

**Testimony of Robert Weissman, Co-Director, Essential Action  
re: Privatization of the Thai Tobacco Monopoly**

*Submitted July 3, 2002*

Thank you very much for the opportunity to submit this testimony on the very important question of privatization of the Thai Tobacco Monopoly.

My name is Robert Weissman. I am co-director of Essential Action, a nongovernmental organization based in Washington, D.C. in the United States. Essential Action focuses on international tobacco control issues, and has maintained a particular interest in how trade policy and privatization impact tobacco control.

As a preliminary matter, I would like to emphasize that, to a degree policymakers and citizens in Thailand might not appreciate, the world looks to Thailand as a tobacco control leader:

¥ Thailand maintains exemplary tobacco control regulations, particularly in the area of marketing and advertising that other countries, including my own, can only aspire to.

¥ Thailand's historic refusal in the late 1980s and early 1990s to capitulate to trade pressures from the United States to open its market and to roll back advertising restrictions marked a turning point in tobacco geopolitics. Thailand's principled resistance to U.S. pressures helped put an end to U.S. bully tactics, conducted on behalf of the tobacco multinationals, to undermine measures to reduce smoking rates and protect the public health.

¥ In the negotiations at the World Health Organization over the Framework Convention on Tobacco Control, Thailand has played an important leadership role. It has been among the forward-thinking nations looking to strengthen this important public health initiative.

As a tobacco control advocate, it is therefore an honor for me to be able to submit this testimony to Thai policymakers.

In this testimony, I want to highlight some of the important public health considerations related to tobacco privatization, as well as review the unfortunate record of the International Monetary Fund (IMF) in promoting tobacco privatization. Emphasizing that public health considerations must take priority over factors in the context of policymaking in the tobacco sector, I argue that privatization poses substantial threats to tobacco control and public health. For countries such as Thailand where tobacco remains in the public sector, I believe it would be a mistake -- with dire, life-and-death consequences -- to privatize tobacco enterprises.

**Tobacco and the Public Health Imperative**

Any discussion on tobacco control must begin with a recognition of the uniquely hazardous nature of smoking.

An estimated 4 million people will die worldwide from tobacco-related disease this year, according to the World Health Organization. By 2030, WHO projects 10 million will die from tobacco-related causes, with 70 percent of those deaths occurring in developing countries. In Thailand, tens of thousands die annually from tobacco-related disease.

Smoking is responsible for nearly 90 percent of lung cancer cases. But smoking is linked not just to lung cancer, but a stunningly long list of diseases. It contributes to: bladder, cervical, esophageal, kidney, laryngeal, oral and pancreatic cancers, arteriosclerosis, cardiomyopathy, circulatory problems, emphysema, hearing loss, heart attacks, hypertension, osteoporosis, stroke and ulcers, among other health problems.

Second-hand smoke is also a major cause of death and disease, with a recent major World Health Organization review concluding that second-hand smoke is a major carcinogen, with even the "typical" levels of passive exposure causing lung cancer among never smokers.

The U.S. Surgeon General reports that intrauterine exposure and exposure to second-hand smoke after pregnancy increases the risk of Sudden Infant Death Syndrome (SIDS) in infants. One study found that 6,200 children in the United States die each year from lung infections, low-birth weight, SIDS and burns caused by parents' smoking. The odds of developing asthma are twice as high among children whose mothers smoke at least 10 cigarettes a day.

Given the uniquely hazardous nature of the product, public health considerations must be given top priority in any policy decisions relating to tobacco. The first and most important question for any policy relating to tobacco should be: What does this mean for public health? This, historically, has been the approach of the Thai government, which assertively argued exactly this prioritization in the Thai-U.S. tobacco dispute at the GATT: "Health considerations overrode any other policy objectives of the government," Thailand stated in its submission.<sup>1</sup>

Happily, because of the costs of treating the disease associated with smoking, it is generally the case that tobacco-related policies which prioritize public health will also be economically sound decisions.<sup>2</sup> Because both the public and private costs of tobacco-related disease are frequently overlooked, however, this correlation between public health and public purse interests is sometimes not apparent.

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<sup>1</sup> Thailand - Restrictions on Importation of and Internal Taxes on Cigarettes, Report of the Panel adopted on 7 November 1990 (DS10/R - 37S/200), paragraph 33.

<sup>2</sup> See *Curbing the Epidemic: Governments and the Economics of Tobacco Control*, World Bank, Washington, D.C.: World Bank, 1999.

There are, of course, other legitimate matters to review in the course of examining privatization proposals, including the impact on workers, tobacco farmers and the national treasury, but I will not touch on these issues in this testimony.

### **Privatization and Tobacco Control**

Whatever the merits of privatization of other sectors of the economy, tobacco represents a unique case, and policies relating to tobacco must be guided above all by public health considerations.

