NEEDLESS HARM

INTERNATIONAL MONETARY FUND SUPPORT FOR TOBACCO PRIVATIZATION AND FOR TOBACCO TAX AND TARIFF REDUCTION, AND THE COST TO PUBLIC HEALTH

AN ESSENTIAL ACTION REPORT

By Robert Weissman and Anna White

September 2002

Essential Action
P.O. Box 19405
Washington, DC 20036 USA
Tel: 202-387-8030
Fax: 202-234-5176
E-mail: action@essential.org
www.essentialaction.org/tobacco

INTRODUCTION AND OVERVIEW

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.

Smoking is responsible for nearly 90 percent of lung cancer cases. But smoking is linked not just to lung cancer, but to 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.

Given the uniquely hazardous nature of the product, public health considerations must be given top priority in any policy decision relating to tobacco. The first and most important question for any policy relating to tobacco should be: What does this mean for public health?

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.[1]

The World Bank has recognized that tobacco use is an impediment to development. The health costs of tobacco are severe, and lost work time due to illness and death saps societies of labor power.

Its econometric reviews have reiterated that excise taxes work to reduce smoking rates and advance public health.

The Bank has also published important information on tobacco trade liberalization, finding that reduced tobacco tariffs and freer trade in tobacco products has dire consequences, raising smoking rates and increasing preventable death and disease. While it has not published similar information relating to privatization of state-run tobacco companies, there is strong reason to believe that tobacco privatization has similar effects.

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[1] See *Curbing the Epidemic: Governments and the Economics of Tobacco Control*, World Bank, Washington, D.C.: World Bank, 1999.

Unfortunately, there is no evidence that the Bank's sister institution, the International Monetary Fund (IMF), has taken into account, or prioritized, public health in making policy determinations implicating tobacco.

Despite the Bank's admirable embrace of a pro-public health position on tobacco, the IMF has in many cases supported privatization of state-run tobacco companies, and has even supported reduction of tobacco excise taxes and tariffs.

An Essential Action investigation has found that the IMF has pushed for privatization in:

- Bulgaria
- Korea
- Mali
- Moldova
- Thailand
- Turkey

Essential Action found that the IMF has supported excise tax or tariff reductions in:

- Djibouti
- The Gambia
- Macedonia
- Peru
- Uganda

The IMF push for tobacco privatization is unswerving, and appears to be part of its ideological commitment to privatization. In several cases, the IMF has pushed for privatization despite intense local opposition.

IMF does not consistently endorse excise tax or tariff reductions; Essential Action found the institution has also supported tobacco tax increases in several instances.

What does seem clear is that, as with tobacco privatization, in the tobacco tax arena, the IMF fails to give due consideration to the health impacts of the policies that it supports.

This is unacceptable. The life-and-death stakes are simply too high when it comes to tobacco policymaking. The IMF -- as well as other international institutions -- should always give public health considerations priority in tobacco policymaking. Because of the overwhelming evidence on the benefits of tobacco taxes and the costs of tobacco trade liberalization, as well as the strongly suggestive evidence on the harms of tobacco company privatization, the IMF should never support tobacco tax or tariff reductions, nor should it ever support tobacco privatization.

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The rest of this report is presented in four parts and two appendices.

Part I briefly reviews the evidence on the benefits of tobacco excise tax increases, and the costs of tobacco tariff reduction.

Drawing in part on the widely accepted evidence discussed in Part I on the harms of tobacco liberalization, as well as on some internal industry documents, Part II much more extensively details the harms of tobacco privatization.

Part III presents three case studies of local resistance to IMF-promoted privatization schemes.

Part IV concludes the report, recommending that the IMF end all support for tobacco excise tax or tobacco tariff reductions, and never support tobacco privatization.

Appendix I, compiled based on an Essential Action review of key IMF country policy documents, contains excerpts from documents in which the Fund indicates its support for tobacco tax cuts, tariff reductions, or privatization. Appendix II contains a 1998 letter from members of the U.S. Congress critical of IMF support for tobacco privatization, and the IMF's response.

I. THE COSTS OF REMOVING TOBACCO TAXES AND TARIFFS

There is broad consensus among health economists and public health advocates that tobacco taxes are one of the most important means to deter smoking.

The deterrent impact of taxes on consumption is logical and intuitive, based on simple supply and demand curves and basic economic principles. Tobacco taxes raise prices, which lead to diminished overall demand.

The theoretical expectation of decreased usage is borne out by empirical experience. A large body of economic literature estimates the price elasticity of tobacco at -0.25 to -0.5, with a cluster around -0.4.[2] In other words, for each 1 percent increase in price, there will be roughly a 0.4 percent decrease in consumption.

This estimate relies mostly on price studies in rich countries and particularly the United States. A smaller literature indicates the price impact is much stronger in developing countries, approximately twice as significant, with price elasticities of -0.5 to -1.00.[3]

Concludes a World Bank study: "One clear conclusion emerges from the econometric studies of the effects of prices on the demands for tobacco products in low- and middle-income countries: higher taxes on cigarettes and other tobacco products would lead to significant reductions in cigarette smoking and other tobacco use."[4]

One common concern about tobacco taxes is that they will increase smuggling from low-tax neighboring countries. While tobacco smuggling is a serious problem, this concern is misplaced. One reason is that smuggling infrequently occurs between low-tax and high-tax countries. Rather, smuggling occurs from cigarettes in shipment to countries, avoiding the payment of tax altogether. Empirically, there is no correlation between low-tax and low-smuggling countries. Many countries which have raised tax rates have been able to do so without any increase in smuggling; and industry-initiated in-country price hikes have not been associated with a rise in smuggling.[5] In Europe, those countries with the lowest tax rates actually have the highest smuggling rates.[6]

As with tobacco taxation, there is general agreement among health economists and tobacco control advocates over the harms of tobacco tariff reduction. The price impact is similar to tobacco tax reduction, although not as direct. Because tariffs do not apply to

