Tobacco - international

Thomas L. Freedman
11/13/97 11:53:45 AM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP, Jerold R. Mande/OSTP/EOP

cc:

Subject: Doggett Amendment

It looks Doggett's amendment to prohibit the US government's promotion of tobacco abroad will be in State/Commerce. The amendment actually basically reflects current US policy, but it is a formalization of our position. When the President signs it, i think we can say that it will balance the Etheridge position that we won't discriminate against US farmers with the comittment that we also won't promote tobacco overseas.

Only fight if discriminatory

Sherman boone

~~Yes it passed.~~

USTR on [illegible] [illegible]

Tom —
Did this pass?
Elena

Yes.
— in [illegible] [illegible]
— come up tomorrow

Janet Murguia

Sign wednesday?

The New York Times WEDNESDAY, FEBRUARY 18, 1998

In Colorado Classroom, Students Seek Their Own Olympic Goals

By PAMELA MENDELS

Thousands of miles from Nagano, Japan, fourth- and fifth-grade students in Greeley, Colo., have their own Olympics quest: designing snowboards using a new Web site created in a partnership of PBS, I.B.M. and CBS, which is broadcasting the Winter Games.

The students work in a classroom with six computers connected by high-speed cables to the Internet. "My students are learning math in a real way," said their teacher, Sharon L. Wright, at Shawsheen Elementary School. The exercise "is a real application of mathematical ideas."

But the site has also attracted its share of critics troubled by what one educator called "techno-edutainment" and by its links to commercial advertising and marketing sites, which children can visit with a mouse click.

The site, called the U.S. Olympic PBS Cyber School Powered by I.B.M., has about 85 Web-based lesson plans revolving around three popular sports, skiing, snowboarding and skating.

"We were saying the Olympics is an exciting event, so this is something kids might be interested in," said Michael E. Kaufman, director of digital learning for the Public Broadcasting Service, which worked with about 50 teachers around the country to create the lessons, or challenges, as they are called on the site.

Mr. Kaufman said the site was meant to be paired with more conventional ways of teaching.

But like many other education-related Web sites, the project is also drawing criticism from those who say it delivers more technical razzle dazzle than content and contains corporate promotion inappropriate for classrooms.

"The site is emblematic of everything wrong with this whole infatuation with techno-edutainment," said Edward Miller, former editor of the Harvard Education Letter and a writer working on a book about technology and education. "It is almost content-free, full of glitz and ultimately about the technology itself, rather than fundamental intellectual skills that kids need to work on."

Ms. Wright said advertising on the Web was a little different from what students saw all the time in newspapers and magazines. "And to be honest," she said, "I don't think my kids pay any attention to it."

Ms. Wright uses the site to augment a classroom unit on the Olympics. While small groups of students examine other aspects of the Games, four of her students are working through the snowboard design challenge. They are asked to design a snowboard, a drawing of which they can post at the site's finish line, after they visit Web sites to research things as diverse as national flags and names of snowboard makers.

One of the four students, Cody, said that in addition to learning about the intricacies of snowboarding, he had to use multiplication to calculate how far apart to place board bindings for people of different weights and sizes.

Cody's one word description of the project? "Cool."

Democratic Fund-Raiser's Indictment Is Imminent

By DAVID JOHNSTON

WASHINGTON, Feb. 17 — The Justice Department has prepared an indictment accusing a Democratic fund-raiser, Maria Hsia, of lying about her role in organizing a 1996 event at a Buddhist Temple in California attended by Vice President Al Gore, law enforcement officials and Ms. Hsia's lawyer said today.

The officials said a Federal grand jury investigating campaign financing could return an indictment as soon as Wednesday. Ms. Hsia (pronounced shaw) lives in California and, unlike some important figures in the case, has stayed in the United States instead of leaving the country as the furor over fund-raising irregularities ignited in late 1996.

Ms. Hsia's lawyer, Nancy Luque, said today that prosecutors had advised her that an indictment was imminent. Ms. Luque said her client would wage a vigorous legal battle.

"I admire Maria's courage and discipline as she intends to meet the charges," she said. "I have no doubt that she will be fully vindicated."

The indictment will focus on the role Ms. Hsia played in arranging a Democratic fund-raising and political event at a Buddhist temple in California. Prosecutors said they believe that Ms. Hsia illegally reimbursed donors who were temple monastics for contributions made in their names, and then lied about it in filings required by the Federal Election Commission. Ms. Hsia's lawyer said that her client played no role in laundering contributions.

"The Government can't back up the charges in this indictment with any evidence," Ms. Luque said. "Maria had absolutely nothing to do with the reimbursement of temple monastics. By attempting to use the criminal law to prosecute this conduct, the Government is either letting itself be used for political purposes or abdicating its responsibility to fairly judge the facts and the law."

The temple event occurred on April 29, 1996, at the Hsi Lai Temple in Hacienda Heights. Mr. Gore, who has since said he did not know that the event was a fund-raiser, was a featured guest.

The event raised $166,000, which was later returned by the Democratic National Committee. But a draft report by Republicans on the Senate Governmental Affairs Committee, which investigated campaign financing in the 1996 election, said Democratic fund-raisers were disappointed with the amount raised and arranged to have an additional $55,000 contributed through the temple.

The $55,000 came in $5,000 checks written to the national committee by temple nuns and monks who were then illegally reimbursed with temple money. It is these donations that are likely to be the focus of any indictment. Under Federal election law, it is illegal to donate money on someone else's behalf. The report said Ms. Hsia played a role in arranging the laundered donations; Ms. Luque disputes that.

Jan Sonnenmair for The New York Times

Maria Hsia, who is expected to be indicted in campaign finance case.

Ms. Hsia has long been associated with the Hsi Lai Temple, which is affiliated with Fo Kuang Shan, a Buddhist sect in Taiwan. In 1989, she arranged for Mr. Gore, who was then a United States Senator, to visit the order's headquarters in Taiwan.

Ms. Hsia has been a focus of the Justice Department's criminal investigation. As an associate of high profile fund-raisers like John Huang, she fell under scrutiny during a Senate investigation last year into how the Democrats financed President Clinton's re-election campaign.

An indictment against Ms. Hsia would be the second obtained by the department's campaign finance team, which has been under heavy fire from Republicans for taking too long to bring charges in the inquiry. Two weeks ago, prosecutors obtained an indictment charging two Democratic fund-raisers, Yah Lin Trie and Antonio Pan, with illegally concealing the source of thousands of dollars in donations to Democrats.

Today Government officials said that the indictment would probably not directly charge the temple or any of its officials with wrongdoing. Moreover, the indictment is unlikely to make any reference to the swirl of accusations that emerged last week in the Republicans' Senate committee draft report about whether Ms. Hsia's activities aided the Chinese intelligence service. The report specifically referred to her as an agent of the Chinese Government.

"The committee would do well to review this indictment," Ms. Luque said, "because they will find no suggestion of Ms. Hsia having been an agent of the Chinese Government."

Ms. Hsia was born Hsia Ling in Taiwan in 1951. She came to the United States on a student visa in 1973 and became a permanent resident in 1975. Not long after her arrival, she began working at a law firm that helped immigrants come to the United States, a practice that Ms. Hsia later continued on her own.

She became a United States citizen in 1986. Though not a lawyer, she did consulting work at several law firms specializing in immigration. She started her own business, Hsia & Associates, in 1991. She has helped Taiwanese and Chinese clients get United States visas, and she travels to Beijing several times a year.

Health Experts Oppose Legal Protection for Tobacco Industry

By DAVID E. ROSENBAUM

WASHINGTON, Feb. 17 — Two of the nation's leading authorities on public health, C. Everett Koop, the former Surgeon General, and David A. Kessler, former Commissioner of Food and Drugs, said today that they opposed giving tobacco companies protection against lawsuits.

A lawyer for the tobacco industry said later that without such legal protection, the companies would fight in court any effort by Congress to restrict their advertising or prevent them from marketing cigarettes to teen-agers.

The competing news conferences, held with Congress in recess this week and lawmakers undecided about how and whether to proceed with antismoking legislation, came on the same day that the Journal of the American Medical Association published two studies about the influence of tobacco advertising on smoking among young people.