Selling off state-owned tobacco enterprises generally has the effect of transferring control of cigarette markets from state companies to the handful of tobacco multinationals (BAT, Japan Tobacco, Philip Morris and a couple more minor players) which are the almost certain acquirers.

In the case of Thailand, the Thai Tobacco Monopoly (TTM) appears to be proposing a corporatization and partial privatization, with a minority stake transferred to a tobacco multinational, or to maintain private national ownership but accompany the privatization process with a joint venture or other contractual arrangement with a multinational. There are many possible permutations to such a proposal, but they do not differ dramatically. For purposes of this testimony, I treat the privatization proposal as a corporatization and joint venture proposal.

However, and although the TTM suggests it is pushing privatization as a means of maintaining its enterprise integrity, there is a reasonable likelihood based on world experience in both tobacco and other privatizations, that any TTM partial privatization proposal may gradually evolve into a full privatization. Thus in this testimony, I speak both of the hazards of a partial privatization/joint venture, and of full privatization.

The impact of privatization is suggested by the experience in opening of Asian markets to foreign imports. After U.S. trade pressures forced open markets in Japan, Taiwan, South Korea and, to a lesser extent, Thailand, smoking rates jumped. That is, not only did tariff reduction allow U.S. and other foreign company products to gain a greater market share - - a logical outgrowth of lowering the prices of these products as against domestic cigarettes -- overall cigarette consumption increased. Tobacco liberalization led to aggregate increases in smoking rates of 10 percent, according to World Bank analyses.<sup>3</sup>

The effects are particularly serious among teens and women, who have lower smoking rates in many developing countries, and who the multinationals have expertise in inducing to smoke. In South Korea, according to the U.S. General Accounting Office, the

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<sup>3</sup> Allyn Taylor, Frank J. Chaloupka, Emmanuel Guindon and Michaelyn Corbett, "The Impact of Trade Liberalization on Tobacco Consumption," in Prabhat Jha and Frank Chaloupka, eds., *Tobacco Control in Developing Countries*, Washington, D.C.: World Bank, 2000.

smoking rate among teenage girls quintupled in a single year following the opening of the market to the multinational tobacco companies.<sup>4</sup>

Comparable empirical data on the effect of privatization does not exist. But there are compelling reasons for believing that privatization will have similar -- and possibly more severe -- effects on smoking rates as have been demonstrated for trade liberalization. Most of these impacts are likely to occur in addition to those that may occur as a result of trade liberalization due to Thailand's membership in the Asian Free Trade Agreement (AFTA).

First, assuming the privatized company is sold to or involves in a joint venture a nondomestic multinational corporation, privatization works effectively as complete trade liberalization. Post-privatization, the multinational is able to operate in a zero tariff regime.

Second, rather than starting with a small market share as would be the case with trade liberalization in a national monopoly-dominated market, the multinational gains a dominant market share. This positions the multinational to manipulate the market in a far more comprehensive way than would be possible in a competitive environment in which it was a small player.

### **The Zero-Tariff Regime**

The harmful public health impacts of trade liberalization are due to two overarching factors: price impact, and market and political manipulation. For both factors, privatization is as severe, or worse.

With trade liberalization, reduced tariff rates enable foreign brands to sell cigarettes at a considerably lower price. The result is not just an expansion of foreign brand market share, but an overall increase in consumption. "Reductions in the barriers to tobacco-related trade will likely lead to greater competition in the markets for tobacco and tobacco products [and] reductions in the prices for tobacco products," according to a World Bank report. "Given the inverse relationship between price and consumption cigarette smoking and other tobacco use will likely increase under this scenario as tobacco markets become more open. As a result, the death and disease from tobacco use will also increase."<sup>5</sup>

In the case of privatization, given a sell-off to a foreign brand, the effect is to enter into a zero-tariff regime for the acquiring company, the price impact is at its most extreme.

As part of the Asian Free Trade Agreement (AFTA), Thailand and other Southeast Asian nations have agreed to reduce tariffs to zero or near-zero, including on cigarettes. Although important issues of timing may remain, to a considerable extent this trade

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<sup>4</sup> U.S. General Accounting Office, Trade and Health Issues: Dichotomy Between U.S. Tobacco Export Policy and Antismoking Initiatives. Washington, D.C.: U.S. General Accounting Office, 1990.

<sup>5</sup> Taylor, et. al., pp. 345-346.

arrangement, and the existing presence of multinational production capacity in other AFTA countries, may mean that Thailand will bear the costs of tobacco liberalization irrespective of whether it proceeds with privatization.

There is an important caveat to this note, however. The tariff reduction covering cigarettes and tobacco products is relatively reversible, assuming agreement among the AFTA nations. Undoing a privatization would be extraordinarily complicated in legal and financial terms, and difficult to contemplate in the present environment. Thus there is a permanence to the price effect of privatization which may well exceed that attached to trade liberalization.

