Report of the Tobacco Policy Research Study Group on Tobacco Trade

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Cigarette smoking is the leading cause of preventable death and disease in the developed world, accounting for close to 20% of all deaths.1,2 Most developed nations are approaching this problem by adopting policies and programmes intended to curb the use of tobacco.3 Prevalence of smoking and per capita consumption is declining in many industrialised nations. This is not the case, however, in many less developed countries where social changes and economic growth coupled with comparatively higher rates of population growth are contributing to increases in both total and per capita cigarette consumption.4,5 This problem is almost certainly being exacerbated by effects flowing from the globalisation of the world cigarette industry and the increased trade in tobacco leaf products and marketing programmes and technologies by major transnational tobacco companies.

In recent years, several cigarette markets in Asian and eastern European countries formerly closed to imports have been opened to the United States and British cigarette companies. Entry of the transnational tobacco companies into these previously closed cigarette markets has resulted in competition between national monopolies and foreign cigarette manufacturers, fought out with an intensity never before experienced in these countries. In such situations, early indications point to sometimes dramatic growth in consumption,6 which is unlikely to be explained by population growth alone. In the cases of South Korea, Japan, and Taiwan national policies have been adopted to allow the entry of transnational tobacco companies into the domestic cigarette market, which has led to price competition (lower prices to consumers), increased retail availability, new and more vigorous cigarette advertising campaigns and promotions, and the targeting of non-smoking women and adolescents.7-9 Lighter, highly flavoured, western brands have also been introduced in a trend that may result in increased consumption. Specific brands targeted at women have also been introduced.7-10

There is concern that expanded trade in tobacco products from the developed to the developing world will exacerbate the pro-smoking social and political climates that are more common in less developed countries. In the next section data on the production and trade of tobacco leaf and cigarettes are presented and the transformation of closed cigarette markets into competitive situations summarised. The recent transformation of closed cigarette markets in Asia and the impact that expanded trade has had on cigarette consumption is also discussed.

Background

PRODUCTION AND TRADE OF TOBACCO LEAF

In 1988, 7.2 million tonnes of tobacco leaf were produced worldwide, an increase of 7.5% from 1987.10 This increase was due in large part to the increase in China. The Food and Agricultural Organisation predicts that production of leaf will increase 2% a year over the next 10 years with developing countries growing at a rate of 24%, and developed countries at 1% per annum.10 China and the formerly centrally planned economies of eastern Europe produce 43% of world leaf, the United States 13%, and Italy, Turkey, and Greece together 9%. Brazil, Malawi, and Zimbabwe are the principle sources of tobacco for the transnational tobacco companies and produce 18% of the world total. Other nations that produce large quantities of leaf include Indonesia, South Korea, Japan, Thailand, India, and the Philippines. These nations produce tobacco that is generally used by their state tobacco companies. Two thirds of world’s tobacco is grown in developing countries and about 20% of all tobacco is exported to the world market.10

PRODUCTION OF TRADE OF CIGARETTES

In 1988, 5.2 trillion cigarettes were produced; 1/2 trillion (23%) were made in China, 1 trillion in the Americas (21.3%), 730 billion in Asian nations other than China, and 700 billion (14%) in both eastern Europe and western Europe.9

STRUCTURE OF THE WORLD TOBACCO INDUSTRY

The world’s cigarette manufacturers are divided into two groups: transnational companies, and state monopolies and national cigarette companies. The major transnational companies include British American Tobacco (United Kingdom), Philip Morris (United States), R J Reynolds (United States), American Brands (United States), Rothmans (United Kingdom/South Africa), and...
Imperial Tobacco (United Kingdom). These companies and their 90 subsidiaries produced around 40% of all the cigarettes smoked in 1988. If nations with state owned tobacco monopolies and centrally planned economies are excluded, the proportion rises to 85%. British American Tobacco, Philip Morris, and R J Reynolds are the largest of the companies and together control 25% of world cigarette production with major operations throughout the developing world. Japan Tobacco Inc, a former state monopoly, has joined the big six, recently expanding its marketing activities throughout southeast Asia.

Many lesser and newly developed countries have chosen to operate closed cigarette markets that are dominated by state owned tobacco monopolies or national firms. This decision has been based on the belief that scarce consumer capital should not leave a nation for purchase of foreign cigarettes: a non-essential, luxury commodity. The countries have protected the monopolies from foreign competition through various measures including bans or quotas on foreign imports. Measures such as high tariffs, restrictions on distribution, and advertising of foreign brands are more common and may be equally effective in maintaining a closed market.

Forty one nations operate monopolies that account for 60% of world cigarette production. Of the world’s state monopolies and national companies, China produces 1440 billion cigarettes (22% of the world total), eastern European monopolies produce about 700 billion (14%), and western European monopolies 230 billion (5%). Other major Asian monopolies or national firms account for 600 billion (11%) including Japan (260 billion), South Korea (82 billion), Thailand (30 billion), Taiwan (28 billion), and Vietnam (25 billion).

By comparison with the transnational tobacco companies these monopolies are generally considered inefficient and produce less “flavourful”, harsher cigarettes. In the absence of competition, they generally have not promoted or advertised their brands. In Asian countries with closed markets, the usual situation is that few women smoke (less than 15%). Although male smoking prevalence is often high, their per capita consumption is about half that commonly found in western nations.