One study found that tobacco companies advertised brands popular with young people in magazines that had a high proportion of teen-age readers. The other study concluded that exposure to cigarette advertising was a significant factor in whether teen-agers took up smoking.

At their news conference on Capitol Hill, Dr. Koop and Dr. Kessler presented a letter to Congressional leaders calling for "fundamental changes in tobacco policy based solely and exclusively on what is good for the public's health without making unnecessary concessions to the tobacco industry."

Their letter was signed by representatives of 20 organizations, including the American Medical Association, the American Cancer Society, American Heart and Lung Associations and the National Campaign for Tobacco-Free Kids.

Dr. Kessler, who is now dean of the Yale Medical School, was especially emphatic in his opposition to giving the tobacco companies legal protection. "For the first time, Congress needs to enact tobacco legislation without asking the industry's permission," he said. "There should be no concessions to this industry."

He repeatedly avoided answering whether he would change his mind if such concessions proved to be the only way to obtain restraints on tobacco advertising.

Last year, the tobacco industry signed an accord with the attorneys general of about 40 states in which the industry agreed to restrict advertising and take other steps to limit smoking. The accord is being rewritten by Congress.

In it, the companies agreed, among other things, to stop advertisements featuring cartoon characters or celebrities, to discontinue outdoor advertisements and to restrict advertisements in magazines often read by teen-agers to text-only, black-and-white layouts.

In exchange, the agreement prohibits class-action lawsuits, limits claims for punitive damages based on past industry conduct and puts a ceiling on how much the companies would have to pay each year in compensatory damages.

As more and more documents come out showing the extent to which the tobacco companies tried over the years to promote smoking by young people, the industry has lost almost all support in Congress. Lawmakers have expressed reluctance to grant the concessions to the companies contained in the agreement.

"Their effort to target 14-year-olds is frankly reprehensible," Speaker Newt Gingrich, Republican of Georgia, said last week. "I think that they are weaker than they have ever been in this city, and I think that there is virtually no sentiment for in any way listening favorably to the tobacco companies."

But without protection against lawsuits, said Meyer Koplow, a lawyer who represents the industry, the companies would never voluntarily agree to restrict their advertising. To do so outside a comprehensive settlement, Mr. Koplow suggested, would be a violation of antitrust laws.

And if Congress tried to impose the advertising restrictions over the opposition of the industry, Mr. Koplow said, the companies would argue that their right of free expression had been violated and would tie up the matter in court for years.

In St. Paul today, in the first state case against the tobacco industry to reach trial, jurors heard the former top researcher for the Philip Morris Companies refuse to answer dozens of questions in videotaped testimony.

The Associated Press said the researcher, Thomas Osdene, 70, repeatedly invoked his Fifth Amendment rights during the hourlong questioning about his work for the nation's largest cigarette maker.

The New York Times
WEDNESDAY, FEBRUARY 18, 1998

tobacco - int'l - SW

new revisions

? File

UNCLASSIFIED FAX FROM
THE NATIONAL ECONOMIC COUNCIL
AND
THE NATIONAL SECURITY COUNCIL OF
THE WHITE HOUSE

SENDER: **Sherman G. Boone** SGB
PH: 202-456-9297
FAX: 202-456-9290
PAGES: **4** **DATE:** February 6, 1998

SUBJECT: **Revised Guidelines on Health, Trade and Commercial Issues**

Agency	**Name**	**Phone #**	**Fax #**
CEA	Chad Stone	395-5086	395-6958
DPC	Tom Freedman	456-5587	456-7431
	Mary L. Smith	456-5571	456-7431
OSTP	Jerry Mande	456-6018	456-6027
OVP	John Norris	456-9518	456-9500
OMB	Joe Minarik	395-5873	395-1198
USTR	Jennifer Haverkamp	395-7320	395-4579
	Jan McAlpine	395-9582	395-4579
HHS	Andy Hyman	690-6318	690-7998
HHS/CDC	Michael Eriksen	770-488-5701	770-488-5767
	Michelle Larkin	205-9231	205-8313
HHS/FDA	Judith Wilkenfeld	301-827-0933	301-443-5169
	Linda Horton	301-827-3344	301-443-6906
HHS/OPHS	Ripley Forbes	260-2255	260-1570
State/OES	Nancy Carter-Foster	647-2435	736-7336
State/EB	Terry Miller	647-3090	647-2302
	Paul Aceto	647-1490	647-1894
State/IO	Ann Blackwood	647-1044	647-8902
USDA	Charlie Rawls	720-6158	720-5437
USDA/FAS	Frank Coolidge	720-9519	690-1171
USDOC	Troy Cribb	482-3737	482-2331
	Les Simon	482-0341	482-3981
Treasury	Jon Gruber	622-0563	622-2633
Treasury/OASIA	Whit Warthin	622-1733	622-1731
	Gene Clapp	622-1261	622-2505

Attached is a revised version of the international tobacco guidelines to be sent to all diplomatic and consular posts (changes noted from the January 23 draft). The guidelines will be readied for transmittal and will likely be made publicly available by the end of next week. **Your agency's comments/concurrance is therefore required by COB Monday, February 9.**

Please note my new fax and telephone numbers. Thank you.

DRAFT

Tobacco: Guidance for U.S. Diplomatic Posts on Health, Trade and Commercial Issues

General Policy

The opening of international markets to U.S. products, non-discriminatory treatment for U.S. exporters, and removal of barriers to international trade are high priorities of the U.S. Government and the Clinton Administration. At the same time, given the United States' leadership in addressing international public health crises, there is a need to distinguish between protectionist policies and legitimate health-based actions, so as not to undermine other countries' efforts to reduce the consumption of tobacco and tobacco products and improve the health of their citizens.

Tobacco use will be the leading global cause of premature death and preventable illness early in the 21st century. In light of the serious health consequences of tobacco use, the U.S. Government will not promote the sale or export of tobacco or tobacco products or seek the reduction or removal by any foreign country of restrictions on the marketing of tobacco or tobacco products, except for restrictions which are not applied equally to all tobacco or tobacco products of the same type. This policy conforms to the provisions of Section 618 of the Act Making Appropriations for the Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies for FY 1998.

The U.S. respects the rights of foreign governments to establish and maintain sound public health practices, encourages them to do so, and, where appropriate, may support such efforts with multilateral and bilateral assistance. At the same time, the U.S. Government will continue to seek elimination of discriminatory trade practices and will strive to ensure that U.S. firms are accorded the same treatment in foreign countries as that country's own firms and firms from other countries. The overall objective is to ensure equal access to a shrinking global market for tobacco.

Guidelines

The following guidelines are consistent with the Administration's overall approach to reducing the negative health impact of tobacco while protecting the rights of Americans overseas:

1. Posts are encouraged to assist and promote tobacco-control efforts in host countries.

2. Posts should not challenge host country laws and regulations based on sound public health principles, applied in a nondiscriminatory manner to both imported and domestic tobacco products, and for which sufficient notice has been given. If a post has reason to believe that such health regulations may, in fact, discriminate against U.S. firms or individuals, the issue should be referred to Washington for consideration by trade, health and other appropriate agencies.

3. Posts should not promote the sale or export of tobacco products, and should not assist the efforts of U.S. firms or individuals to do so. Ambassadors or embassy staff should not attend or otherwise support receptions, trade promotions, or any events sponsored by individuals or entities involved in the export, manufacture, promotion, distribution or sale of tobacco or tobacco products where their attendance could be construed as United States Government support for the sale or export of tobacco products.

4. Posts should continue to provide routine business facilitation services to all U.S. citizens or firms such as the provision of publicly available information on foreign country conditions and policies, information or assistance that may help U.S. firms or individuals comply with foreign government laws or regulations, and assistance in resolving business problems -- such as customs or port clearance, trademark violations, or phytosanitary restrictions -- that are potentially discriminatory.