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[2] Frank Chaloupka, The-wei Hu, Kenneth Warner, Rowena Jacobs and Ayda Yurekli, "The Taxation of Tobacco Products," in Prabhat Jha and Frank Chaloupka, eds., *Tobacco Control in Developing Countries*, Washington, D.C.: World Bank, 2000.
[3] Chaloupka, et. al., p. 244.
[4] Chaloupka, et. al., p. 249.
[5] Chaloupka, et. al., p. 266.
[6] Luk Joossens and Martin Raw, "Cigarette smuggling in Europe: who really benefits?" *Tobacco Control*, Spring 1998, vol. 7, pp. 66-71.

domestically manufactured cigarettes and tobacco products, foreign companies must more carefully calibrate the extent to which they pass tariff costs on to consumers. Also, the extent to which tariffs costs affect the overall market depends on foreign company market share.

Still, the World Bank agrees the price impact of tariff reduction is serious and likely to yield higher smoking rates -- and more preventable death and disease. "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."[7]

The impact of tariff reduction is best indicated by the East Asian experience in the late 1980s and early 1990s. U.S. trade pressure forced open cigarette markets in Japan, Taiwan, South Korea and, to a lesser extent, Thailand. The result: smoking rates jumped. 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 tariff liberalization in East Asia led to aggregate increases in smoking rates of 10 percent, according to World Bank analyses.[8]

Tariff reduction also poses a special tobacco control problem that is not associated with tax reduction -- it enables multinational companies, with their more sophisticated marketing and product manipulation capacity, to enter developing country markets from which they might otherwise effectively be foreclosed.

The effects in East Asia after the U.S. market-opening offensive were 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 smoking rate among teenage girls quintupled in a single year following the opening of the market to the multinational tobacco companies.[9]

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[7] Taylor, et. al., pp. 345-346.
[8] Allyn Taylor, Frank J. Chaloupka, Emmanuel Guindon and Michaelyn Corbett, "The Impact of Trade Liberalization on Tobacco Consumption," in *Tobacco Control in Developing Countries*.
[9] 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.

II. THE COSTS OF TOBACCO PRIVATIZATION

Although the tobacco industry has been firmly in private hands throughout U.S. history, in many countries, including in the developing world as well as in Eastern Europe and the former Soviet Union, state-owned enterprises have had responsibility for tobacco product manufacturing and distribution. This has reflected a desire for the state to capture the immense profits associated with tobacco, as well as national economic arrangements where the state has had a much larger role in the economy than it traditionally has had in the United States.

The last 15-20 years have witnessed a trend of the privatization of state-owned enterprises around the world. Tobacco operations have been part of this trend, but not completely engulfed by it. Especially because there are apparent fiscal benefits in governments maintaining tobacco enterprises in the public sector -- but for other reasons, also, including in some cases opposition from health activists to tobacco privatization -- many countries continue to maintain state-owned tobacco enterprises.

The clear trend in the tobacco industry, however, is to privatization -- and the IMF is aggressively pushing it along.

This trend, and the IMF advocacy of it, are worrisome because it repeats and reinforces the public health damage already known to be caused by trade liberalization.

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.

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,[10] and the price impact is at its most extreme.

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[10] Even where countries move to zero-tariff arrangements on cigarettes and tobacco products, either voluntarily or as part of trade agreements, there remain reasons to be concerned about price impacts. (This is a situation faced by Thailand, for example, which is debating -- and, for now, rejecting -- a privatization proposal even as it will be required to eliminate cigarette tariffs on imports from members of the Asian Free Trade Agreement (AFTA).)

The tariff reduction covering cigarettes and tobacco products is relatively reversible, assuming agreement among trading partners. 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

In terms of market and political manipulation, 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. 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.

These manipulation mechanisms 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.[11]

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 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 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.[12] But no domestic monopoly can match the marketing capacity of the multinationals. (Each of the multinationals "is more 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

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may have other important impacts on price, as discussed below. Moreover, the dangers of market and political manipulation are much greater with privatization.

[11] Taylor, et. al., p. 346.

[12] Taylor, et. al., p. 346.

Street investment firm Salomon Brothers.[13]) 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.

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.[14]
- Trade promotions and slotting fees to shape product placement in retail operations.[15]
- Free gifts and prizes in exchange for tobacco purchases.[16]
- Coupons, multipack discounts and other pricing promotions.[17]
- Venue-based marketing, including formal and informal marketing arrangements in nightclubs.[18]
- "Events marketing" involving creation of particularly youth--oriented events to publicize tobacco products.[19]
- Free cigarette distribution.[20]
- Internet and online marketing.[21]

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[13] "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

[14] See "Brands set to light up tobacco company sales," *Financial Times*, Tuesday, March 7, 2000.

[15] 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)

[16] 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

[17] 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," *Tobacco Control* 2002;11:i62-i72.

[18] 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.

[19] See Todd Harper, "Marketing life after advertising bans," *Tobacco Control* 2001; 10: 196-198.

[20] See Greg Winter, "Big Tobacco Is Accused of Crossing an Age Line," *New York Times*, August 24, 2001.

- Corporate sponsorship.[22]

- Sophisticated packaging.[23]

- "Youth Smoking Prevention" campaigns that interfere with genuine tobacco control measures and may actually increase youth smoking rates.[24]

- Database mining and direct mail promotion -- collecting consumer information via websites, sign-up tables at events, sweepstakes forms, etc. (for direct mail promotions).[25]

The multinational companies have proven particularly expert at making smoking appealing to girls and women.

Privatizing countries could adopt advertising and marketing restrictions in advance of privatization, which might outlaw some of these marketing techniques. There are political barriers to adoption of such rules, however, and given the failure of most nations -- including the United States -- to adopt and enforce comprehensive marketing restrictions, it is unsatisfactory to say that countries could hypothetically undertake measures to mitigate foreseeable harms, when there is in most cases little reason to believe such measures will be adopted.

