to protect health by control of tobacco use comes within the ambit (find synonym) of exceptions laid under Article XX (b) of GATT Agreement..

The WTO should utilize GATT's Article XX for its consideration of trade liberalization. Hence it should not include liberalization in acquisition of ownership of tobacco production in its deliberations. China and Taiwan have been waiting for a long time to be admitted for WTO membership and one of the major hurdles is the refusal of the TTCs' landing in these countries.

3 The IMF exempts cigarette production from conditions for financial assistance

When a country asks the IMF for financial bail-out it should not include tobacco production in one of its conditions of privatization of state enterprises. South Korea, Thailand and Moldova have been victims of such practice and no more countries should suffer in the future.

4. Global litigation to force the TTCs to:

- Abide by international law and measures of tobacco control.
- Not seeking assistance from home-based governments in resisting or repealing tobacco control laws in host countries.
- Not to donate money to politicians and political parties.

- Compensate governments having the TTCs-owned cigarette factories for health care cost in treating tobacco-related diseases.
- Contribute to WHO and international NGOs working for tobacco control.

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