Changes to 1/23 draft

Tobacco: Guidance for U.S. Diplomatic Posts on Health, Trade and Commercial Issues

DRAFT

General Policy

The opening of international markets to U.S. products, non-discriminatory treatment for U.S. exporters, and removal of barriers to international trade are high priorities of the U.S. Government and the Clinton Administration. At the same time, given the ~~importance of health measures internationally~~ United States' leadership in addressing international public health crises, there is a need to distinguish between protectionist policies and legitimate health-based actions, so as not to undermine other countries' efforts to reduce the consumption of tobacco and tobacco products and improve the health of their citizens.

Tobacco use will be the leading global cause of premature death and preventable illness early in the 21st century ~~sits squarely at the intersection between trade and health policies~~. In light of the serious health consequences of tobacco use, the U.S. Government will not promote the sale or export of tobacco or tobacco products or seek the reduction or removal by any foreign country of restrictions on the marketing of tobacco or tobacco products, except for restrictions which are not applied equally to all tobacco or tobacco products of the same type. This policy ~~also~~ conforms to the provisions of Section 618 of the Act Making Appropriations for the Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies for FY 1998.~~, which stipulates that, "none of the funds provided by this Act shall be available to promote the sale or export of tobacco or tobacco products, or to seek the reduction or removal by any foreign country of restrictions on the marketing of tobacco or tobacco products, except for restrictions which are not applied equally to all tobacco or tobacco products of the same type."~~

The U.S. respects the rights of foreign governments to establish and maintain sound public health practices, encourages them to do so, and, where appropriate, may support such efforts with multilateral and bilateral assistance. ~~On the other hand,~~ At the same time, the U.S. Government will continue to seek elimination of discriminatory trade practices and will strive to ensure that U.S. firms are accorded the same treatment in foreign countries as that country's own firms and firms from other countries. The overall objective is to ~~shrink the~~ ensure equal access to a shrinking global market for tobacco ~~without disadvantaging U.S. firms~~.

Guidelines

The following guidelines are ~~designed to enunciate Administration policy on tobacco-related issues and to ensure~~ consistency with ~~Section 618 of the Act cited above as well as with~~ the Administration's overall approach to reducing the negative health impact of tobacco while protecting the rights of Americans overseas:

1. Posts are encouraged to assist and promote tobacco-control efforts in host countries.

2. Posts should not challenge host country laws and regulations based on sound public health principles, applied in a nondiscriminatory manner to both imported and domestic tobacco products, and for which sufficient notice has been given. If a post has reason to believe that such ~~health~~ regulations may, in fact, discriminate against U.S. firms or individuals, the issue should be referred to Washington for consideration by trade, health and other appropriate agencies.

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4. Posts should continue to provide routine business facilitation services to all U.S. citizens or firms such as the provision of publicly available information on foreign country conditions and policies, information or assistance that may help U.S. firms or individuals comply with foreign government laws or regulations, and assistance in resolving business problems -- such as customs or port clearance, trademark violations, or phytosanitary restrictions -- that are potentially discriminatory.

February 11, 1998

Tobacco use is a growing threat to global public health. Today, tobacco products account for three million deaths worldwide each year; by 2025, that number is expected to rise to ten million per year, with over 70 percent of tobacco-related deaths occurring in developing nations.

As the world's leading exporter of tobacco products, the United States has a moral responsibility to address the adverse impact of its products on global public health. As a part of any effort to address tobacco use, Congress should establish a responsible international health policy by enacting these five proposals:

1. **End U.S. Government Support for Tobacco Abroad.** The federal government should be prohibited from promoting the sale or export of tobacco or tobacco products abroad. It should also be prohibited from attempting to weaken a foreign tobacco regulation unless the regulation discriminates against U.S. products in an arbitrary and unjustifiable manner and is not a reasonable protection of public health

2. **Adequately Fund Global Nongovernmental Tobacco Control Efforts.** A private, nonprofit organization should be established to assist public health organizations in other countries through public education programs, technical assistance to health professionals, mass media campaigns, grants and other general assistance.

3. **Establish a Code of Conduct for Labeling and Advertising Overseas.** U.S. tobacco companies should be required to print health warning labels on tobacco products sold overseas that are as stringent as those required in the United States. U.S. tobacco companies should also be prohibited from selling, advertising or marketing tobacco products to children in other countries, with the same standards applied to their overseas conduct as at home.

4. **Stop International Tobacco Smuggling.** The Bureau of Alcohol, Tobacco and Firearms, which currently regulates alcohol smuggling, should be given authority to deter tobacco smuggling through, among other things, a system of export permits and increased record keeping.

5. **Fund International Tobacco Control Through a Licensing Fee.** Every U.S. tobacco company should pay a two-cent fee for each package of cigarettes it sells overseas. The money raised through such a fee should be used for tobacco control efforts by governmental and non-governmental entities.

The United States has the opportunity to act as a world leader in promoting public health. If Congress passes any measure to confront domestic tobacco use, it must also tackle the health problems caused by the use of American tobacco products abroad. We strongly endorse these proposals to establish a responsible U.S. policy for the promotion of global public health.

Tom F.
67431

July 9, 1997

MEMORANDUM FOR MARK MAZUR

From: Sara Harkavy

Re: Vernon P. Dorweiler's Tobacco Study

The Dorweiler paper appears fairly basic in its scope, essentially describing the costs and benefits to a corporation and a company of multinational tobacco. The following is a brief summary of the study. The paper is a fairly good overview of the tobacco industry's prospects for internationalization, however much of the study is simply extrapolation from basic ideas about multinational companies.

Benefits to a tobacco company of internationalization include an extension of product life, an increased recovery on technology investment - this may be a new product in the market or a new technological basis for the product - and a larger market. Perhaps the most important benefit to the tobacco industry is fewer restrictions on marketing in developing markets. The United States and other developed countries, which are highly restrictive of cigarette marketing and distribution, are limited markets - cigarette companies can only hope to convince consumers to switch brand loyalty, not entice new smokers to take up the habit. In contrast, developing markets, with more lax regulations, may then offer the only opportunity for growth. The costs from attempting to sell to foreign markets include attempting to comply with foreign regulations, such as product quality control, limitations on product variation for individual countries and the problems created by attempting to satisfy foreign social norms. Also, internationalization may lead to brand confusion since U.S. companies acquire brands of other companies in international markets.

Benefits to the country in which a tobacco company locates include modernization of existing facilities and improvement of local production quality. New businesses bring contributions to the economy and rises in the standard of living as well as new technology and new jobs - though as Dorweiler points out, the small size of the tobacco industry relative to most GDPs would make job growth would be negligible. The costs to a country primarily comprise health risks; the possibility of cancer, heart disease, and problems arising from filter materials leads to higher health care costs for the nation. Also, developing countries may want to protect their own industries and might therefore be less accepting of transnational companies.

Michigan Technological University
106A Academic Office Bldg.
1400 Townsend Drive, Houghton, Michigan 49931-1295

School of Business and Economics
906/487-2668 or 487-2669
Fax: 906/487-2944

June 25, 1997

(1) TY
(2) cc report to PJW, Mazur

Bruce Reed
Domestic Policy Council
Executive Office of the President
1600 Pennsylvania Avenue, SW
Washington, DC 20500

Re: International Tobacco Industry Study

This forwards my research report
The Internationalization Process of the U.S. Tobacco Industry
Strategy for a Constricting Domestic Market.
This research pursues my earlier analysis of the legal environment of the U.S. tobacco industry. This research is also unfunded, and has received contributions of information from varied sources.

Substance of this report deals with
the tobacco trade of the U.S. with world partners; and
the business goals of the international enterprise.
Summary of the report includes
a "balance sheet" on the U.S. tobacco experience;
a biblical projection of consequences of tobacco use
for developed, developing and underdeveloped markets; and
World Health Organization's approach to tobacco usage control.
The international focus of this research, on the future base of the domestic industry, appears timely considering further resolution of the settlement between the states and the domestic industry.

I would appreciate comments and suggestions on the paper.

