



Follow the money: How the billions of dollars that flow from smokers in poor nations to companies in rich nations greatly exceed funding for global tobacco control and what might be done about it

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Received 27 November 2009

Revised 3 March 2010

Accepted 22 March 2010

ABSTRACT

The business of selling cigarettes is increasingly concentrated in the hands of five tobacco companies that collectively control almost 90% of the world's cigarette market, four of which are publicly traded corporations. The economic activities of these cigarette manufacturers can be monitored through their reports to shareholders and other public documents. Reports for 2008 show that the revenues of these five companies exceeded \$300 billion, of which more than \$160 billion was provided to governments as taxes, and that corporate earnings of the four publicly traded companies were over \$25 billion, of which \$14 billion was retained after corporate income taxes were paid. By contrast, funding for domestic and international tobacco control is not reliably reported. Estimated funding for global tobacco control in 2008, at \$240 million, is significantly lower than resources provided to address other high-mortality global health challenges. Tobacco control has not yet benefited from the innovative finance mechanisms that are in place for HIV/AIDS, tuberculosis and malaria. The Framework Convention On Tobacco Control (FCTC) process could be used to redirect some of the earnings from transnational tobacco sales to fund FCTC implementation or other global health efforts.

INTRODUCTION

Tobacco use is a global health problem, and the business activities which fuel tobacco use have garnered strength from the economic, cultural and trade dimensions of globalisation.¹

Indicative of the increased globalisation of the tobacco market is the extent to which domestic tobacco producers have been replaced by multinational corporations. While it may be difficult to visualise the number of smokers worldwide (1.3 billion) or the number of cigarettes smoked in recent years (5.6 trillion in 2008),² the number of tobacco companies that make most of these cigarettes can be counted on the fingers of one hand. They are British American Tobacco, the China National Tobacco Company, Imperial Tobacco, Japan Tobacco and Philip Morris International. Among the companies that have in recent years been acquired by or merged with these companies are Gallaher, Lakson, Reemstma, Rothmans, Sampoerna, SEITA, Tabacalera and Tekel.³ In only a few nations (such as China, the USA, Japan, Thailand, Egypt) is the tobacco market operated by companies headquartered in that country,³ and the

global market share of multinational tobacco companies has grown significantly over the past two decades (table 1).

The world's largest tobacco company is owned and controlled by the Chinese government and operates almost exclusively in China; in 2008 it accounted for 38% of the world's cigarette sales.⁵ While estimates differ of the market share of the largest companies operating outside China,^{8–10} Euromonitor² reports a further 50% of the world market is supplied by: British American Tobacco and its associates, (16.4% global market share when sales by associated companies like Reynolds American are included); Philip Morris International (15.5%); Japan Tobacco (10.9%); and Imperial Tobacco (5.9%). The remaining market is served by companies which operate predominantly in domestic or regional markets, such as US-based Altria/Philip Morris USA (3%) and Lorillard (<1%); Egypt's Eastern Tobacco (1.2%); Korea's KT&G (1.8%); the Thai Tobacco Monopoly; the Taiwan Tobacco & Liquor Corporation; the Vietnam National Tobacco Corporation; and Bulgaria's Bulgartabac (all under 1%).^{2 11–13}

One consequence of global concentration is the relative ease of measuring the tobacco economy by using information provided to shareholders and financial analysts in compliance with stock exchange and other regulations. Comparative data on tobacco control are less robust or routine but, nonetheless, allows comparison between the financial benefits to tobacco company owners that result from tobacco use and the financial resources provided by governments and others to reduce tobacco use.

METHODS

Sales data, revenue and income of the largest publicly traded tobacco companies for the 2008 fiscal year were collected from corporate annual reports of the companies reviewed,^{14–17} investor presentations^{8–10 18} and from other trade sources.^{2 3 19 20} Information on expenditures on tobacco control and selected health issues during this same general time period were gathered from publicly available sources.^{15 16} These data were compiled to provide a snapshot of the global economies of tobacco sales and tobacco control in 2007 and 2008.