Even countries that adopt comprehensive marketing restrictions in advance of privatization will face new challenges after privatization, which will multiply the opportunities for the multinationals to evade restrictions. First, because the multinational's stake in the privatized market will be so much larger, the payoff from marketing will be much greater. This might include promotions in other countries in the region (e.g., through broadcast or satellite television) that are expected to reach across borders to consumers within the privatized market. 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. Third, the privatization will establish a lobby with a vested interest in rolling back existing

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[21] See Gregory Connolly, "Smokes and cyberspace: a public health disaster in the making" *Tobacco Control* 2001; 10: 299.
[22] 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.
[23] 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.
[24] See "Getting to the Truth: Evaluating National Tobacco Counter Marketing Campaigns," *American Journal of Public Health*. 2002; 92:901-907.
[25] 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.

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

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 1990 Thai-U.S. tobacco case at the GATT.[26]

> The GATT panel reported:
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> 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

[26] "Thailand - Restrictions on Importation of and Internal Taxes on Cigarettes, Geneva: General Agreement on Tariffs and Trade, 1990, paragraphs 52-54.

> that young women turned to manufactured cigarettes instead of the self-made ones which their elders had smoked. …
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> 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 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.
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> 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 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."[27]

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[27] 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

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 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 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 -- to attract smokers at the point of sale.

And the acquiring 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 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 company as a major force in domestic politics. No matter how strong a country's commitment to tobacco control, no one should ever doubt the multinational companies' ability to leverage political influence to roll back 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 a brief review of the U.S. experience is sufficient to make the point.

Despite the complete public health consensus on the need for 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. The United States has 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.

The various mechanisms by which the industry employs its political influence in the United States should stand as a warning of potential specific consequences of tobacco privatization in other countries. A recent report from the Institute for Health Policy Studies at the University of California, San Francisco profiled tobacco industry activity in Washington state, and shows how extensive industry political activity is even in a single subfederal jurisdiction.[28]

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 $1.8 million over the period 1996-2000 just in Washington state.

- Industry-allied politicians in the state blocked sufficient funding for tobacco control measures.

[28] 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.

- 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 U.S. state.

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 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 a country through privatization, would work to chip away at the crucial tobacco control restrictions that countries may adopt 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."[29])

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).

[29] Philip Morris - Egri Tobacco Factor Privatization Plan, 6.2, Bates No. 2501048975.

(This political power may also be leveraged to win policies that favor the business interests of the privatized company but run against the national interest of the privatizing country. 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."[30])

There is a potentially countervailing consideration in tobacco privatization, that delinking the government from the tobacco business may remove an internal lobby against effective tobacco control measures. Privatization in Poland, for example, was accompanied by adoption of strong tobacco control rules. However, global experience suggests state-run enterprises are not uniformly opposed to tobacco control measures; and, to the extent state-run companies do oppose effective tobacco control rules, they are rarely if ever as hostile as the multinationals. The Polish experience rested on a powerful domestic organizing campaign by public health advocates; for the reasons discussed above, these campaigns are more likely to succeed when tobacco companies are owned by the government rather than the multinationals.

III. RESISTANCE TO IMF-IMPOSED TOBACCO PRIVATIZATION

The IMF push for tobacco privatization has not been without controversy, both in creditor countries, and especially in borrower nations. Below are three case studies of IMF advocacy for tobacco privatization in the face of ardent national opposition, as well as a brief account of the U.S. policy dispute over tobacco privatization in developing countries.

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,[31] 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.

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[30] Philip Morris - Egri Tobacco Factor Privatization Plan, 7.5, Bates No. 2501048993.
[31] Letter of Intent, June 22, 2000, http://www.imf.org/external/NP/LOI/2000/tur/02/INDEX.HTM.

In a December 18, 2000 Letter of Intent to the IMF,[32] 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[33] 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 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. But 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.

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[32] Letter of Intent, December 18, 2000, http://www.imf.org/external/NP/LOI/2000/tur/03/index.htm
[33] Letter of Intent, January 30, 2001, http://www.imf.org/external/NP/LOI/2001/tur/01/INDEX.HTM

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. Both Philip Morris and British American Tobacco would be well-positioned buyers, having strategically signed partnerships -- in 1990 and 2001, respectively -- 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. The law has since been sent to a constitutional court, which will rule on its compatibility with the Turkish constitution.

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,[34] Moldova noted that is 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."

[34] Letter of Intent, July 29, 1999, http://www.imf.org/external/NP/LOI/1999/072999.HTM.

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 suspended plans to provide Moldova with a $35 million Expanded Fund Facility.

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.

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.

In a November 30, 2000 Letter of Intent to the IMF,[35] 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.

Thailand: Privatization Plans Reversed

Thailand is world-renowned for its strong tobacco control policies and for standing up to U.S. Trade Representative and transnational tobacco corporations that aggressively sought to open up the Thai tobacco market to foreign brands in the late 1980s. While a GATT panel in part ruled in favor of the United States, mandating that Thailand abolish its import ban, it also ruled that Thailand could implement a comprehensive advertising ban, require ingredient disclosures, and raise excise taxes.

[35] Letter of Intent, November 30, 2000, http://www.imf.org/external/NP/LOI/2000/mda/01/INDEX.HTM.

Although the foreign share of the Thai tobacco market increased steadily following the ruling, it remains a small portion of the overall market, which is dominated by the Thai Tobacco Monopoly (TTM).

In the late 1990s, Thailand was the first country to be hit by the Asian economic crisis. In response to a currency devaluation in July 1997 and the steady outflow of money from the country, Thailand sought the aid of the IMF. The IMF offered a $17.2 billion loan to Thailand, with the condition that the country privatize all state-owned enterprises, including TTM. The government was reluctant to sell TTM, a profitable monopoly, but agreed, in an August 25, 1998 Letter of Intent to IMF Managing Director Michael Camdessus, to conduct a study "outlining strategic options for Tobacco Monopoly" by early 1999.