Very truly yours

Vernon P Dorweiler

Vernon P. Dorweiler, PhD, JD
Associate Professor of Management & Law
vdorweil@mtu.edu

Enclosure

THE INTERNATIONALIZATION PROCESS OF THE U.S. TOBACCO INDUSTRY
Strategy for a Constricting Domestic Market

Vernon P. Dorweiler
Michigan Technological University
Houghton, MI 49931-1295

ABSTRACT

The U.S. tobacco industry is mired in legal resolution of its domestic business. Given the status of tobacco's domestic market
under legal and regulatory constraints & concessions
as shown in the range of actions & agreements
actual and pending,
in a diminishing consumer market
as shown by decreasing consumption rates
and marketing & distribution restrictions,
international markets offer sizable opportunity to the U.S. tobacco industry. The domestic industry has been increasingly deploying in international markets.

This research proceeds to identify the opportunities and risks involved across the business functions
production, manufacturing, distribution and marketing
deployed in the international environment. Societal norms and tobacco-specific regulation are described based on national concerns. An internationalization process is described, to depict the U.S. tobacco industry encountering the international business environment; application in a specific country is presented. Trade in tobacco products and leaf tobacco is analyzed as U.S. export and import.

Business return from internationalization is assessed in terms of three business survival goals: profit & return; growth; and efficiency. The current level of achievement of goals and a projection on development-staged international markets conclude the expected international outlook for the U.S. tobacco industry.

THE INTERNATIONALIZATION PROCESS OF THE U.S. TOBACCO INDUSTRY

Strategy for a Constricting Domestic Market

Vernon P. Dorweiler

INTRODUCTION

General Strategy Considerations

Business has three generic goals [Pearce, 1994]:

profit and return:	maximize / optimize
growth:	achieve / sustain
efficiency:	deploy resources

Strategies of business focus concurrently on one or more goals. For example, a growth strategy also affects use of resources (efficiency) and increased return on investment (profit and return). In a long term view, these are **survival** goals of the business firm.

Where the existing environment for opportunity is limiting, expansive strategies are nominated. That expansion can be new products, new customers and/or new markets. In accelerated globalization over several decades, multinational markets provide substantial opportunity. Political, economic and social differences persist among nations. For a business to undertake the cost and risk of national differences, **competitive advantage** is determinative. Such advantage is based on both product and technology. In a foreign market, product advantage is found as a new product in the market, or a new technology basis in the product. Technology advantage, beyond product formulation, is found in the manufacture process.

Such internationalization is expressly aligned to the goal of growth. In concurrent fashion, effects on profit and return and on efficiency are recognized.

The **structural effect** is found in two product-technology results. The foreign market provides an extension of product life (a re-set on a product life cycle), and an increased recovery on technology investment (proprietary process and/or product formulation) over greater production quantity.

The **operational effect** is in potential export business. Termed "transnational" business, the export mode is to supply local distributors in the foreign market, gaining domestic manufacturing efficiency.

From the basis of domestic business, international markets offer a spectrum of opportunities to contribute to the survival goals: profit & return, growth, and efficiency.

This opportunity orientation is based on a company's view of competitive advantage. Since foreign markets impose additional constraints, an **environmental analysis** provides the external view, as further elements of an internationalization decision. The foreign environment for business consists of a nation's situation defined by

(1) the economy, both national and consumer market;
(2) societal norms;
(3) regulation, including taxation and trade; and

(4) technology, as infusion of technical competence and skills & jobs.

An umbrella consideration deals with government interference. A drastic change in any of the national dimensions can lead to constrictive regulation, to confiscatory demands and ultimately takeover. This aspect of internationalization is described in Appendix A.

U.S. Tobacco's Internationalization Bases

Given the status of tobacco's domestic market, the international markets offer sizable opportunity to the U.S. tobacco industry, in product, product-technology and manufacturing technology and capacity. Then before deployment, restrictions and risks of foreign markets must be considered.

This analysis proceeds initially on the external view, to identify the restrictions and risks involved across the functions of business deployed in internationalization. Clearly, incentives are found in structural effects and operational effects (above). Finally, the reward for internationalization is assessed in terms of the three survival goals. Thus a foundation to view tobacco's internationalization is set.

Internationalization: A Process

The process of internationalization is well studied. From early pioneers, such as the Singer Company and the Coca Cola Company, to modern electronic manufacturers, a spectrum of organization principles has been developed and applied. A description of internationalizing is presented in Exhibit I. The description identifies (a) forms of entry into international business; (b) the resulting deployment of its manufacturing and product-distribution; and (c) overall control of the international organization. The strategic approach employed in the U.S. tobacco industry's internationalization fits within the national sovereignty recognized in the international environment: (1) regulation; (2) technology interest; (3) the economy; and (4) societal norms.

The forms of entry designate opportunities in foreign countries, and in some cases, options to the international company. The range of forms covers the entire integration of business:

raw material supply to manufacture to product distribution.

From this range, the actual deployed business functions in a national environment. The business is generally considered to be domestic product & technology with appropriate adaptation to local market. That strictly domestic view is often modified by taking over local product, distribution and manufacture.

The actual deployment is under domestic control, including product quality control, limitation on product variation for individual countries, and measures of performance (sales quantity, revenue, operating profit and return on investment). From this view of internationalization, it is clear that discrete choices are made, and that business in foreign countries are not casual endeavors.

A Case of Internationalization: Portugal

The country of Portugal presents a recent opportunity to view internationalization of tobacco [A. The Philip Morris Globe, 1997]. The most general opportunity derives from Portugal's membership in the European Union. This trade-free union provides access to consumer markets of the 15 Member States countries, and potentially to Member State candidates. A local manufacturing facility then has duty-free export to all countries and markets of the Union. A private tobacco company participating in the Portuguese market then is established, under one (or more) of the forms in Exhibit I, and has access to the entire market.

At the outset, the interests of the foreign country must be considered. Those interests are formed on its ideological-economic position. The government's interest is based on its rational ownership principles, and on state of the economy -- both economy derived from ownership (private or national), and economy producing wealth for the nation and population. From these principles, areas of regulation and taxation are developed and specifically implemented (see Appendix A).

Portugal nationalized its industries in 1975, and announced economic reform in 1989. Exhibit II presents events and elements of its economic reform.

Economic reform authorized privatization of industries, with a priority order set among industries. Privatization of Portugal's tobacco industry was announced in 1994, and its private partner (a major U.S. tobacco company) was selected in December, 1996.

Criteria for this industry, and for selection among bidders, are modernization of existing manufacturing facilities, and expansion of production (about 40%). From access to a Union market of about 600 billion cigarettes, clearly modern products and modern production are essential to best access the market. Portugal's economic status within the European Union is among the economically distressed states (along with Italy and Greece). Little impact on employment is consideration (adding 100 jobs to a base of about 700), but substantial enhancement of Portugal's trade status is to be achieved.

Portugal's private partner (65% control with the state-owned company) is required to (1) modernize local production facilities, (2) improve local production quality (blend of tobacco) of three local brands, and (3) install its proprietary manufacturing for three U.S. brands.

The change in ownership and the resulting partnering are not completely exempt from government regulation. Both areas of trade and health protection are government concerns. Consequently import controls and duties, and repatriation of capital are distinct areas of host government control for extra-Union matters. Health protection is key with the tobacco trade; consequently, specific regulation can be expected. Portugal, effective in 1996, banned local advertising and promotion of tobacco products.

THE BUSINESS OF TOBACCO

The general functions involved in a business are found in the tobacco industry:

production	raw material supply
manufacturing	technology and process
distribution	physical movement of product
marketing	channels to consumer

Supporting these functions is the research and development function. As this function deals with physical properties and transformations, production and manufacturing are the focus of R&D effort. "Market research" is expressly research into consumer interests, somewhat less physical in nature. Product development bridges between the two areas of research.

Production in the International Arena

Tobacco as a commodity in the U.S. is the beneficiary of decades of research and centuries of field experience in growth and production. Climate and soil conditions, and plant and seed modification, are related to type and quality of tobacco produced. Both private and government research into tobacco plant characteristics, and into soil effects, have provided plant uniformity and enhanced land use. The tobacco crop has been further encouraged as "price supports" and under export promotion (see Trade Practices, below).

Internationalization considers the excess of production over domestic consumer market. Where there is an excess, there is the potential for export of commodity and manufactured product.