Some adjustments to the data were required to allow for comparability. The companies reviewed defined key financial terms differently, reported on different time periods, presented data in different



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Table 1 Global cigarette market share, major companies, 1991 and 2008

	1991 ⁴		2008 ^{2 5-7}	
	Billion cigarettes	Share of global market (%)	Billion cigarettes	Share of global market (%)
China National Tobacco Company (CNTC)	1687	32.0	2143	38.3
Philip Morris International	640	12.2	869	15.5
Altria/Philip Morris USA			169	3.0
BAT (and Canada's Imperial and India's ITC)	529	10.1	830	14.8
Japan Tobacco	275	5.2	612	10.9
RJ Reynolds/Reynolds American†	135	2.6	90	1.6
Rothmans International	120	2.3	*	
Korea Tobacco and Ginseng (South Korea)	90	1.7	102	1.8
Bulgartabac (Bulgaria)	80	1.5	13	0.2
American Brands	78	1.5	*	
Tekel (Turkey)	58	1.1	*	
Tabacalera (Spain)	57	1.1	*	
Eastern Tobacco (Egypt)	54	1.0	68	1.2
Reemtsma (Germany)	53	1.0	*	
Seita (France)	50	0.9	*	
AAMS (Italy)	47	0.9	*	
Thailand Tobacco Monopoly	38	0.7	22	0.4
Lorillard	37	0.7	37	0.7
Imperial (UK)	32	0.6	329	5.9
Austria Tabak (SM)	21	0.4	*	
Others	1189	23	259	4.6
Total	5267	100	5600	100

*No longer in operation.

†Now 40% owned by BAT and reported with BAT in this study.

currencies and used different regional groupings for their markets. To allow for better comparison of data:

- ▶ The terms (a) revenues, (b) earnings and (c) profits were used to mean (a) gross value of tobacco sales including excise taxes, (b) value of tobacco sales after costs of production and excise taxes have been subtracted and (c) net corporate proceeds after income taxes, extraordinary items and other expenses have been subtracted.
- ▶ The business activities reviewed were those in the fiscal year with the most months in 2008: that is the fiscal years ending 30 September 2008 (Imperial Tobacco), 31 December 2008 (British American Tobacco, Altria and Philip Morris International) and 31 March 2009 (Japan Tobacco).
- ▶ No adjustment was made to regional or geographical categories or terms, which are presented as provided by the companies. Information on the groupings used by the companies, although often vague can be found in their annual reports.¹⁴⁻¹⁷
- ▶ For companies that did not report results in US dollars, local currencies were converted to US dollars at the average annual rate in 2008, as stated in table 2.
- ▶ This study is limited to the sale of manufactured cigarettes and fine-cut tobacco intended for use in cigarette form (ie, RYO/roll-your-own). These two product categories were combined by calculating 0.7 g of fine-cut tobacco as equivalent to a manufactured cigarette. Oral tobacco, shisha tobacco, pipe tobacco, bidis, etc, were not included in this study.

RESULTS

In 2008, British American Tobacco, Philip Morris International, Japan Tobacco International and the Imperial Tobacco Group shared about \$220 billion in revenues from tobacco sales. After these companies paid their production costs and remitted tobacco taxes to governments, their earnings were \$25 billion, approximately \$0.18 for each package of 20 cigarettes they sold. After paying corporate income taxes and other such expenses, they retained almost \$14 billion in profits (about \$0.10 per package). Almost nine-tenths of the sales on which these earnings were based were in foreign markets—that is, from sales in countries other than the country in which the company is officially and operationally headquartered. On average, each carton of 200 cigarettes sold by Philip Morris International resulted in a return of \$2.30, while Imperial Tobacco's earnings on foreign sales were \$1.78 per carton, BAT's were \$1.60 and Japan Tobacco's were \$1.10 per carton. These results are presented in table 2.¹⁴⁻¹⁷

Results by company

China's National Tobacco Company (CNTC)⁵

Chinese smokers consume 38% of the world's cigarettes, and the 2143 billion cigarettes they smoked in 2008 were all sold through the State Tobacco Monopoly Administration (STMA), and were almost all manufactured by the China National Tobacco Corporation (CNTC) which functions as an umbrella agency for China's many domestic companies. Like its multi-national counterparts, the Chinese tobacco industry is undergoing significant restructuring. The CNTC sold relatively few (13 billion) cigarettes outside China in 2008, although it has announced intentions to expand its foreign trade, and has entered an agreement with Philip Morris International to distribute its 'heritage' brands in international markets.^{23 24} Many distinctions between the operations and reporting of CNTC and the publicly traded multinationals make it inappropriate to compare business results with other companies. Euromonitor reports that in 2008 the total tax revenue of the Chinese industry was \$64 billion (CNY (Chinese yuan renminbi) 450 billion) and that the value of sales was \$105 million (CNY 732).