The IMF's pressuring of the Thai government to privatize TTM drew heavy protests from within the country and around the world. TTM employees opposed the privatization because the TTM State Enterprise Employees' Association estimated that it would lead to a 50 percent reduction in staff.

Thai health groups argued that the privatization of TTM would allow predatory transnational tobacco corporations to strengthen their foothold in the country, exert greater political influence and increase smoking rates, particularly among women and children.

Furthermore, health groups opposed the IMF's basic premise that increasing the efficiency of TTM was a worthwhile goal, arguing that improved TTM efficiency would ultimately lead to higher rates of tobacco-related death and disease.

Anticipating heightened competition by 2003 as the Asian Free Trade Agreement came into force, TTM was receptive to the calls for privatization. The monopoly would have to produce and distribute its products more efficiently in order to compete successfully against imported brands. Philip Morris, R.J.Reynolds, Japan Tobacco and British American Tobacco all held discussions with TTM to discuss possible joint ventures.

In June 1999, Thailand announced plans to sell part of TTM's retail and printing units. In March 2000, the plans to privatize TTM were still on hold and it remained one of the country's most profitable state enterprises. Meanwhile, popular anti-IMF sentiment led to the defeat of Prime Minister Chuan Leekpai, who had sought to implement the strict economic policies that the IMF had set as conditions for loans. In January 2001, Thailand's prime minister elect Thaksin Shinawatra pledged to soften the rules being imposed by the IMF.

In mid-2001, however, Thailand chose TTM and eight other state enterprises to come under a national holding company, in anticipation of privatization in 2002. In March 2002, the government announced intentions to privatize part of TTM by the end of the year.

But popular resistance mounted. In July, in the face of strident opposition from health advocates, the government announced it was indefinitely suspending its tobacco privatization plans.[36]

The U.S. Policy Debate

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."[37] 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 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. "Our reading of the recent research on the economics of tobacco control does not support the contention that privatization of state-owned tobacco companies, per se, is a major cause of increased tobacco consumption," the letter stated.[38] If tobacco trade liberalization and privatization do increase consumption, the letter states, the problem is best dealt with, not by stopping these policies, but implementing other tobacco control policies. Finally, it says the IMF defers to the World Bank and World Health Organization on such matters.

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[36] Associated Press, "Thai Tobacco Privatization Suspended," July 10, 2002.
[37] 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.
[38] Letter to Sean O'Reilly, Office of Representative Lloyd Doggett, from Bruno J. Mauprivez, acting chief, public affairs division, external relations department, International Monetary Fund, February 2, 1999.

Nowhere does the IMF letter indicate any serious consideration of the effects of tobacco privatization on consumption, or a commitment to prioritization of public health concerns regarding tobacco-related matters.

IV. CONCLUSION

The life-and-death stakes are simply too high when it comes to tobacco policymaking for measures to be taken without assessing their consequences for public health.

The IMF -- as well as other international institutions -- should always give public health considerations priority in tobacco policymaking.

Because of the overwhelming evidence on the benefits of tobacco taxes and the costs of tobacco trade liberalization, as well as the strongly suggestive evidence on the harms of tobacco company privatization, the IMF should never support tobacco tax or tariff reductions, nor should it ever support tobacco privatization. Even if the IMF believes there is uncertainty about the impact of tobacco privatization, it must acknowledge that there is a strong prima facie case that privatization will increase consumption. And that, without compelling evidence to the contrary, should be sufficient to end a policy that may consign hundreds of thousands, or more, to suffer from preventable disease and to premature death.

APPENDIX I - IMF SUPPORT FOR TOBACCO TAX AND TARIFF REDUCTION, AND PRIVATIZATION

To locate countries where the IMF was advocating tobacco tax or tariff reductions, or tobacco privatization, Essential Action searched the Letters of Intent, Memoranda of Economic and Financial Policies, and Policy Framework Papers archived on the IMF's website. We searched from the period January 1998-July 2002. Presented by borrowing countries to the IMF, these documents represent the conclusion of negotiations between the Fund and borrowing countries. They indicate policy changes and directions that the Fund insists are necessary for the borrowing country to receive funds.

In this appendix, we only present excerpts from documents in which the IMF supports measures that are harmful to tobacco control. While we found no evidence that the Fund ever opposes tobacco privatization, we did find numerous instances in which the Letters of Intent include tobacco tax increases.

CASES IN WHICH THE IMF HAS SUPPORTED TOBACCO TAX AND TARIFF REDUCTION

Djibouti

Djibouti Letter of Intent, Memorandum of Economic and Financial Policies, Technical Memorandum of Understanding
November 14, 2001
http://www.imf.org/External/NP/LOI/2001/dji/01/index.htm

Memorandum of Economic and Financial Policies

Fiscal policy

13. Regarding tax receipts, two key measures were part of the initial budget for 2001, namely: (a) the introduction of a tax on selected services,2 and (b) the transfer of the collection subdirectorate from the Directorate of the Treasury and Government Accounting to the Directorate of Revenue and Government Property in order to improve the coordination and complementarity between the assessment and collection functions.3 The solidarity tax on tobacco, alcohol, and qat introduced by the supplementary budget law for 2000 to finance the Somalia Peace Conference has been abolished. On the expenditure side, the initial budget for 2001: (a) renewed the freeze on civil service hiring, except in the education, health, and justice sectors; and (b) sought to control scholarship expenditure by ensuring the training of Djibouti students in the country (opening of a university center in Djibouti) or at the more affordable university centers in Africa and the Maghreb countries.