Commodity import may be a necessity in countries where inferior tobacco is produced. Inferior plants are generated from a number of bases. In underdeveloped and developing countries, little attention was likely placed on nurture of the crop as a commodity. There are sharp exceptions in these broad national categories; for example, Caribbean and Mediterranean nations consider tobacco as a valued export for trade purposes (see Trade Export/Import, below).

Further, climate and soil may not be appropriate to plant growth; and more inferior plants may thrive in existing climate conditions. Also, consumer awareness may not be developed, such that product from as-available plants is readily marketable. Countries with commodity quality needs are India and China; commodity quantity needs persist in many countries (see Table 1-6). The European Union as an entity is only 25% self sufficient, with only three Member States producing 80% of the commodity for consumption in the Union.

In addition to the need-pull into countries, there is an export-push of the U.S. government. The U.S. export program, under reconsideration, is focused on "fair trade treatment" by importing countries. Consequently, export support deals with openness of international markets, and not only to quantity & quality of the commodity. Availability of export markets is further determined by import duties and quotas (see Trade Practices).

The global market in leaf tobacco is the consequence of the above market conditions:

- commodity as a trade sector & goods,
- niche opportunities for trade
  - in a balanced local market
  - in an imbalanced local market, and
- general dependence on commodity import.

That resultant global production of leaf tobacco in 1995 [European Commission, 1996] was

World Regions	pct
North America	13.2
Central & South America	9.6
European Union	5.4
Eastern Europe & FSU	2.0
sub-Saharan Africa	6.1
Asia minus China	19.7
China	36.9
Middle East	4.2
Other Regions	2.9
Total	100.0

Production is allocated between domestic use and trade export. That allocation is based on numerous factors, including market demand and price. So a country can be exporting leaf tobacco of one variety, and importing a different variety. The European Union, for example, exports leaf tobacco widely

Regions Importing	pct
other Members of the EU	19.2
North Africa	17.8
Former Soviet Union	20.8
United States	13.2
Japan	3.9
Others	25.2
Total EU exports	100.0

and yet imports about 75% of the Union's domestic tobacco market [European Commission, 1996].

Manufacturing in the International Arena

Cigarettes are manufactured in two forms: the non-filter cigarette and the filter cigarette.

The non-filter cigarette consists of tobacco and wrapping. Operations to assemble the cigarette provide several options to the final product. Most basic is the blending of tobacco to provide a suitable mixture to "satisfy" the consumer. The tobacco blend consists of leaf tobacco, plant stems and lesser plant debris.

To the mixture, there is an option to add "flavor enhancers". Addition of ammonia-based compounds is given by the industry as a smoothing additive "providing better flavor", and by scientists as a scavenger for nicotine "providing greater nicotine impact to smokers". Application of the ammonia option is treated by each tobacco company as proprietary, both process and resulting effect. [Note: Ammonia is not added to methanol cigarettes.]

The filter type cigarette adds the filter to the tobacco "rod". The filter consists of cellulose acetate, called filter "tow". The tow is air puffed and then hardened with a plasticizer, to rod dimensions, and cut into filter length.

Health issues arising from filter materials are several: (1) break off of tiny pieces, inhaled into the lungs; (2) breakdown of the plasticizer; and (3) contact of plasticizer with other additives in the tobacco blend. Reaction to plasticizer effects is immediate discomfort (some reported incidents), whereas reaction to inhaling filter particles is likely accumulative (no reported incidents).

The blending process is not merely mixing tobacco types, but involves a liquid extraction of nicotine from a leaf mixture, with re-injection to homogenize the nicotine level throughout the several types making up the cigarette. This extraction/re-entry process was criticized as manipulating the nicotine level for maximum effect, that is, to enhance addiction. This criticism was published, and subsequently retracted in a public statement, by the news media [Stevens, 1995].

Manufacturing in the international arena is focused on transferring U.S. technology into local markets. This manufacturing technology is both the high volume, automated process, and the product technology. Product technology includes assembly of local brands and domestic (U.S.) brands. Local brands provide opportunity for an enhanced blending process, that is, the extraction/reentry applied to local leaf tobaccos can provide a "quality enhancement" to the local brand.

In addition, manufacture of multiple U.S. brands is introduced. The confusion of U.S. brands-to-U.S. tobacco companies is heightened in the frequency of U.S. companies acquiring brands of other companies in international markets. (One instance involves a U.S. company selling-off brands in the domestic market, but retaining them in the international market: American Brands to B.A.T. Industries [Parker-Pope, 1996]). As a consequence, a single U.S. company internationally may be manufacturing (and distributing) several U.S. brands elsewhere owned by one or more U.S. companies. See Exhibit II.

Modernization of local manufacturing is a noted strategy for U.S. companies in Eastern Europe and in the Former Soviet Union. The manufacturing operations have the dual technology impact on local brands, as well as introducing U.S. brands. This strategy is implemented by various means: joint venture with the state-owned company, toward a monopoly market; acquisition of plants; and construction of new plants. The broadest modernization strategy is based on a **protocol agreement** between Russia and a U.S. firm [Beaver, 1994].

> A protocol is a schedule of activities agreed to by the parties. This agreement can emphasize either the schedule ("date certain") and/or substance of the activity (performance level). The specificity of a protocol is its key to enforcement. If the parties agreed to undertake certain activities by a certain date, monitoring of performance provides for enforcement.

U.S. manufacturing technology sets the standard worldwide; industry representatives forty countries attended the 1996 international conference of the U.S. industry [Tobacco International, 1996].

Distribution Approaches in the International Arena

Movement of product from manufacturing plant to consumer market is the function of distribution. In the U.S., a highly developed "partnering" basis is established by the tobacco company with independent distributers, for dual purposes of promotion effectiveness and supply/inventory cost efficiency (see Exhibit 1, Dorweiler, 1997).

In international markets, existing companies, particularly state-owned companies, provide distribution down to retailers. In developed markets, U.S. companies are fully established in distribution through acquisitions or through alliances with local distributers. As governments base revenue from excise taxes on tobacco, it is clear that distributers are under strict control of the government. Smuggling is a practice to avoid this taxation: taxes in Quebec province of Canada, and import duty in China (The Economist, 1994; Smith, 1996).

Marketing Channels in the International Arena

Marketing of tobacco products in the U.S. has reached the highest level of practice. From early experience with regulation, for tax revenue purpose, to regulation for consumer protection, marketing methods have become highly defined as to consumer target, promotional appeal and product mix. That level of definition is necessary to maintain consumer interest, in the face of health and regulatory concerns. That level of marketing focus is on taut tension between

> marketing effectiveness (sales, market share, price), and
> constricting market (age, access, usage, health concerns).

An idiom for the tension is that marketing is focused on "switching brand loyalty, not inducing new smokers". The international market offers appeal, in many instances, based on lesser (or no) restrictions on marketing (see Exhibit 11, Dorweiler, 1997).

Beyond regulatory consideration, an unique feature of international markets is the pull-effect of demand. A thesis of internationalization is competitive advantage on product (as well as on technology). The investment in promotion of U.S. brands is effective in such a pull-market (note that Marlboro is rated as the highest brand value in the world [Ourusoff, 1994]). Consequently, demand for U.S. brands is a return on the product-technology, and a return on product promotion.

The various promotional approaches are directly linked to societal norms and specific regulation. That basis is described below, in Societal Norms.

THE INTERNATIONAL ENVIRONMENT FOR TOBACCO

Internationalization of tobacco requires a clear understanding of the international environment for business. A business in a foreign country must adapt to national demands and restraints, and in that adaptation to determine its competitive advantage(s). As described in the following, only through a definite competitive advantage can business success be accomplished, as goal achievement in the international arena.

Sovereignty-based Obstacles

A shortcut to understanding a country's view of foreign participation in its economy is presented as a **balance sheet** of economic benefits and costs (see Appendix A, below).

On the **asset** side are contributions to the economy & standard of living, to technology and jobs (and job skills).

On the **liability** side are losses due to consumption and/or dissipation of resources. Principal attention in the tobacco market is focused on losses due to health effects on consumers.