British American Tobacco (BAT)¹⁵

BAT is based in the UK but, for historical business and legal reasons, has a much smaller presence in the UK and operates indirectly (through, Reynolds American) in the USA. In 2008, it directly managed the manufacture and sale of 716 billion cigarettes and through the associated companies in which it is the largest shareholder, it indirectly managed the sale of an additional 204 billion cigarettes. BAT claims to sell three-quarters of its production in developing countries. Transnational earnings from BAT's global operations exceeded \$7 billion in 2008.

Philip Morris International (PMI)¹⁹

Philip Morris brands have been sold internationally for decades, but Philip Morris International (PMI) was created as recently as 2008, when it was spun off from Altria. Although PMI has its operating headquarters in Switzerland, its legal headquarters is in the USA. PMI and Altria continue to operate in tandem: the brands that are sold by Altria in the USA are sold in other parts of the world by PMI,¹³ including the world's best-selling cigarette, Marlboro, which has 13% market share of the cigarettes sold outside China.¹⁸ In 2008, Philip Morris International sold 870 billion cigarettes and its earnings exceeded \$10 billion. Fewer than half its sales were in OECD member countries.

Table 2 Sales, revenues, earnings and profits of the CNTC and major tobacco multinational tobacco companies, 2008†

	Cigarettes sold (billions)	Revenues from tobacco sales (millions)		Earnings from tobacco sales (millions)		Corporate profits after tax (millions)		Earnings per pack
		CNY	US\$					US\$
China National Tobacco Company	2143	732300	105347	*	*	*	*	*
		GPB	US\$	GPB	US\$	GPB	US\$	
British American Tobacco	920	33921	62262	4075	7480	2659	4881	0.16
Direct operations	716			3717	6822			0.19
Americas	161			1052	1931			0.24
Western Europe	123			760	1395			0.23
Asia Pacific	180			924	1696			0.19
Eastern Europe	137			468	859			0.13
Africa and Middle East	114			513	942			0.17
Associates	204			503	923			0.09
Reynolds American	90			339	622			0.14
ITC	81			117	215			0.05
Other	33			47	86			0.05
Developing countries	544 (76%)							
Developed countries	172 (24%)							
			US\$		US\$		US\$	US\$
Philip Morris International	869		63640		10248		6890	0.23
European Union	243				4738			0.39
Eastern Europe, Middle East and Africa	303				3119			0.21
Asia	224				2057			0.18
Latin America and Canada	99				520			0.11
Non-OECD countries	469 (54%)				3279			0.27
OECD countries	399 (46%)				6657			0.55
		GPB	US\$	GPB	US\$	GPB	US\$	US\$
Imperial Tobacco Group	329	15650	28725	2107	3867	441	809	0.24
United Kingdom	25			584	1040			0.86
Germany	30			309	550			0.38
Spain	25			150	267			0.22
Rest of European Union	77			494	879			0.24
Americas	16			166	296			0.38
Rest of world	156			404	719			0.10
Developing countries	175 (53%)							
Developed countries	154 (47%)							
		JPY	US\$	JPY	US\$	JPY	US\$	US\$
Japan Tobacco	612	6832307	66049	353031	3413	123400	1193	0.11
International Tobacco	452	3118319	30145	174772	1690			0.07
North and Central Europe	51							
CIS countries	220							
South and West Europe	64							
Rest of world	118							
Domestic tobacco	160	3200494	30940	188259	1820			0.23
Major manufacturers								
Domestic sales—China	2143				*			*
Domestic sales—other	185				2892			0.31
International sales	2545				22213			0.17
Other manufacturers	727							
Total	5600		326023		25104		13773	0.18

*Comparable figures not available.

†Currency converted at the yearly average rates (US\$ = 1; CNY = 6.95; GBP = 0.55; JNY = 103.4).