The Gambia

The Gambia Letter of Intent and Technical Memorandum of Understanding
June 29, 2001
http://www.imf.org/External/NP/LOI/2001/gmb/01/INDEX.HTM

11. The budget for 2001, approved by parliament on December 22, 2000, did not incorporate major revenue initiatives but focused instead on measures to improve compliance.3 It also included measures to improve tax administration through computerization (including full implementation of the automated system for customs data—ASYCUDA) and improved coordination among tax departments. On the expenditure side, the budget incorporated measures extending the reporting and control procedures to all expenditures, including the below-the-line (BTL) accounts that had previously operated without internal audit scrutiny. Footnote 3. The excise taxes on alcohol and tobacco were reduced from D 25 per liter to D 15 per liter and D 80 per kilogram to D 35 per kilogram, respectively, the payroll tax from D 30,000 to D 20,000, and the stamp duty on tenancy from 40 percent to 20 percent.

Macedonia

Policy Framework Papers -- Former Yugoslav Republic of Macedonia -- Enhanced Structural Adjustment Facility, Medium-Term Economic and Financial Policy Framework Paper, 1998-2000
http://www.imf.org/external/NP/PFP/Mace/mace01.htm

10. In view of an unexpected collapse of revenues in the first half of the year, tax policy in 1997 focused on measures to enhance tax compliance. These had two main components: a one-time tax amnesty and the use of the Bureau of Payments Operations (BPO) to automatically deduct social security contributions from enterprises' accounts. The measures have so far proved successful. In addition, excise taxes on cigarettes, which had been so high as to encourage tax evasion, were cut sharply, the corporate profit tax rate was halved to 15 percent, and the profit tax surcharge earmarked for the Public Water Management Authority was revoked. The customs administration has been brought under the purview of the Ministry of Finance and, with technical support from the IMF and World Bank, is well advanced in implementing the ASYCUDA electronic data management system. There was no room to begin lowering social security contribution rates in the 1998 budget. However, in a move to encourage job creation, the government introduced a limited scheme to exempt new employees from social security contributions.

Peru

Peru Letter of Intent and Technical Memorandum of Understanding

January 18, 2002
http://www.imf.org/External/NP/LOI/2002/per/01/INDEX.HTM
5. The interim government that took office in November 2000 implemented an economic program, supported by a Stand-By Arrangement with the Fund, that aimed at ensuring macroeconomic stability in the transition to a new government. In the first half of 2001, inflation continued to decline, international reserves increased, and all program performance criteria were observed. Some progress was made in the structural reform area, including the awarding of the operating concessions for the Camisea natural gas project, the Lima airport, and specialized telecommunications services. Notwithstanding these developments, in the first half of the year, real GDP contracted 1.6 percent (year-on-year), mainly as a result of a weakening in domestic demand that included a sharp fall in private investment, and several measures were introduced that had negative fiscal implications (particularly for the medium term). These included a reduction in personal and corporate income tax rates; a lowering of selected import duties; a widening of the duty drawback system; the elimination of the value-added tax on certain tourism services; a reduction in the rate of excise taxation on cigarettes; the elimination of import duties on public transportation vehicles; and an increase in the rate of revenue-sharing with the provinces and local governments (*Ley del Canon*) without any parallel transfer of spending responsibilities.

Uganda

Uganda Letter of Intent
March 9, 2001
http://www.imf.org/external/NP/LOI/2001/uga/01/INDEX.HTM
24. The government will continue its efforts to liberalize, simplify, and streamline its trade regime. Accordingly, it will eliminate the surcharge on beer by March 2001, and those on cigarettes and other tobacco products by June 2001. The existing discriminatory excises on selected imports will be phased out consistent with the framework for trade liberalization to be undertaken in the context of the East African Community (EAC). The government has already removed the special protection accorded to textiles. As regards sugar, the report on the study of the effects of protection underscores the significant social benefits provided by the industry. Eliminating the protection without putting in place mechanisms to ensure continuation of these benefits will entail considerable hardship for a significant portion of the population. The government, therefore, reaffirms its commitment to eliminate this protection at an early date, after adequate measures have been put in place to safeguard the social benefits provided by the industry.

Uganda Letter of Intent and Memorandum of Economic and Financial Policies for 2000/01
http://www.imf.org/external/NP/LOI/2000/uga/01/INDEX.HTM
9. Uganda has completed the reconciliation of debt data with the members of the Paris Club. The Government has initiated efforts to obtain relief from non-Paris Club creditors on terms comparable to those proposed by the Paris Club, which would allow for the

interruption of current payments to these creditors. In the area of trade policy, the temporary additional duties on soft drinks and automotive batteries were eliminated in March 2000, one year ahead of schedule. The additional duty on imported beer was reduced by one-third in March and will be eliminated in June 2001. The additional duty on tobacco products was reduced by one-half in March, three months ahead of schedule, and will also be eliminated in June 2001. In order to finalize the legal framework for the liberalization of international capital transactions that was implemented in July 1997, the new Foreign Exchange Act, which will supersede the Exchange Control Act, will be presented to Parliament no later than end-September 2000. 21. The Government will continue its efforts to liberalize, simplify, and streamline its trade regime. The surcharge on beer will be completely eliminated by March 2001, and those on cigarettes and other tobacco products will be removed by June 2001. The Government will undertake by September 30, 2000 a study of the special protection accorded to the sugar and textile industries. The recommendations of the study on the protection accorded to these sectors will be implemented by December 31, 2000. The existing discriminatory excises on selected imports will be phased out consistent with the framework for trade liberalization to be undertaken in the context of the EAC.