However, even if the proposed privatization would introduce no more tariff impact than already-scheduled trade liberalization, it may have other important impacts on price, as discussed below.

### **Market and Political Manipulation**

In addition to the pure price impacts, a range of dynamic effects tied to trade liberalization promote tobacco consumption. These involve an array of conscious efforts by multinationals to advertise, market, package, brand and promote their product using aggressive and innovative means; to manipulate the product for broad and diverse appeal; and to influence, skirt, undermine or block domestic tobacco control regulations.

#### **1. Advertising and Marketing**

Following trade liberalization, the multinational firms typically begin or intensify an array of promotional and marketing operations designed to build brand recognition and market share, urge existing smokers to switch brands, and attract new smokers. The World Bank agrees that these increases in advertising and promotion are an important explanatory factor for why trade liberalization leads to increased consumption overall.<sup>6</sup>

Privatization, which delivers much larger market share to the multinationals on a much faster basis, is likely to have an even more significant impact in this dimension. While the acquiring or joint venture multinational will not need to advertise to gain market share, it will still have an interest in advertising and market promotion to increase market share for its international brands, which are typically more expensive and profitable than national brands.

Moreover, the acquiring or joint venture multinational will tend to apply its sophisticated and slick marketing techniques to the acquired products formerly sold only in the domestic market. Following trade liberalization, it is typical for the existing domestic firms to increase advertising and promotional activity in an attempt to maintain market share in a more competitive environment.<sup>7</sup> But no domestic monopoly can match the marketing capacity of the multinationals. (Each of the multinationals "is more

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<sup>6</sup> Taylor, et. al., p. 346.

<sup>7</sup> Taylor, et. al., p. 346.

experienced in image-oriented advertising than their local competitors, many of which were previously state-controlled monopolies," concluded a 1994 review of the international tobacco market by the Wall Street investment firm Salomon Brothers.<sup>8</sup> (page 15)) Privatization might therefore result in more marketing than simple trade liberalization; and this would be particularly the case for privatization occurring amidst trade liberalization, when the acquiring multinational would want both to gain new smokers and forestall market share encroachments by the other multinationals newly able to enter the market.

Indeed, gaining access to the sophisticated marketing and brand positioning of the multinationals is an explicit rationale for the TTM privatization.

The multitude of industry promotional approaches is mind-boggling. A very partial list includes:

- \* Brandstretching -- sales of and promotional efforts for non-tobacco products like clothing that promote tobacco product names and imagery.<sup>9</sup>
- \* Trade promotions and slotting fees to shape product placement in retail operations.<sup>10</sup>
- \* Free gifts and prizes in exchange for tobacco purchases.<sup>11</sup>
- \* Coupons, multipack discounts and other pricing promotions.<sup>12</sup>
- \* Venue-based marketing, including formal and informal marketing arrangements in nightclubs.<sup>13</sup>
- \* "Events marketing" involving creation of particularly youth--oriented events to publicize tobacco products.<sup>14</sup>

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<sup>8</sup> "International Cigarette Markets - Globalization, Privatization and Smuggling," New York: Salomon Brothers, October 13, 1994, p. 15, available from the tobacco documents published on line at <http://legacy.library.ucsf.edu/>, Bates No. 2031751257

<sup>9</sup> See "Brands set to light up tobacco company sales," *Financial Times*, Tuesday, March 7, 2000.

<sup>10</sup> See Paul Bloom, "Role of slotting fees and trade promotions in shaping how tobacco is marketed in retail stores," *Tobacco Control* 2001; 10: 340-344)

<sup>11</sup> See e.g., Tom Washington, "Smoking the Great Outdoors: With the Marlboro Man leading the way, our wilderness is being tamed, once and for all," *Salon*, Feb. 6, 2001, at <http://www.salon.com/tech/feature/2001/02/06/moab/print.html>

<sup>12</sup> See F J Chaloupka, K M Cummings, CP Morley and JK Horan, "Tax, price and cigarette smoking: evidence from the tobacco documents and implications for tobacco company marketing strategies," F J Chaloupka, *Tobacco Control* 2002;11:i62-i72.

<sup>13</sup> See S K Katz and A M Lavack "Tobacco related bar promotions: insights from tobacco industry documents," *Tobacco Control* 2002; 11 (Suppl 1): i92-i101.

<sup>14</sup> See Todd Harper, "Marketing life after advertising bans," *Tobacco Control* 2001; 10: 196-198.