The Imperial Group (ITG)¹⁶

For many years, the Imperial Tobacco Group PLC (ITG) sold few cigarettes outside the UK, but in recent years it has globalised its business through the acquisition of other companies, such as Reemtsma, Altadis and Commonwealth Brands. In 2008 only 25 billion of its total sales of 329 billion cigarettes were in the UK.

ITG's sales are concentrated in the Americas and Europe, with only one-fifth of its market outside these continents, but almost half of its sales are in developing countries and newly industrialised states (particularly eastern Europe). Earnings from Imperial Tobacco's global operations approached \$3 billion in 2008, with a further \$1 billion in earnings from the UK.

Japan Tobacco (JT)^{14 25}

Almost three-quarters of the 613 billion cigarette manufactured and sold by Japan Tobacco in 2008 were sold through its wholly owned subsidiary, Japan Tobacco International. Although JT is a publicly traded company, the Japanese government holds a 50% ownership and the legal authority to supervise its operations. Japan Tobacco also maintains non-tobacco operations, including pharmaceutical products and food, but less than 5% of its earnings come from these other sources. Transnational earnings from Japan Tobacco's international operations were \$1.7 billion in 2008, and its domestic tobacco earnings were \$1.8 billion.

Government revenues from tobacco

From the sale of cigarettes made by the four largest tobacco multinationals, governments received over \$100 billion in tobacco specific taxes and almost \$7 billion in corporate income taxes.^{14–17} Total payments to government exceed \$170 billion when payments by other tobacco companies are included.^{12 13 19 26} These tax payments, as reported in the annual reports are displayed in table 3, although company reports do not state to which government these taxes were remitted.

In addition to tax revenues, governments which have complete or partial ownership in tobacco companies receive income in the form of remittances or dividend payments. This will occur when the government owns and controls a state monopoly, such as Egypt's Eastern Company, Vietnam's VINATABA, Thailand's Tobacco Monopoly and Taiwan's Tobacco & Liquor Corporation. Governments which do not own state monopolies may own shares in publicly traded tobacco companies, and will receive dividend payments or other forms of profit sharing from these investments. On the basis of the holdings by the government of Japan in Japan Tobacco, it likely received \$275 million in dividend payments for 2008, about half of which was attributable to profits on international tobacco sales.¹⁴ Governments may invest in tobacco companies headquartered in other countries; public pension investments by governments of Canada and the Canadian province of Quebec are estimated to have resulted in combined dividend payments totalling \$20 million from the profits of international tobacco sales in 2008.²⁷

Government investments in domestic and global tobacco control

Estimates of government expenditures on tobacco control suffer from several methodological constraints. In 2007 and again in 2008, the WHO Tobacco Free Initiative (WHO/TFI) requested member states to report expenditures on national tobacco control programmes.^{21 28} In the first report, fewer than half of WHO member states provided information on their tobacco control expenditures and in the second report the response rate was still below 60%. The WHO nonetheless estimated that governments 'spent a total of \$965 million on tobacco control—with 99% of this amount spent by 17 high income countries.'²⁷ Whether or not this sum included funding by sub-national governments or funds for international programming is not made clear.

The challenges faced by WHO/TFI in gathering data on global funding for national tobacco control programmes is paralleled by challenges the Framework Convention on Tobacco Control (FCTC) Secretariat faced in gathering data on funding for global tobacco control, such as the development assistance for health (DAH) provided by governmental or private organisations or individuals. After attempting to quantify this support in 2005,

the WHO FCTC Secretariat concluded it was 'impossible to provide a clear indication of the amounts of funding available.'²⁹ Although parties to the FCTC are required to report whether they received or provided financial or other forms of assistance, they are not required to quantify this support.³⁰

One of the most active supporters of global tobacco control, the Bloomberg Philanthropies, suggested in 2007 that \$200 million was spent on international development aid for tobacco control.²² The basis for their estimate was not stated, but it may have included the annual budget for the functioning of the Framework Convention on Tobacco Control (now \$6.5 million),³¹ the portion of the WHO budget for tobacco, alcohol, unhealthy diets, physical activity and unsafe sex (the total of which is now \$80 million) that is spent on tobacco control,³² and the estimated annual \$62 million investment of the Bloomberg Initiative to Reduce Tobacco Use.³³ Since that estimate was made, a further \$25 million annualised donation was announced in 2008 by the Bill and Melinda Gates Foundation,³⁴ and WHO/TFI produced an estimate of \$9.6 million spent on national tobacco control programmes in middle-income and low-income countries. Based on these available estimates, the total available for development assistance for tobacco control is likely no greater than \$240 million.