See also:

Policy Framework Paper--Uganda--Enhanced Structural Adjustment Facility Policy Framework Paper, 1999/2000-2001/02 Table of Contents
http://www.imf.org/external/NP/PFP/1999/Uganda/Index.htm para 17

Uganda Letter of Intent, November 19, 1999
http://www.imf.org/external/NP/LOI/1999/111999.HTM para 17

Uganda Letter of Intent, July 15, 1999
http://www.imf.org/external/NP/LOI/1999/071599.htm para 16

Policy Framework Paper--Uganda: Enhanced Structural Adjustment Facility and Policy Framework Paper 1998/99-2000/01 - text
http://www.imf.org/external/NP/PFP/UGANDA/102998.htm para 17

Policy Framework Paper--Uganda: Enhanced Structural Adjustment Facility and Policy Framework Paper 1998/99-2000/01 - Tables 1-3
http://www.imf.org/external/NP/PFP/UGANDA/1029a98.htm

CASES IN WHICH THE IMF HAS SUPPORTED TOBACCO PRIVATIZATION

Bulgaria

Bulgaria Letter of Intent
August 20, 1999 http://www.imf.org/external/NP/LOI/1999/082099.HTM
Privatization and enterprise restructuring
15. We continue to implement a flexible approach to privatization, employing a wide variety of methods tailored to the size and nature of the enterprise. To date we have privatized over 40 percent of state-owned assets, or over 50 percent of the total assets we believe can be privatized. It is our objective to divest the state of virtually all small, and most large, commercial enterprises by end-1999. For smaller enterprises we have vested the responsibility for privatization in the relevant line ministries and municipalities, and they were able to meet the objective of selling half of the assets under their purview by the first quarter of 1999. This process relies heavily on auctions and management-employee buyouts (MEBOs) which emphasize speed rather than quality or revenue. The last amendments to the Privatization Law reduced the advantages enjoyed by MEBOs, and we are seeking at the beginning of parliament's autumn session passage of a clarifying interpretation of the discount factor for MEBO bids offering deferred payment schemes. For larger enterprises the responsibility for privatization rests with the privatization agency often in cooperation with outside advisors. Apart from the successes we have had with the completion of the isolation program (see next paragraph), we have also recently concluded a number of important deals, including the sale of four pharmaceutical companies to foreign strategic investors. Most important, the sale of BTC, the telecommunications company--the largest privatization in Bulgarian history--has been agreed in principle and will be finalized shortly. We will continue to favor strategic investors with an established corporate profile and international presence. The sale of Neftochim, the largest refinery, is expected by the end of the year; we remain committed not to raise customs duties for refined fuels in this context. The planned privatization of the state tobacco monopoly has been delayed owing to the unanticipated complexity of the process, but we are confident that the company can be brought to the point of sale by end-1999. The second round of mass privatization, offering shares in 189 enterprises, is proceeding smoothly. To date two auctions have been completed and two more are scheduled.

See also:

Bulgaria Letter of Intent and Memorandum of Economic Policies
January 29, 1999
http://www.imf.org/external/NP/LOI/1999/012999.HTM para 11

Bulgaria Letter of Intent and Memorandum of Economic Policies
September 9, 1998

http://www.imf.org/external/np/loi/090998.htm para 22

Korea

Korea Letter of Intent and Memorandum on Economic and Financial Policies for 2000
July 12, 2000
http://www.imf.org/external/NP/LOI/2000/kor/01/INDEX.HTM
Privatization Korea Tobacco and Ginseng: The government plans to reduce its shares in the company including by issuing depository receipts in foreign stock markets.

Korea Letter of Intent and Memorandum of Economic Policies
November 24, 1999
http://www.imf.org/external/NP/LOI/1999/112499.HTM
Full privatization of four other state-owned enterprises (Korea Tobacco and Ginseng, Korea Gas, Daehan Oil Pipeline, Korea District Heating) will occur in phases over the next three years. Korea Tobacco and Ginseng was publicly listed and a 18 percent stake in the company has been sold.

See also:

Korea Letter of Intent and Memorandum of Economic Policies,
March 10, 1999
http://www.imf.org/external/NP/LOI/1999/031099.HTM

Mali

Policy Framework Paper--Mali--Enhanced Structural Adustment Facility Medium-Term Policy Framework Paper, 1999-2002
http://www.imf.org/external/NP/PFP/1999/mali/INDEX.HTM
13. Efforts to restructure/privatize public enterprises were continued. The number of nonbank public enterprises was reduced from about 85 in the late 1980s to 40 at end-1995, and to 33 at end-1998, and their weight in nominal GDP dropped from 12 percent in 1987 to 7 percent in 1998. The printing company (EDIM-SA), the insurance company (CNAR) and the maintenance company (EMAMA) were privatized in 1998, and the Hôtel de l'Amitié was placed under a management contract. However, the calls for bids for minority holdings in four small enterprises (SEMA-SA, MALITAS, SMPC and SOMACO-SA) were unsuccessful, and the privatization of the tobacco company (SONATAM) has not yet been concluded. In order to better organize future restructuring/privatization operations, an interministerial privatization commission was created in 1998. The investment bank assigned with the task of privatizing the electricity and water company (EDM) began its work in February 1999, and the law authorizing this company's privatization was promulgated in March 1999. The government adopted a sectoral policy statement for the telecommunications sector in July 1998 and promulgated

the law authorizing the opening of the capital of the national telecommunications company (SOTELMA) in March 1999.

See also:

Mali Letter of Intent, July 12, 1999
http://www.imf.org/external/NP/LOI/1999/071299a.htm para 10

Policy Framework Papers--Mali--Enhanced Structural Adjustment Facility Medium-Term Economic and Financial Policy Framework Paper, 1998-2001 - Text
http://www.imf.org/external/NP/PFP/mali/mali.htm para 8

Moldova

Republic of Moldova Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding,
November 30, 2000
http://www.imf.org/external/NP/LOI/2000/mda/01/INDEX.HTM

4. Progress in structural reforms, which had been uneven in the years before, markedly improved in 2000. In the energy sector, three electricity distribution companies were sold to a strategic investor, and the sale of two additional distribution companies and the power generation companies is underway. In agriculture, progress continued to be made in liquidating state farms and in distributing land to individual farmers. Bankruptcy or restructuring procedures have been initiated against 57 firms with arrears to the state and social fund budgets (including on credits from the Ministry of Finance) exceeding Mdl 1 million. Moreover, in October, Parliament approved a law allowing for the privatization of five wineries and six tobacco companies through an open tender process. A first important step was also made in strengthening the legal framework with the first reading in parliament of a market-oriented civil code.