- \* Free cigarette distribution.<sup>15</sup>
- \* Internet and online marketing.<sup>16</sup>
- \* Corporate sponsorship.<sup>17</sup>
- \* Sophisticated packaging.<sup>18</sup>
- \* "Youth Smoking Prevention" campaigns that interfere with genuine tobacco control measures and may actually increase youth smoking rates.<sup>19</sup>
- \* Database mining and direct mail promotion -- collecting consumer information via websites, sign-up tables at events, sweepstakes forms, etc. (for direct mail promotions).<sup>20</sup>

The multinational companies have proven expert at making smoking appealing to girls and women. The female smoking rate in Thailand is very low, and women are sure to be the target market for multinationals as they gain a greater foothold in the country. Preventing this strategy in succeeding is a matter of vital importance to women's health.

Thailand of course has been a world leader in maintaining regulations to protect citizens from the industry's marketing manipulations. But the opportunities for the multinationals to evade these restrictions will multiply following privatization. First, because (at least for the acquiring or joint venture company), their stake in the Thai market will be so much larger, the payoff from marketing will be much greater. This might include promotions in other countries in the region that are expected to reach Thai consumers. Second, the opportunity to market in creative ways that violate, circumvent or skirt the edge of tobacco regulations will be greater, because their physical presence in the country will be so much larger. This could conceivably include efforts to distribute ashtrays with logos in smaller towns, point-of-sale promotional activity or giveaways in nightclubs. Third, the privatization will establish a lobby with a vested interest in rolling back existing restrictions on advertising, and blocking new ones that might be needed to address novel marketing strategies from the industry. This point is elaborated below.

## 2. Product Manipulation

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<sup>15</sup> See Greg Winter, "Big Tobacco Is Accused of Crossing an Age Line," the *New York Times*, August 24, 2001.

<sup>16</sup> See Gregory Connolly, "Smokes and cyberspace: a public health disaster in the making" *Tobacco Control* 2001; 10: 299.

<sup>17</sup> See N. Jennifer Rosenberg and Michael Siegel. "Use of corporate sponsorship as a tobacco marketing tool: a review of tobacco industry sponsorship in the USA, 1995-99," *Tobacco Control* 2001; 10: 239-246.

<sup>18</sup> See M Wakefield, C Morley, J K Horan, and K M Cummings, "The cigarette pack as image: new evidence from tobacco industry documents," *Tobacco Control* 2002; 11 (Suppl 1): i73-i80.

<sup>19</sup> See "Getting to the Truth: Evaluating National Tobacco Counter Marketing Campaigns," *American Journal of Public Health*. 2002; 92:901-907.

<sup>20</sup> See S K Katz and A M Lavack, "Tobacco related bar promotions: insights from tobacco industry documents," *Tobacco Control* 2002; 11 (Suppl 1): i92-i101.

Opening to foreign brands may also lead to increased consumption because of the distinctive product sold by the multinationals.

Generally, the multinationals have more refined blends, are more sophisticated in their use of flavoring and additives, and are more advanced in the use of slick packaging and product design. All of these techniques are important for attracting new smokers. They appeal to consumers put off by the harsher taste of many domestic products; and are, in many cases, specifically designed to target women.

These concerns were well articulated by the government of Thailand and the World Health Organization in the Thai-U.S. tobacco case at the GATT.<sup>21</sup>

The GATT panel reported:

According to the representatives of the WHO ... there were sharp differences between the cigarettes manufactured in developing countries such as Thailand and those available in developed countries. In Thailand like in other developing countries, the market was dominated by a state-owned monopoly which promoted smoking minimally, in the absence of competition. Locally grown tobacco leaf was harsher and smoked with less facility than the American blended tobacco used in international brands. Locally-produced cigarettes were unlike those manufactured in western countries in that sophisticated manufacturing techniques such as the use of additives and flavourings, or the downward adjustment of tar and nicotine were not generally available, or were primitive in comparison to the techniques used by the multinational tobacco companies. These differences were of public health concern because they made smoking western cigarettes very easy for groups who might not otherwise smoke, such as women and adolescents, and create the false illusion among many smokers that these brands were safer than the native ones which consumers were quitting. In Thailand, half of the tobacco crop was consumed in the form of hand-rolled cigars or cigarettes which yielded large amounts of nicotine and tar and were popular among the elderly. However, their use was fading as old people died. There was no indication that young women turned to manufactured cigarettes instead of the self-made ones which their elders had smoked.

The representatives of the WHO stated that the use of additives in American cigarettes had increased greatly during the 1970s with the introduction of low-yield cigarettes. They were used to restore the lost flavour of the cigarette brought about by the reduction in tar and nicotine. The US Surgeon-General reports had concluded that the lowering of tar and nicotine had only a marginal benefit in contrast to quitting. Smokers of low-yield cigarettes had been found to increase their

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<sup>21</sup> Thailand - Restrictions on Importation of and Internal Taxes on Cigarettes, paragraphs 52-54.



consumption or to inhale more deeply. The health effects of cigarette additives were being analysed by the US Department of Health and Human Services which considered this task to be "enormously complex and expensive". Serious concerns about the presence in cigarettes of certain additives had been raised by the American Health Foundation which acted as a consultant to the Department of Health and Human Services on this issue. However, there was no scientific evidence that one type of cigarette was more harmful to health than another.