Currency balance is a further consideration at the national level (see Trade Balance Considerations, below). Also, at times, national concern on resources is reflected as control of a "national treasure".

Much attention has been given to the "multinational corporation (MNC)", as a challenge to sovereignty of a nation. Such challenge is based on the multiple strengths of a company operating over several countries. The strength can also be in a key sector of the country's economy (for example, air transportation). Tobacco fits neither of the two bases, and does not present a real threat to national sovereignty *per se*.

Societal Norms

The tobacco industry is essentially a consumer product business. Then business is as consumers "demand" the product. Health protection is based on concerns regarding the national population, the consumers. So then the central societal issue is

consumer demand satisfaction
versus population health protection.

In the international market, a spectrum of influences on demand and various levels of health concerns are found. Individual countries provide specific match of market influence to health-societal concerns. Matches are identified in broad terms:

underdeveloped market (demand)
versus underregulated consumption (health impact)
enormous market
versus source of tax revenue (dominates health concern)
open market, fair competition
versus foreign imposition on local culture
whole new category of consumer
versus widely used, legal product
only brand switching
versus new smokers (different demographic groups)

The U.S. and Canada are at the forefront in health protection and prevention of youth smoking; Canada's extensive legislation (The Tobacco Act, 1997) is effective October, 1998. That focus is designed to limit future consumption and health risk and to provide existing consumer health care needs.

From these societal contentions on issues, market opportunities arise. Along with market opportunities comes regulatory provisions on consumer protection. Categories of protection are

(1) advertising ban
(2) promotion limitation
(3) distribution restriction
(4) antitobacco movement (activities & organizations)

(In this last category, note that World "No Tobacco" Day is designated as May 31.) The underlying reason for extensive controls on tobacco promotion is the extensive tobacco use in international communities (see Exhibit 10, Dorweiler, 1997). About 95% of tobacco use is outside of the U.S.

Asian countries with over 50% of adult male population smoking are noted as China, Japan, South Korea, Taiwan, Thailand; China is recognized as having one third of all smokers in the world.

In the FSU, the economic deterioration of factories, tobacco plants in particular, lead to widescale tobacco protests throughout the country. An accelerated supply program resulted, as increased import and as plant modernization (see Manufacturing, above).

Where consumer protection is offered as regulation, tobacco marketing reaches for avenues beyond the regulation. For example, a ban on TV & radio advertising affords outdoor advertising (billboard, signage, banner) and event promotion (auto, athletic, concert). Then, a ban on message in any media (content, personage, style, background) spawns giveaway promotions, as product and logo articles (apparel, bag, lighter, cup). The facility to evade firm language of regulation is equal to the level of marketing facility. An illustration is

a day-time, radio advertising ban in the Czech Republic reaching cross-border to Slovakia's consumers at night-time

in violation of Slovakia's total ban on tobacco advertising (see Exhibit 11, Dorweiler, 1997).

Economy Concerns

Tobacco as a business is a very small fraction of most national economies' gross domestic product. Both consumption and direct investment in plant combined are not among the major sectors of the economy. Redeployment of crop and workers is an articulated policy concern of the E.U., with tobacco production principally in "fragile regions" [Fischler, 1996]. Only in the U.S. is there effort to estimate health care costs to affected consumers, as a loss of fraction of the national economy (see Assessment of Markets, below).

Product-based Obstacles

Given the spectrum of **development** of international markets,

underdeveloped & transitional, developing, and developed,

the health-based requirements pose an increasing and substantial obstacle to the tobacco product.

In **underdeveloped & transitional** markets, supply appears to be the main obstacle, with generally free use of tobacco available. Effectiveness of promotion is highest there (for example, the status of a U.S. brand in the jacket pocket of a foreign national).

In **developing** markets, signs of health concerns arise to offset otherwise tolerated, widespread use of tobacco. The status of national interest in protecting local industry may establish import barriers and even differentiate on allowing brand promotion For example, Taiwan allows free promotion of local brands, and prohibits any promotion of foreign brands.

In **developed** markets, warnings on product packaging are significant, both in terms of message and in portion of the package devoted to the warning. In Canada and in Australia, 40% of package surface must be devoted to the warning; Canada requires the warning to include potential harm to fetus.

The most far-reaching obstacle to product use comes from concern on "second hand" (passive) smoke. Prohibition against use is found in

office, restaurant, public transportation, public building.

The regulation basis for such prohibition apparently is unquestioned as protection of public health; the proximate causation of health injury by passive smoke is currently being tested in the U.S. courts.

The key tactical obstacle to product use is based on youth access, as contrasted with youth usage. Controlling access is a **distribution** matter. For example, in the U.S., access through vending machines is subject to control of location of the machines; access over-the-counter is by proof of age (well in excess of age of minors). Anti-smoking promotion is a further tactic to eliminate youth usage.

U.S. INTERNATIONAL TRADE IN TOBACCO

Tobacco Export/Import

U.S. trade in tobacco is presented, by world region in Tables 1-6, and by country based on amount of trade in Tables 7A and B. [Source: The 1996 Tobacco Trade Barometer, The Tobacco Merchants Association, Inc.] The tables present trade in Cigarettes and All Manufactured Products (including Cigarettes), and All Leaf. These trade data are summarized, by world region, in Table 8.

From Table 8, U.S. tobacco trade consists of

	Cigarettes	All Manufactured Non-cigarette Products (pct)	All Leaf	Total Tobacco Trade ($ million)
Export	70.5	8.8%	20.7%	$6717.7
Import	5.2	15.8	79.0	$1331.9
Trade Surplus				$5385.8

Clearly the U.S. is a main exporter of manufactured cigarettes, and an active importer of leaf tobacco. Individual major trade partners with the U.S. are presented in Tables 7A and B.

Trade partners of the U.S. are presented by world region in Table 8, and are summarized as the following:

	Export (pct)	Import
Western Hemisphere	5.5	50.7
European Union	34.7	10.9
FSU & Sphere	8.5	23.6
Asia	38.7	7.1
Middle East	10.7	0.9
Africa	1.8	6.8

Main export regions for the U.S. are the European Union and Asian countries. Main import sources for the U.S. are Western Hemisphere countries and Turkey in the FSU & Sphere Note that export and import are active with each world region, with least for export to Africa and for import from Middle East.

Contribution to U.S. Trade Balance

Tobacco's role in U.S. total trade is insightful on a relative basis:

	U.S. Total Trade ($ billion)	U.S. Tobacco Trade ($ billion)	Tobacco pct U.S. Total
Export	624.8	6.7	1.1
Import	791.4	1.3	0.17
	deficit 166.6	surplus 5.4	3.2

Tobacco is a larger portion of export, and a smaller portion of import. Tobacco trade surplus appreciably offsets the U.S. trade deficit by $5385.5 / $166,597 or 3.2%.

Trade Balance Considerations

Trade balance is a vexing problem for developing countries and underdeveloped & transition countries. As trade is a two-way set of transactions, the trade balance consists of movement of goods and the balancing of currencies. Developed countries operate on an on-going economic status, absorbing both trade effects as a matter of course -- merely noting imbalances (positive and negative). Underdeveloped & transitory and developing countries regulate trade based on either specific goods/sector and/or their currency balance.

Tobacco trade also presents a concern over a nation's trade balance. Currency balance among nations is managed in some instance through import duties, and not necessarily where the import is an appreciable part of a country's imports.

> For example, China's tax on domestic tobacco products provides sizable income to the central government. Imports have a direct loss on this revenue generation, and hence are subjected to sizable import duty (zero import in 1995 and 1996). This high duty leads to smuggling of the product into the country, losing both tax revenue and import duty [Smith, 1995].

Developing countries strive for two stable policies: to liberalize trade (without duties) and to permit free flow of capital (investment and repatriation) [Dornbusch, 1988].

Trade Practices

Tobacco trade presents a dual concern on the goods. First is the global concern on health (see Trade & Health, below). The other concern is on import status. Protection of local industry, and control of imports generally, are recognized. For some local producers there is a need for competitive protection; local product quality and product technology are not competitive with that of import products. Free trade is focused on development of the most efficient sectors of an economy; barriers to trade support some inefficient sectors.