Privatization program. The privatization bill on five wineries and the tobacco sector was approved by Parliament in October 2000 (prior action). In the coming period, and according to a strategy to be agreed to with the World Bank, we will prepare the privatization of these wineries and tobacco companies. We expect to be able to announce a sales tender for at least two wineries by May 1, 2001. We also plan to proceed with the privatization of Moldtelecom, in consultation with the World Bank. In this regard, Parliament has already approved an independent regulatory agency for the telecommunication sector, appointed a board of directors and physically established the agency. Moldtelecom has not contracted any external debt since May 1999 and will not be permitted to contract debt pending its privatization, except for making necessary pre-privatization investments in agreement with the World Bank. We will launch a tender for

selecting a financial advisor for the privatization of Moldtelecom by February 1, 2001 (structural benchmark).

See also:

Moldova Letter of Intent, July 29, 1999
http://www.imf.org/external/NP/LOI/1999/072999.HTM para 24

Turkey

Turkey Letter of Intent
July 31, 2001
http://www.imf.org/External/NP/LOI/2001/tur/04/index.htm
The government will resubmit the Tobacco Law that parliament approved in June as soon as parliament reconvenes. The concerns expressed on managing the transition period are being addressed through various projects supported by the World Bank. The PA will prepare privatization plans for TEKEL (tobacco and alcohol monopoly) and SEKER (sugar company), consistent with the commitments under the World Bank Economic Reform Loan, by end-2001.

Turkey Letter of Intent
June 26, 2001
http://www.imf.org/external/NP/LOI/2001/tur/03/INDEX.HTM

13. Privatization, including preparations for divestiture of large state-owned assets, is moving apace. We expect that a new professional board and management team of Türk Telekom will be put in place shortly, meeting a condition for completing the eighth review. The immediate priority of the new Telekom Board will be to adopt a plan for corporatization. The Privatization Administration is working on a privatization plan for Türk Telekom in accordance with the new Law, which the Ministry of Transport will present to the Council of Ministers as soon as the plan is finalized. While the timing of sale of individual enterprises will depend on market conditions (which in turn are linked to our progress in implementing the economic program and restoring financial stability), the Privatization Agency is moving ahead with the preparation for privatization of assets in its portfolio. Specifically, advisors have been engaged for the further sale of state participations in TUPRAS (the oil refinery) and POAS (petrol stations), and we expect that the public offering of both companies could be carried out in the fourth quarter of this year. Now that domestic air fares have been liberalized, the public offering for Turkish Airlines is also foreseen for the fourth quarter. Following the adoption of the Sugar Law in April and the new Tobacco Law in June (the latter is a condition for

completing the eighth review), we will move ahead with the privatization of the sugar and tobacco factories in the context of our agricultural reform program supported by the World Bank. In the steel sector, a major operational restructuring involving the reduction of the workforce is underway, in preparation for the eventual privatization of ERDEMIR through a merger with ISDEMIR. Following a review of obstacles for the sale of state-owned land, legal amendments to facilitate these sales will be submitted to parliament by the summer recess. All in all, we believe that the targeted US$1 billion in privatization proceeds in the remainder of this year is well within reach.

Turkey Letter of Intent
November 20, 2001
http://www.imf.org/External/NP/LOI/2001/tur/05/INDEX.HTM

Structural reforms

27. We are continuing with the preparations for privatization of major state-owned companies. Preparations for further public offerings of TÜPRA? (oil refinery) and POA? (petroleum distribution) were well advanced before September 11, but the weakened market conditions have forced us to postpone these offerings to early next year. We are restructuring ISDEMIR (steel plant), including through staff reductions, and merging it with ERDEMIR. We will subsequently reduce the state share in ERDEMIR below 50 percent. Operational restructuring of Turkish Airlines continues, although the worldwide slump in the airline industry has weakened the company's financial position and prospects for sale. The Tobacco Law has been re-submitted to parliament following the veto of the first draft by the President, and we expect parliament to enact it early in January 2002. The Privatization Administration is working to complete the privatization plan for TEKEL (tobacco and alcohol monopoly), as well as for ?EKER (sugar factories), although the finalization of those plans may extend beyond the original deadline of end-2001 because of legislative delays. In the energy sector, we appointed the regulatory board on November 2. Moreover, we are preparing for the sale of power plants and distribution network (with the support of the World Bank), and have initiated the transfer of two gas distribution companies to the Privatization Agency. On October 31, the new Board of Türk Telekom chose advisors for its corporatization plan (meeting a structural benchmark). So far this year, we have raised US$2.8 billion in privatization receipts. In 2002, we expect to raise about US$1.5 billion.

See also:

Turkey Letter of Intent
June 22, 2000
http://www.imf.org/external/NP/LOI/2000/tur/02/INDEX.HTM para 24

Turkey Letter of Intent

December 18, 2000
http://www.imf.org/external/NP/LOI/2000/tur/03/index.htm para 46

Turkey Letter of Intent
January 30, 2001
http://www.imf.org/external/NP/LOI/2001/tur/01/INDEX.HTM para 1

Turkey Letter of Intent and Memorandum on Economic Policies,
May 3, 2001
http://www.imf.org/external/NP/LOI/2001/tur/02/INDEX.HTM para 21

Turkey Letter of Intent,
January 28, 2002
http://www.imf.org/External/NP/LOI/2002/tur/01/INDEX.HTM para 45

Turkey Letter of Intent
April 3, 2002
http://www.imf.org/External/NP/LOI/2002/tur/02/index.htm

Turkey Letter of Intent
June 19, 2002
http://www.imf.org/External/NP/LOI/2002/tur/03/Index.htm

APPENDIX II -- CORRESPONDENCE BETWEEN MEMBERS OF THE U.S. CONGRESS AND THE INTERNATIONAL MONETARY FUND ON TOBACCO PRIVATIZATION

1. Letter from 17 Members of the U.S. Congress to the International Monetary Fund, December 2, 1998

2. Response from the International Monetary Fund, February 2, 1999

Congress of the United States

Washington, DC 20515

December 3, 1998

Mr. Michel Camdessus
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, D.C. 20431

Dear Mr. Camdessus:

We are writing to register our concern about apparent International Monetary Fund (IMF) support for privatization of state-run tobacco operations. We believe privatization would have serious public health consequences. We urge an immediate change in IMF policy on this matter.