According to the WHO representatives, another major difference between manufacturers of American cigarettes and of Thai cigarettes was that the former designed special brands aimed at the female market. These cigarettes contained a much lower tar and nicotine level, thus making it easier for women to inhale the smoke. Some were also made to appeal to women by the addition of perfume or were made long and slender to suggest that smoking would result in thinness.

Privatization creates exactly the same hazards in this regard as trade liberalization, except worse: the acquiring company can re-engineer domestic brands to make them attractive to a broader consumer base, including especially of women.

It is instructive in this regard to look at tobacco industry privatization in other countries, and industry plans there. An internal Philip Morris report, placed in the public domain in connection with litigation against the tobacco companies in the United States, detailed company plans for privatizing a Hungarian tobacco factory. Among the key points of its "operations strategy:" "The improvement of domestic brands through application of Philip Morris blending and flavoring techniques, and the improvement of packaging materials."<sup>22</sup> (8.3.1)

Indeed, improving TTM product taste is another explicit rationale for the TTM privatization proposal. To the extent that this effort succeeds in making the products of an enterprise with 86 percent market share more attractive, there is every reason to expect smoking rates to increase as a result.

### 3. National Presence: Full Product Line and Distribution

A unique harm to privatization of a national monopoly is that it will enable a multinational acquiring or joint venture firm to gain both a full line of products and control over a full-fledged national distribution system.

This complete national presence will empower the acquiring multinational to manipulate the market in fundamental ways likely to lead to overall increases in smoking rates. For example, it is likely to manipulate price between different product lines, and to discount and promote products, according to a comprehensive nationwide plan. Its dominant

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<sup>22</sup> Philip Morris - Egri Tobacco Factor Privatization Plan, 8.3.1, available from the tobacco documents published on line at <http://legacy.library.ucsf.edu/>, Bates No. 2501048997

market share may free it to exercise long-term strategic thinking designed to attract the most smokers over the long haul. It may cross-subsidize products to keep certain low-profit products on market for the purpose of attracting new smokers it hopes later to switch to other brands. It may work with retail outlets in any way possible to promote brands, pursuing tactics -- legal or extralegal under the Thai regulatory regime -- to attract smokers at the point of sale.

And the acquiring or joint venture company's mere brand presence throughout the country, with a full line of products, and dominating retail space, will function in its own right as a powerful form of advertising, and give the acquiring or joint venture company substantial ability to reach out to new consumers.

#### 4. Political Influence

To the extent trade liberalization gives foreign multinationals entry into the market and makes them an economic force in the country, it gives the international companies enhanced political influence over domestic tobacco control decisions.

But the political problems stemming from trade liberalization pale compare to those related to privatization.

Privatization will establish the acquiring or joint venture company as a major force in domestic politics. Thailand is a world leader in maintaining strong tobacco control regulations, but no one should ever doubt the multinational companies' ability to leverage political influence to rollback or undermine public health measures and, above all, to block the imposition of new public health measures.

There is a world of experience to illustrate how serious this problem is, but perhaps no country better reveals the problem than my own.

Despite the complete public health consensus for the need strong tobacco control measures, and the major shift in tobacco company legitimacy over the last five years following revelations from industry documents, the United States has no effective national tobacco control policies. At the national level, the industry is excluded from regulation of the Food and Drug Administration, which would have natural jurisdiction over tobacco issues. We have minimal labeling requirements and a ban on smoking on airplanes, but virtually nothing else at the federal level.

Since for this industry more than any other there is no dispute over the underlying health considerations, this regulatory failure can be explained by a single fact: the tobacco industry's political power. This power is expressed through campaign donations, lobbyists, litigation, organization (real and illusory) of smokers and many other means. It is real, decisive, and directly related to the companies' identity as U.S. corporations and their national presence.

All of the important tobacco regulations in the United States are imposed at the state and local level. There, too, the industry exerts its tremendous influence -- though often less effectively than at the federal level, in part because in many states the industry is perceived as an "outsider," not a home state company. In what is perceived as the industry's home states -- most importantly Virginia and North Carolina -- regulation and taxation are at their lowest.