An affirmative government effort, in support of trade, is found in a number of activities. One is in subsidization of trade. While direct subsidies to trade are in violation of general trade treaties (now largely under the WTO), subject to sanctions by trade partners and/or the trade organization. Yet internal subsidies to operations are generally considered separate from trade.

U.S. federal subsidies for tobacco production, in 1995 [Ingersoll, 1997], was

$15 million	tobacco price support
$69 million	crop-insurance subsidies
$13 million	other supports

The European Union support of tobacco production, in 1995 [European Commission, 1996], was

$870 million as 993 million ECU

Beyond direct outlays of support are trade negotiations to "open" foreign markets to U.S. exports of tobacco. For the period 1988-1992, the Office of the U.S. Trade Representative undertook fundamental trade confrontation with Japan, South Korea, Taiwan and Thailand [Engen, 1994]. Alternatives were negotiated on removal of trade barrier (quota and duty) or facing trade sanctions (imposed as offsetting, countervailing duties on imports from those countries).

From results of these trade negotiations, the U.S. derived a Traffic-Rate-Quota System, to provide a basis for controlling tobacco leaf import into the U.S. The system was implemented effective September 12, 1995. Tobacco leaf under the regulation deals only with imports for cigarettes to be manufactured and sold in the U.S. (Leaf includes tobacco scrap, stems and refuse, imported for the regulated purpose.)

An annual quota (weight-based) is set for each foreign leaf exporting country, see Table 9. Canada and Mexico (NAFTA countries) and Israel are exempt from the Quota System.

Trade & Health

While concerns on goods and currency can be maintained separately, the U.S. had led the domestic forefront on health in merging goods and taxation. High usage tax on tobacco is considered to offset somewhat government-sponsored health care from effects of tobacco usage. U.S. federal excise tax is 24 cents per pack, and state excise taxes range from 2.5 (Virginia) to 81.5 (Washington) cents per pack [CDC Publication 099-4895, 1996]. (The federal excise tax is a constant candidate to fund general welfare proposals.)

The Medicare cost recovery lawsuits, by most states, is to offset state outlays for health care to tobacco users (see Exhibit

5, Dorweiler, 1997). Damages are based on misrepresentation by the tobacco companies, with injury to those users. The state, in these lawsuits, is in a subrogation position (relation) to the user.

Canada, England and Australia are entering on the broad legal bases applied in the U.S.; France, Germany and Italy are pursuing under specific protection statutes [Geyelin, 1997]. Each country focuses on their own legal system. All such active countries are barred from use of the U.S. legal system for health injury due to U.S. tobacco products.

Note that U.S. courts must find jurisdiction over the matter, such that "sufficient contacts" with the court's jurisdiction are established. The ultimate test may be that tobacco products manufactured in the U.S. have had a direct injury in a foreign country, so as to allow the victim to sue the manufacturer in the U.S. court.

Developing countries incur high incidence of chronic health problems, without access to adequate medical resources. Among the tobacco-related illness is the high incidence of heart disease and cancer. Preventive options are at the front of health care options, given the short supply of medical resources. A major effort of the UN is developing tobacco controls methods and implementation approaches, for developing and underdeveloped & transition countries [Chollat-Traquet, 1996].

GOAL ACHIEVEMENT IN INTERNATIONAL TRADE

A U.S. tobacco company faces the hurdles and risks of internationalization, to contribute to its survival goals. As stated above, those goals are generic overall to business, and are the following:

profit and return	profitability
growth	sustainability
efficiency	usage

Internationalization of tobacco contributes to all three goals concurrently, and in offset of decreasing contribution domestically.

The recent record of U.S. tobacco companies shows

(1) profit from overseas overtaking domestic profitability,
(2) increasing sales overseas, with domestic business "flat",
(3) capacity utilization and capacity modernization at peak levels.

Some details of this international-versus-domestic performance are shown below.

Profit

While the domestic tobacco companies report **net income**, with full administrative and financial costs & expenses accounted for, the companies report only **operating profit** individually on domestic and international business. This basis includes operational effects (price, market share), and also includes specific financial effects (currency fluctuation) on international operating profit.

The pattern of major U.S. internationalized companies is an increasing pattern of overseas sales revenue and profit, over domestic. A single, major tobacco company was selected to demonstrate this domestic-international status. Criterion to select the company was stability of its business structure; both its operational dedication to its lines of business and its unchanged organization structure were considered.

Annual results variously reported in the business press, for the tobacco company, provide the following:

	($ billion)				% increase
	1993	1994	1995	1996	1996/1993
Operating Revenue					
Domestic	7.9	8.0	11.5	12.5	58.2
International	9.5	10.6	20.8	24.1	153.7
Total	17.4	18.6	32.3	36.6	110.3
% international	54.6	57.0	64.4	65.8	
Operating Income					
Domestic	2.8	3.3	3.7	4.2	50.0
International	2.4	2.8	3.5	4.1	70.8
Total	5.2	6.1	7.2	8.3	59.6
% international	46.1	45.9	48.9	48.2	

Quarterly results are the following:

	1995		1996				1997
	Qtr3	Qtr4	Qtr1	Qtr2	Qtr3	Qtr4	Qtr1
Operating Income							
Domestic	0.972	0.947	0.971	1.06	1.10	1.08	1.07
International	0.949	0.727	1.13	*0.984	1.13	0.853	*1.23
Total	1.921	1.674	2.101	2.044	2.23	1.933	2.35
Total - 1996						8.308	
% international	49.4	43.4	53.7	48.1	50.6	44.1	54.5

* negative effect of currency fluctuation

This financial performance is presented to show the year-to-year change for the period 1993-1996. The quarter-to-quarter results are presented to show recent (1996) performance, with some basis for trend comparison from 1995 and into 1997.

Note that operating revenue increased from $17.4 to $36.6 billion, over the period (110.3%), with international increasing

153.7% and by 11.2% of total sales revenue. Operating income increased from $5.2 to $8.3 billion (59.6%), over the period, with international increasing 70.8% and by 2.1% of total operating income. Note that international is less profitable per unit of operating revenue than domestic: for example, for 1996, gross profit margin for domestic operations is 4.2/12.5 or 33.5%, and gross profit margin for international operations is 4.1/24.1 or 17.0%.

Operating income shows a quarterly pattern: low third and fourth quarters, and high first and second; and a persisting increase over the time span presented, compared to year earlier.

Growth

The central focus of legal resolution in the U.S. tobacco industry is limitation to stop youth smoking which reduces the number of adult smokers in the future. The more complete resolution includes

the most direct warning to date, by the Surgeon General:
"cigarettes are addictive", and "smoking can kill you";
regulation as a drug and drug delivery device; and
a compensation fund for existing claimants.

As a consequence, growth of cigarette sales in the U.S. is viewed as limiting. Cigarette consumption in the U.S. has dropped from 650 to 480 billions, from 1981 to 1993, but has remained flat since 1993 [A. Hwang, 1997]. Effect of settlement with states and lawsuits by individual consumers (class actions to be precluded under settlement terms), and federal regulation of tobacco product, portend a further drop in U.S. consumption.

The international market then provides whatever growth potential that occurs for the future. A recent international view gives some insight into pursuit of that market [B. Hwang, 1997]:

> "Huge tracts of the world live in totally different environments than the U.S. and Europe. A cigarette is a real pleasure, a real luxury for a lot of people. It is 'naive and parochial' to think consumers, even those outside Western markets, aren't aware of the reported risk factors associated with smoking and, as a result, people should have the choice to smoke." (Martin Broughton, CEO, B.A.T. Industries PLC).

The world market in cigarette sales is projected to grow by 1% per year, to 2025 [Hobson, 1992]. That **net** figure provides for escalated growth in "underdeveloped and underregulated" countries offsetting reduced usage in highly regulated countries (see International Tobacco Markets, below). So the clear path to growth is involvement in the growth markets.