Comparison with development assistance for health to control other diseases

Investments in international assistance for tobacco control from both governmental and private sources is much smaller than investments in other identified global health challenges, on both an absolute and relative basis. A recent review of DAH estimated the total 'financial and in-kind contributions from global health channels that aim to improve health in developing countries' between 1990 and 2007.³⁵ This study identified support for HIV/AIDS, tuberculosis and malaria, but did not provide estimates for development assistance for tobacco control. Using the adjusted estimate of DAH for tobacco control provided by the Bloomberg Foundation, discussed above, and combining measures of DAH with estimates of the current and future burden of these diseases^{36 37} shows that DAH for each person living with HIV/AIDS (\$111 per year), or tuberculosis (\$50) far exceeds the amount provided for each person who smokes (\$ 0.25). (Global estimates for malaria cases are not available.) When investments in preventable disease control are measured against predicted deaths in 2030,³⁸ the funding for malaria (\$1189), for tuberculosis (\$1127), and HIV/AIDS (\$782) again greatly exceed the funding to prevent tobacco-caused disease (\$35). These results are shown in table 4.

Tobacco control has not benefited, as have other diseases with large global mortality, from the development of new mechanisms to provide financial development assistance for health, such as the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) and the Global Alliance for Vaccines and Immunisation (GAVI). Nor have innovative fund raising programmes to finance such instruments been developed for tobacco control as they have been developed for other global diseases during recent years. Such programmes include: the Advance Market Commitment for Vaccines (AMC),⁴¹ which uses price guarantees as incentives to for corporations to develop vaccines for diseases found in low-income countries; the International Finance Facility for Immunisation (IFFIm), which issues bonds in the capital market to raise funds for immunisation⁴²; UNITAID, which buys drugs with monies raised through taxes on air tickets and other revenues⁴³; Bono and Bobby Shriver's private-sector cause-marketing project (RED), which provides

Table 3 Taxes remitted by largest tobacco companies, 2008 (millions)

Company	Fiscal year end	Global market share	Tobacco taxes	Income taxes		Total
				US\$	US\$	US\$
China National Tobacco Company (CNTC)	31-Dec-08	38%	CNY 449900	71915	†	71915
British American Tobacco and Associates (BAT)	31-Dec-08	16.4%	GBP 21799	40012	GBP 1025	41893
Philip Morris International (PMI)	31-Dec-08	15.5%		3935	2787	6722
Japan Tobacco (JTI)	31-Mar-09	10.9%	JNY 2016019	19489	JNY 199759	21420
Imperial Tobacco Group (ITG)	30-Sep-08	5.9%	GBP 10412	19111	GBP 180	19441
Altria/Philip Morris USA	30-Dec-08	3%		3399	1699	5098
Thai Tobacco Monopoly	31-Dec-06	1%	BHT 38920	1180	†	1180
Reynolds American	31-Dec-08	*		1890	790	2680
Lorillard	31-Dec-08	<1%		712	547	1259
Total		91%		161,642	9,966	171,608

*Included with BAT total.

†Not available or not found.

a portion of earnings from the sale of consumer goods to AIDS projects in Africa⁴⁴; and the Debt2Health, which allows borrowing and lending nations to make debt-swaps to free up domestic resources to address HIV/AIDS, tuberculosis and malaria.⁴⁵

DISCUSSION

The globalisation of the tobacco market has resulted in significant transnational transfers of revenues from tobacco sales. The globalisation of tobacco control, in the form of the FCTC, has not yet resulted in significant transnational transfers of revenues to support tobacco control efforts.