It is worth expanding on the various mechanisms that the industry employs its political influence in the United States, as a warning of potential specific consequences for privatization. A recent report from the Institute for Health Policy Studies at the University of California, San Francisco profiled tobacco industry activity in Washington state, a moderately sized state (approximately 6 million population) in the U.S. northwest.<sup>23</sup>

The report found:

- \* "The tobacco industry has stifled tobacco control activities in Washington through a mixture of campaign contributions and legal challenges."
- \* Political campaign contributions in Washington state remained high throughout the 1990s, with campaign contributions targeting key industry allies who acted to stall effective tobacco control regulations.
- \* The tobacco industry has spent heavily on lobbying, spending more than US\$1.8 million over the period 1996-2000 just in this single state.
- \* Industry-allied politicians in the state blocked sufficient funding for tobacco control measures.
- \* Attempts to pass local smoking regulations have been hampered by a Washington state law which may preempt local initiatives.
- \* The industry has filed legal challenges against effective tobacco control projects that received government funding, and has thereby undermined Washington state public health programs that work.
- \* Industry lawsuits in the state have overturned important tobacco control measures that were adopted at the local level.

All this, in just one of our 50 states.

Of course, each country has unique experiences with political influence from private industry. The nature of influence, the channels through which influence is exercised, the

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<sup>23</sup> Meredith Nixon and Stanton Glantz, "Tobacco Industry Political Activity and Tobacco Control Policy Making in Washington: 1996-2000," San Francisco: Institute for Health Policy Studies, University of California, San Francisco, March 2001.

degree to which policymakers are susceptible to external influence -- all of these matters vary according to the particular country context.

But there is no disputing that the multinational tobacco industry is among the most effective -- and perhaps the single most effective -- industry in leveraging its economic might into political power, and that this power has had dire consequences the world over.

Based on world experience, there is good reason to fear that, over time, a tobacco multinational, if it is able to entrench itself in the country through privatization, would work to chip away at the crucial restrictions that Thailand has adopted to bar tobacco advertising and marketing. (One of the "industry issues" that Philip Morris listed in its assessment of the Hungary privatization proposal was the importance of "marketing freedoms."<sup>24</sup>)

The acquiring company might be even more effective at blocking adoption of new tobacco control measures -- the multinationals' specialty is their ability to stymie sound regulation -- or in manipulating policy to serve particular corporate interests. An especially important area of concern in this regard is taxation. A privatized company is likely to be a powerful lobbyist against increased tobacco taxation, even though higher taxes are among the most important deterrents to cigarette consumption. A privatized company is also likely to maneuver to effect the form of taxation, in ways that advantage it but may harm public health. In the Hungary privatization, for example, Philip Morris explained its concern about the particular form of a value-added tax (it opposed a VAT that placed higher tax burden on higher-priced cigarettes, including Philip Morris's international brands)

(Incidentally, this political power may also be leveraged to win policies that favor the business interests of the privatized company but run against the Thai national interest. In the Hungary privatization, Philip Morris listed a range of "assurances and incentives" that it expected to receive, including "the full release from any potential or undisclosed liability that may arise related to the past and current operation of [the national company]," "the receipt of any and all investment incentives currently available and that might become available for similar ventures," and "the complete freedom to remit offshore dividend, royalty, supply and other payments as required."<sup>25</sup>)

A Thai arrangement that involves ongoing national ownership of a corporatized entity combined with a minority foreign ownership stake is likely to pose similar but distinct hazards as a pure sell-off to a multinational firm. Such an arrangement may combine the political skill of a multinational with the nuanced understanding of the national political system housed in a domestic firm, creating a sophisticated political operator able to draw on diverse traditions of political influence leveraging -- and well-equipped to defeat, or even roll back -- sound tobacco control measures.

## **The IMF and World Bank**

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<sup>24</sup> Philip Morris - Egri Tobacco Factor Privatization Plan, 6.2, Bates No. 2501048975.

<sup>25</sup> Philip Morris - Egri Tobacco Factor Privatization Plan, 7.5, Bates No. 2501048993.

The public rationale for the Thai privatization proposal is the growing competitive threat from the multinational tobacco companies.

But given recent history, it is hard to assess this proposal outside of the context of the urging of the International Monetary Fund (IMF) that Thailand privatize its tobacco monopoly.

As you know, following the financial crisis of 1997, the IMF offered a \$17.2 billion loan to Thailand, with a condition that the country privatize state-owned enterprises, including the tobacco monopoly. In an August 25, 1998 Letter of Intent to IMF Managing Director Michael Camdessus, the government agreed to conduct a study "outlining strategic options for Tobacco Monopoly" by early 1999.

Thailand has not been alone in experiencing pressure from the IMF to privatize its tobacco enterprises. The IMF has pressed for tobacco privatization in Turkey, South Korea and Moldova, among other countries, frequently despite strong domestic opposition. Here I briefly review the recent experience in Turkey and Moldova, and then describe policy proposals in Washington, D.C. to curb the IMF's tobacco privatization mania.