As you know, in connection with receipt of loans from the IMF, Thailand is undergoing an economic restructuring program. It has come to our attention that the August 25, 1998, Letter of Intent from Thailand to the IMF contemplates privatization of the Thai Tobacco Monopoly. Attachment Box F, Section 5, "Privatization of selected enterprises," lists as a goal for the first quarter of 1999 to "complete study outlining strategic options for Tobacco Monopoly."

In conjunction with the economic restructuring South Korea is undertaking with IMF support, that country also has announced plans to privatize in whole or in part its tobacco monopoly.

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.

The experience in opening Asian tobacco markets to foreign imports illustrates what is at stake. After misguided U.S. pressure forced open markets in Japan, Taiwan, South Korea and Thailand, smoking rates rose 10 percent higher than they would have, according to econometric analyses performed by University of Illinois Professor Frank Chaloupka. In time, that increase will lead to thousands of preventable deaths and excess spending of health care resources to treat tobacco related disease.

Experience shows that state-owned enterprises tend to be less aggressive marketers of tobacco products than private corporations, especially the multinational tobacco companies that will bid for state tobacco companies that are privatized. State-run tobacco companies are less likely to attempt to influence, skirt or undermine domestic tobacco control regulations. They are also less likely to deny the health risks of smoking.

For these reasons, we urge the IMF to adopt a formal policy of prioritizing public health over other considerations in tobacco-related matters. The IMF policy should not encourage or advise borrowing countries to privatize state-run tobacco companies. We also urge the Fund to review

the impact of its structural adjustment policies on tobacco-related and other public health concerns, and to ensure economic restructuring does not contribute to preventable disease and death.

Sincerely,

Rep. Lloyd Doggett

Sen. Richard Durbin

Sen. Ron Wyden

Rep. Ted Strickland

Sen. Frank Lautenberg

Rep. Fortney Pete Stark

Rep. John Olver

Rep. Diana DeGette

Rep. George Miller

Rep. Dennis Kucinich

Rep. Bernard Sanders

Rep. Martin Meehan

Rep. Barbara Lee

Rep. Lane Evans

Rep. James Hansen

Rep. Frank Pallone

Rep. Nancy Pelosi

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

CABLE ADDRESS
INTERFUND

February 2, 1999

Mr. Sean O'Reilly
Office of the Honorable Lloyd Doggett
United States House of Representatives
126 Cannon House Office Building
Washington, D.C. 20515-4310

Dear Mr. O'Reilly:

This is in response to a recent letter sent by a group of Congressmen to Mr. Michel Camdessus, Managing Director, International Monetary Fund, which raised important general concerns about the possible linkage between privatization of state-owned tobacco companies and tobacco consumption, albeit your letter confined this concern to Fund-supported programs. More broadly, your letter argues that tobacco consumption represents a grave public health menace, increasing public spending on health care, and that the IMF should adopt a formal policy on this issue.

First, let me assure you that it has never been the IMF's intention to encourage smoking directly or indirectly. Indeed, as an employer, our Executive Board has approved a policy that makes all Fund-owned or leased space a smoke-free environment, other than designated smoking areas.

Second, our reading of the recent research on the economics of tobacco control does not support the contention that privatization of state-owned tobacco companies, per se, is a major cause of increased tobacco consumption. Having said that, while it is certainly possible that trade liberalization may have resulted in increased consumption, the World Bank and World Health Organization (WHO) have argued strongly that the appropriate response of governments is to: better inform their populations (particularly youth) about the hazards and addictive effects of tobacco; impose heavier excise taxes on tobacco products; and pursue regulatory initiatives that both ban the advertising and promotion of tobacco products and encourage the distribution of nicotine replacement therapies. Indeed, by divesting the government of the ownership of tobacco monopolies, its hands may be far freer to pursue such policies. I should also note that the IMF has consistently recommended that country authorities, including in the two country cases cited in your

letter, use tobacco taxes as an important source of excise revenues. We have also often provided technical assistance to help countries strengthen their tax administrations' efforts to minimize the smuggling of tobacco products.

Third, it is important to stress that, as an institution whose mandate is to promote sustainable real growth and high employment in the context of external stability and low inflation, the Fund's membership has emphasized that a division of labor with other international institutions is essential to ensure effectiveness and efficiency. In that context, our staff thus principally focuses on issues with clear macroeconomic policy implications. It is for this reason that the World Bank and WHO have taken the lead in achieving a better understanding of the health and economic consequences of tobacco consumption and in developing appropriate policy strategies. At the same time, our staff relies on these experts in areas related to public social spending (and regulation) to ensure adequate provision within the government's budget. Indeed, these institutions sponsored a major conference of academic and government experts on precisely these issues in November in Lausanne, Switzerland, which was attended by a senior Fund staff official. Let me assure you that the IMF's management has taken action to ensure that Fund staff are aware of the lessons learned by the WHO and World Bank and we will also continue our involvement through participation in an advisory committee in support of WHO's recent initiatives.

We very much appreciate hearing from you on this important issue.

Sincerely,

Bruno J. Mauprivez
Acting Chief, Public Affairs Division
External Relations Department