**EXPANSION OF THE TRANSNATIONAL TOBACCO INDUSTRY**

Consumption began to decline in the United States after the first Surgeon General’s Report in 1964. Philip Morris and R J Reynolds then began expanding operations into neighbouring Latin America; British American Tobacco had a historical presence in the region. Within a decade the Latin American markets were opened to transnational tobacco companies. Competition ensued and the transnational tobacco companies quickly gained sizeable local market shares. The transnational tobacco companies pushed for denationalisation of the Latin monopolies and acquired many of them after their privatisation. Today, 77% of former Latin American monopolies are subsidiaries of British American Tobacco, R J Reynolds, or Philip Morris. Formation of the European Community (EC) allowed the transnational tobacco companies full access to western Europe. Philip Morris, which had the minimal market share in the 1970s, became the leading cigarette manufacturer in the EC by the mid-1980s. The newly developed nations of Asia (Japan, Taiwan, South Korea, Hong Kong, and Thailand) were targeted by the transnational tobacco companies in the 1980s. During the 1980s, United States trade policy advocated free trade in tobacco products and liberalisation of Asian cigarette markets. This was done without considering or despite possible health impacts of the trade policies. From 1985 to 1990 the market share of the transnational tobacco companies in Japan, Korea, and Taiwan rose from 1% to 15% and is predicted to increase to 30% by 1995.

Eastern Europe has become the target of the transnational tobacco companies these monopolies are actively expanding operations in the region.

In 1990, the three cigarette plants of the former East Germany were acquired by Philip Morris, British American Tobacco, and R J Reynolds. The last company is building a $33 million plant in Poland. Philip Morris recently acquired the leading Czechoslovakian cigarette company and agreed to put $413 million into the company that produces 56% of all Czechoslovakian cigarettes. Similar acquisitions are being explored by the three largest transnational tobacco companies in the Balkans and former Soviet republics.

History and research suggest that expanded world trade in tobacco leaf, tobacco products, and marketing technologies stimulate demand in previously closed cigarette markets of the developing world. Shepherd found that entry of the transnational tobacco companies into Latin America during the 1970s resulted in short term price competition, increased advertising, and expansion in retail availability, and concluded that these competitive forces stimulated consumption in Argentina and other Latin nations. A similar finding was made after the opening of certain Asian markets in the mid-1980s.

Cigarette consumption, which was declining in Taiwan and Japan, rose following the opening of these markets to the transnational tobacco companies. More research is needed to understand how this process contributed to these increases. Pilot studies have reported increased smoking rates among school children in Korea, and Taiwan since the markets were liberalised.

**Identification of critical areas of research need**

The following policy research questions emerge from this review.
EFFECT ON DOMESTIC CONSUMPTION IN LESS DEVELOPED AND NEWLY DEVELOPED COUNTRIES AFTER LIBERALISATION OF MARKETS

What happens to total cigarette consumption and to per capita consumption in less developed countries and newly developed countries when these markets are opened to transnational tobacco companies? What characterises nations where aggregate demand increases compared with those where market share is redistributed in a steady total market? Where consumption is rising, what are the comparative contributions of increased frequency of smoking among existing smokers and the induction of new smoking recruits in the market?

IMPACT OF TRANSNATIONAL TOBACCO COMPANIES ON PRICE, MARKETING, AND DISTRIBUTION

How does expanded trade and liberalisation affect cigarette prices, the extent and types of advertising, promotion, and the extent and distribution of retail outlets? What evidence is there for the targeting of women (in situations where female smoking rates have been low) and children? Is there any evidence that such targeting has been followed by increases in smoking prevalence and frequency in such groups?

IMPACT OF ENTRY OF TRANSNATIONAL TOBACCO COMPANIES ON TOBACCO CONTROL

Recent experiences in South Korea suggest that trade policy in the United States has been used to force nations to repeal public health laws that would curb smoking, or to stall passage of new health laws that recently occurred in Taiwan. Does market liberalisation effect the introduction and implementation of domestic tobacco control laws, policies and programmes? Conversely, does any conflict between the transnational tobacco companies and national companies provide public health advocates with unique opportunities to pass tobacco control legislation that would adversely affect the ability of the transnational tobacco companies to penetrate the market?

IMPACT OF ENTRY OF TRANSNATIONAL TOBACCO COMPANIES ON ECONOMIES IN LESS DEVELOPED COUNTRIES

No work has been done on the net economic impact on less developed countries and newly developed countries of the liberalisation of domestic tobacco markets. Aside from economic analyses of the costs of increased health and other costs associated with increases in tobacco consumption, no work has been undertaken to consider economic questions arising from the changing balance of trade engendered by increased imports of cigarettes, leaf, manufacturing plant, and machinery from transnational tobacco companies; of the repatriation of profits offshore to the transnational tobacco companies and their shareholders; of the use of imported industry personnel and advertising agencies. The transnational tobacco companies also promote tobacco agriculture in less developed countries to provide raw material for expanded cigarette production. Few studies exist that allow any examination of whether such apparent strengthening of the agricultural tobacco sector in less developed countries actually provides a net economic benefit to less developed countries, or whether the displacement of land use by tobacco generates net economic losses.

WHICH MARKETS WILL THE TRANSNATIONAL TOBACCO COMPANIES MOST LIKELY TARGET FOR MARKET EXPANSION IN THE SHORT AND MID-TERM FUTURES?

It seems clear from the aggressive entry of the transnational tobacco companies into the Asian newly developed countries, into eastern Europe, and into China that two factors are critical in determining where the industry sees future expansion of trade as being most beneficial: countries with large populations (and preferably those where smoking is already widespread such as China), and those with rapidly growing economies which allow regular smoking to be affordable to more and more people. Countries with both large and increasingly affluent populations will be seen as particularly prized. Little work has been done in forecasting which countries best fit these descriptions.

17 Hong Y, Kim S, Kwon D. Surveys on the smoking habits in Korea. Proceedings of the 2nd Asia-Pacific conference on...