Global concentration of the tobacco industry could allow for increased funds to be made available for global efforts to reduce tobacco use through the use of transaction taxes on the flow of profits from countries where multinational tobacco companies sell cigarettes to countries where they distribute the profits or other fiscal instruments. This could reverse the current pattern, which sees money flow from smokers in developing countries to corporations in the developed world. It would also be consistent with the 'polluter pay' principle and with proposals like the Tobin Tax to levy fines on international financial transactions. A precedent for surtaxes on tobacco companies can be found in Canada, where the government levied a 'health promotion surtax'⁴⁶ on tobacco manufacturers' earnings in 1994, now set at 150% of the tax rate for all other corporations.⁴⁷

The imbalance between the money that flows from (often poor) smokers to (often not poor) shareholders and the money that flows from wealthy to poor countries to reduce tobacco use can be illustrated by comparing the earnings received by just one tobacco company from smokers in one sub-continent with the amount provide to help all poor nations combat tobacco use. In 2005, BAT reported to investors that it sold 40 billion cigarettes in two of the world's poorest regions, Equatorial and West Africa, and that a similar number of cigarettes were sold in the region by all other companies combined.⁴⁸ Assuming the profits on BAT's sales in that region were consistent with its average earnings that region (\$0.17 per package of 20 cigarettes, shown in table 1), then smokers in the poorest countries of sub-Saharan Africa provided about \$340 million to BAT's bottom line, about 140% the global DAH for tobacco control. Equivalent figures for earnings from tobacco sales by other companies in that region are not disclosed, but would further increase the gap between the amount provided by Africans and the amount available to them.

The same governments and international agencies that have adopted innovative mechanisms and partnerships to raise funds for other global health challenges have so far failed to do so for tobacco, although they have developed in domestic tobacco control several models for how this could be done. Canada's health promotion surtax on tobacco manufacturers' income, mentioned above, is one available tax instrument. California, Switzerland and other jurisdictions have imposed special

Table 4 Development assistance for control selected preventable disease

	DAH to developing countries for specific diseases (2007)	People living with disease/smoking in middle and low-income countries	DAH for every person living with specified disease or smoking	Estimated deaths 2005 in middle and low-income countries	DAH per estimated death in low and middle-income countries 2005	Predicted deaths in low and middle-income countries 2030	DAH per estimated death in low and middle-income countries 2030
	US\$ millions		US\$	Millions	US\$	Millions	US\$
HIV/AIDS	5068	45541113	111.28	2808545	1804.49	6478081	782.33
Source	35	37		38		38	
Malaria	761			887835	857.14	639940	1189.17
Source	35			38		38	
Tobacco use	240	959000000	0.25	3800000	63.16	6800000	35.29
Source	27 30 39	36		40		40	
Tuberculosis	687	13547995	50.71	1397407	491.62	609459	1127.23
Source	35	37		38		38	

DAH, development assistance for health.

What this paper adds

- ▶ Revenues generated through tobacco sales by multinational corporations can be monitored through corporate reports.
- ▶ Public investments to reduce tobacco use are extremely small compared with both corporate profits and government revenues from cigarette sales. They are also much smaller than public investments in other high-burden health issues.
- ▶ A mechanism to capture a share of the earnings on transnational tobacco sales could be developed through the Framework Convention on Tobacco Control and be used to increase available resources to reduce the burden of tobacco use.

consumption taxes on tobacco, or levies, to provide funding for tobacco control and other health programming.^{49 50}

Governments could draw on the same innovative spirit they used to develop novel instruments to fund efforts against HIV/AIDS, tuberculosis and malaria in order to find a suitable mechanism to increase funding available to development assistance for tobacco control. The experience with these other diseases suggests that when there is a political will, a way to raise money can be found.

The FCTC provides a forum appropriate for intergovernmental negotiation of ways to reduce the transboundary flow of earnings from tobacco use and to increase transboundary support for tobacco control. Actions the Conference of Parties and the FCTC Secretariat could take include:

- ▶ Monitoring the application of the Article 5.3 guidelines on tobacco industry influence which recommend against investments by governments in tobacco companies, and reporting on the dividends paid to governments that refuse to abide by these guidelines.
- ▶ Requesting parties to gather and report information on earnings of the tobacco industry in their country, and also to report on the destination of those earnings.
- ▶ Requesting WHO/TFI to include in its study of ways to implement FCTC Article 6 (tax and price) methods, currently under way, the use of profit taxes to raise funds for national and international tobacco control efforts.

Diverting a portion of the earnings on tobacco sales that cross international boundaries away from shareholders and towards the victims and potential victims of this commercial activity might be one way to resolve the funding crisis that hinders full implementation of the FCTC.

Funding Health Canada.

Competing interests None.

Provenance and peer review Not commissioned; externally peer reviewed.

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