### *The Turkish Experience*

Turkey had already been involved in several years of loan negotiations with the IMF, when the country's worst economic crisis in years hit at the end of 2000. In a June 22, 2000 Letter of Intent to the IMF,<sup>26</sup> Turkey pledged that "three new laws necessary to phase out the support price mechanism for tobacco and for reforming TEKEL [the state monopoly agency] will be enacted in 2000," including one that would "enable the privatization of TEKEL's production facilities for spirit, salt and tobacco products." The economic crisis added greater urgency to the implementation of the IMF's conditions.

In a December 18, 2000 Letter of Intent to the IMF,<sup>27</sup> Turkey promised that the country would adopt "by end-January 2001 a decree restructuring TEKEL and issuing a high privatization commission decision which would allow the transfer of all of TEKEL's tobacco-processing units to the PA [Privatization Agency]" and enact by the same date, "a tobacco law which would set in place an auction mechanism for tobacco purchases, henceforth, phasing out the support purchase policy for tobacco." A January 30, 2001 Letter of Intent<sup>28</sup> further clarified the December letter, pledging to enact a law by end-February 2001 that would transfer the entire state monopoly agency to the Privatization Agency, reform the tobacco sector, and phase out support purchases of tobacco.

But public discontent and controversy over the economic crisis and the IMF's strict economic reforms grew, and the end of February came and went without Turkey

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<sup>26</sup> Letter of Intent, June 22, 2000, <http://www.imf.org/external/NP/LOI/2000/tur/02/INDEX.HTM>.

<sup>27</sup> Letter of Intent, December 18, 2000, <http://www.imf.org/external/NP/LOI/2000/tur/03/index.htm>

<sup>28</sup> Letter of Intent, January 30, 2001, <http://www.imf.org/external/NP/LOI/2001/tur/01/INDEX.HTM>

fulfilling its promise to pass the tobacco sector law. The IMF refused to release assistance to Turkey, despite appeals from Turkish Prime Minister Bulent Ecevit.

The tobacco sector reform legislation, key to obtaining a joint IMF-World Bank \$15.7 billion loan, faced multiple obstacles. In addition to ending state subsidies for farmers and enabling the privatization of TEKEL, it established a seven person regulatory board to oversee tobacco and alcohol production, and gave special rights to companies producing more than 2 billion cigarettes annually in Turkey to import, price and sell tobacco products. TEKEL employees and tobacco growers protested the law, and when the Privatization Minister Yuksel Yalova suggested that there might be delays in passing the law, he was forced to resign.

Health groups were particularly opposed to the powerful tobacco regulatory board, which would be controlled by people without any background in public health. Only one of the seven members would be a public health official, yet the board would have the power to affect laws with potentially adverse consequences for public health.

"We, as health advocates, resisted," says Elif Dagli, a pediatrician and leading Turkish tobacco control advocate, "We went to the press. We went to the parliament. We spoke with the new minister of privatization. We fought very hard."

Dagli communicated with World Bank officials in Washington and Turkey, who repeatedly told her that they were "not forcing the law and were extremely concerned about health issues." Turkish officials had a different story. The IMF and World Bank would only release loans to Turkey if the tobacco sector law -- which gave more freedom to tobacco transnationals, while destroying the local tobacco industry -- was passed.

The Turkish parliament finally passed the law in late June 2001, but Turkish President Ahmet Necdet Sezer vetoed it because the law failed to provide support for thousands of small tobacco farmers, likely to be most acutely hurt by the liberalization of the tobacco sector.

In September TEKEL announced that it would close 24 tobacco processing plants. The announcement led to boycotts and factory sit-ins by Tekel workers, but the agency proceeded in laying off temporary staff. The new Minister of Privatization Yilmaz Karakoyunlu pledged to break up TEKEL and sell it off by 2002. Meanwhile, British American Tobacco and Philip Morris had strategically signed partnerships with the two largest private sector conglomerates in the country.

On January 3, 2002 the Turkish Parliament ratified the tobacco law to deregulate the tobacco industry. Although the law was unchanged from the original law that the President had vetoed, this time the President was forced to approve it.

With a new Turkish plant that has the capacity to manufacture more than 2 billion cigarettes annually, BAT is now legally allowed to import tobacco from abroad. The

company is not likely to purchase tobacco from local farmers, who do not grow the type of tobacco used in the blends preferred by the tobacco multinationals.

### *Resistance in Moldova*

Moldova, a small country wedged between Romania and the Ukraine, declared independence from the USSR in 1991. Home to the some of the most fertile soil in the world, Moldova is a primarily agricultural state. Wine and tobacco are the two most prized industries in the country.

In the years that following independence, the country experienced increasing economic woes. The economy shrank dramatically, salaries plunged while unemployment rose, the government built up months in wage arrears, and the foreign debt grew steadily.

In 1999, the IMF promised a \$35 million loan to Moldova, on the condition that the country privatize its wine and tobacco sectors. In a Letter of Intent to the IMF on July 29, 1999,<sup>29</sup> Moldova noted that it was "working with investment advisors to develop a privatization strategy for the plants in the tobacco sector, and expect to announce a tender for these units by September 30, 1999."

While the country had launched a mass privatization effort in the early 1990s, selling off various state enterprises and transferring land to local farmers, there was strong public and political sentiment against privatizing the wine and tobacco industry. In November 1999, the Moldovan parliament rejected a law that would privatize the country's wine and tobacco industries, and the IMF's plans to provide Moldova with a \$35 million Expanded Fund Facility were suspended.

The Moldovan parliament rejected the IMF demands, but the international lending institution stood firm: the privatization of tobacco was non-negotiable term of any future loans. Additional financial pressure was exerted on Moldova when a \$30 million World Bank loan and a \$15 billion European Union loan, that had been contingent upon the IMF loan going through, were put on hold.

By March 2000, the IMF threatened to sever its ties to Moldova if the country did not promptly sell off its wine and tobacco industries.

The IMF would not bend its position, however, and when the Moldovan parliament voted overwhelmingly against the privatization of these industry (85 to 16), the IMF suspended its lending to the country.

With the economic situation turning worse and without any viable alternatives for securing international loans, the country was left with little choice but to accept the IMF conditions. In October 2000, the parliament gave into IMF pressure, passing a law to privatize the wine and tobacco monopolies by a vote of 55 to 36.

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<sup>29</sup> Letter of Intent, July 29, 1999, <http://www.imf.org/external/NP/LOI/1999/072999.HTM>.

In a November 30, 2000 Letter of Intent to the IMF,<sup>30</sup> Moldova noted the approval of the privatization bill by Parliament and stated that "according to a strategy to be agreed to with the World Bank, we will prepare the privatization of these wineries and tobacco companies."

Despite this pledge, however, it remains unclear whether Moldova will proceed with privatization, however, remains unclear.

### *The Washington Policy Debate*

There is a sad irony to the IMF tobacco privatization pressure, since its sister institution, the World Bank, has published such important information on trade liberalization, with its significant implications for privatization. (The Bank has not, however, published similar information directly relating to privatization.)

In the United States, there is growing concern about IMF support for tobacco privatization.

In December 1998, 17 Members of the U.S. Congress wrote to the then-managing director of the IMF, Michel Camdessus, to express "our concern about apparent International Monetary Fund (IMF) support for privatization of state-run tobacco operations."<sup>31</sup> The Members of Congress stated that, "we believe privatization would have serious public health consequences. We urge an immediate change in IMF policy on this matter."

They went on to outline a series of concerns, many of which are detailed in this testimony: that privatized companies will be more aggressive marketers of tobacco, more likely to attempt to influence, skirt or undermine domestic tobacco control regulations, and more likely to deny the health risks of smoking.

They urged a shift in IMF policy, so that the institution would cease to support tobacco privatization, urging the IMF "to adopt a formal policy of prioritizing public health over other considerations in tobacco-related matters."

The IMF offered a non-response, alleging that there was no reason to believe that privatization would impact public health.

Later this year, corrective legislation will be introduced in the U.S. Congress, with a strong chance of passage. That legislation will require the U.S. representatives to the IMF and World Bank to oppose any IMF or Bank loan that supports or is conditioned on tobacco privatization. A similar legislative initiative in recent years was instrumental in convincing the Bank to change its position in another controversial area, support for

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<sup>30</sup> Letter of Intent, November 30, 2000, <http://www.imf.org/external/NP/LOI/2000/mda/01/INDEX.HTM>.

<sup>31</sup> Letter to Michel Camdessus from 17 Members of the U.S. Congress, December 8, 1998, online at: <http://lists.essential.org/1998/intl-tobacco/msg00213.html>.



primary school fees. We are thus cautiously optimistic that the day may soon arrive when the IMF is no longer pressuring countries to privatize their tobacco companies.

## **Conclusion**

As I hope this testimony has illustrated, there is overwhelming reason to believe tobacco privatization leads to increases in cigarette consumption. Unfortunately, the proposed TTM privatization is actually intended to foster some of the developments likely to result in increased cigarette consumption, including slicker marketing and enhanced flavoring.

If public health is to take priority in policy questions related to the tobacco sector, then privatization is an ill-advised approach. Of special note, a decision to privatize is likely to have especially dire consequences for women and girls, who are particular targets of the multinational tobacco companies.

The Thai context, like every national situation, is in many ways unique. There are undoubtedly countless permutations that an outsider like me will not understand, or even be aware of.

National variation, however, does not override some basic similarities about how markets function, and about how the tobacco multinationals exercise influence.

The multinationals' performance worldwide is the strongest refutation to the notion that they can become trusted partners, or that even a country with as strong a commitment to tobacco control as Thailand can safely permit them expanded entry.