As noted in the marketing discussion (above), individual foreign markets provide a wide variety of demand and restraint. Variety arises from the state of national concern (shown somewhat by antismoking activity) and the level of government regulation. This variety consists for sizable portions of the world population, in

China, India, Japan, FSU, Eastern Europe, European Union.

These markets are restrained in two ways: government concern on health effects, and competitiveness of its industry. Highly regulated tobacco markets include United Kingdom, France, Belgium, Canada, Australia, and New Zealand. Beyond this variety of countries, sizable markets of unrestrained demand are available.

Access to those international tobacco markets may be limited by import restrictions which may be subject to trade agreements (see Trade Practices, above).

As noted above, foreign competitors have reached the level of U.S. technology of product and process, either independently or through license/partnership arrangement. These foreign competitors are met in the international markets, with the British B.A.T. Industries and Rothmans Ltd at the same level as major U.S. companies, Philip Morris and RJR Company. Competition then is on a marketplace basis (product, promotion, price). In other markets, a joint arrangement between a private tobacco company and local state-owned company provides an effective barrier to imports; the private company is then "local". Both China and India are such markets.

Efficiency

The business goal to achieve efficient use and acceptable return on resources is achieved along the integrated business functions. Use of production, manufacturing and marketing resources calls for an allocation to domestic and international activities. Exports to international markets in 1996 were 31% of total U.S. manufacture of cigarettes: 231 of 746 billion [B. The Philip Morris Globe, 1996].

As recognized generally, both capital resources and human resources are considered in allocation decisions. Although the goal of extending product and process life, and utilizing surplus manufacturing capacity, might be readily attainable by international decisions, the technical & management leadership may be limiting. The issue of acquiring local skills in an international market is faced regularly by the domestic tobacco companies, as meeting the **diversity** need of its business and finding local skills appropriate to the business needs.

Incentive toward internationalizing domestic tobacco companies' interests is (a) constricting opportunity in the U.S., and (b) the product-technology opportunity to extend use and life of resources. The several modes of involvement (see Exhibit I) show that modernization and manufacturing capacity are based on the level of U.S. technology, as well as that of comparable international competitors. The range of business ventures with the range of developing and underdeveloped & transitional countries is extensive in FSU and Eastern Europe, India and China. With this range of opportunity, future constrictions are evident: saturation of the market by international companies, and growing restriction in local markets based on health concerns.

SUMMARY

This analysis focused on the international business environment for tobacco. That environment is depicted as having restraint based on societal norms and on government regulation. Source of that restraint is broadly health risk to consumer of tobacco. Such risks have matured to injury and some rate statistics are available. As noted above, specific regulation follows development stages of markets. The state of affairs in international tobacco is then summarized on measured effects to date, and on future business potential in the several levels of market development.

Assessment of Markets

The U.S. Tobacco Market

As indicated above (see Trade Practices), a country views foreign business on a **balance sheet** basis: assets for resources available or in use vs **liabilities** as obligations for consumption or dissipation of resources. Adopting that approach for the U.S. tobacco market, a *pro forma* balance sheet is presented in Table 10. Production of tobacco leaf and manufacture of tobacco products are presented for major tobacco producer states (revenue-states). For 14 states with highest death occurrence, data are presented on death occurrences and medical costs incurred (health effect-states). Supplemental data are presented providing death rates for a fuller list of states.

Summary results show income to the states in Table 10

Agriculture Revenue: $\frac{\$2613}{\$2651} = 98.6\%$

Manufacturing Revenue: $\frac{\$18,549}{\$19,316} = 96.0\%$

is near 100% for the fourteen revenue-states involved. The health effects for states with over 10,000 deaths per year show the following:

Deaths: $\frac{249,669}{416,890} = 59.5\%$

Medical Costs: $\frac{23,956}{50,000} = 47.2\%$

The fourteen health effect-states bear around half of deaths and medical costs.

A common denominator for revenue-states versus health effect-states is death rate. All revenue-states have high death rates (over 300 per year per 100,000), except Connecticut. Health effect-states with no revenue and with large populations also have high death rates:

California	Michigan
New York	New Jersey

Texas	Massachusetts
Illinois	Missouri

These health-effect states, in a sense, are absorbing losses due to death and medical costs generated by the revenue-states -- an unusual "unfunded mandate", within the U.S. federalism system.

International Tobacco Markets

Consumption rate in **developing** countries
South Korea, Taiwan, Thailand
as well as Japan, are 10% higher than without U.S. internationalizing tobacco business:
"U.S. trade imperialism fueled risk in foreign smoking (1986-1992), and continues on the basis of 'free trade'" reported by the National Bureau of Economic Research. At the same time smoking has decreased 10% in **developed** countries over 1990-1995, and has increased by 67% in **underdeveloped** countries over the same period [Jackson, 1997].

Fatalities are depicted by the World Health Organization, on an actual and a potential basis [Chollat-Traquet, 1996]:

Market	1975	1985	1995	2025
	(millions/year)			
Developed	1.35	1.75	2	3
Developing & Underdeveloped	0.30	0.80	1	7
TOTAL	1.65	2.55	3	10

Tobacco-related deaths are identified as resulting from lung & other cancers (40%), respiratory diseases (30%), heart disease (25%), stroke (4%), burns (1%); the frequencies given are for 1995, in one of the U.S. states.

Another Goal of Business

The amount of increase and the focus on consumption in lesser developed countries is a final effect of internationalizing tobacco. That effect reflects a fourth goal of business [Pearce, 1994]: **social responsibility.** U.S. business practice on this goal is not expressly as a business goal (as the three survival goals), but as an accumulative result of their efforts toward socially responsible conduct of business. Areas amenable to accumulation reporting include environmental protection, conservation of resources, unskilled job hires, community effort, worker-community projects. This ultimate goal has a future potential to hold international tobacco business liable for performance as measured by effects on consumers

The World Health Organization, in line with its measures of tobacco related-health problems, has initiated an effort to control tobacco use, on an international basis [Chollat-Traquet, 1996]. From the control purpose of the effort, the WHO approach is (1) to identify implementing organizations, and (2) to define measures for control. The WHO approach is outlined in Appendix B. Specific measures are defined as health protection and health promotion. The nature of an international movement, of organizations that have mutual interests in tobacco control purposes, is identified.

Four Venues of Effects

In summarizing the analysis of the domestic base of the U.S. tobacco industry, and the international business environment, the international tobacco market can be modelled after a biblical description (see Daniel 11). "Four winds of destruction" are described as breaking up the prosperity (posterity) and power (dominion) of the business (v. 4). Potential of such impact on the international tobacco business can be seen in the development stages of the markets.

The Domestic (U.S.) Market. There appears to be a legal & economic resolution to the health effects of cigarette use in the U.S. The dual developments are (a) FDA regulation of tobacco as "a drug and delivery device", and (b) federal & state legal procedures for remedy of injury, along with industry funding damages. Legal resolution is to be determined: constitutional protection of consumer and of private business. This market then is in conflict with many ten thousands (v. 11-12). Ultimate resolution will likely be a political determination.

The European Union Market. The European Union is cited to have the same level of health effects as the U.S. (presently at about 500,000 fatalities per year). Yet, as noted, the Union structure provides very heavy subsidy to Member States producing tobacco [Fischler, 1996]. This "dumbbell" policy (heightened risk versus high subsidization) is ultimately destined to be displaced. As the Union resolves the economic needs of tobacco producing Member States (Spain, Italy and Greece), mechanisms for Union-based resolution of broader social/land/labor policies will be needed. This Union is thereby subject to test for endurance (a fort) or failure (stumble and fall, v. 19).

Developing Markets. A collection of countries are considered as developing, characterized by management of its sovereignty, resources and trade. Examples can be found in Latin & South America, Africa and Southeast Asia. (Some East European countries are moving into this level of market, from transition of planned economy.) Since balance of developing country affairs is not fully matured to developed status, detailed regulation of tobacco consumption and trade is not at a priority level. Delay in these countries is simply consuming future potential (fattest places); health effects and consequences lag, and are simply part of the mix of national problems (scattered among, v. 24). With development of the economy or acceleration of health effect, these markets will adapt to the developed market regulation of tobacco.

Underdeveloped & Transitional Markets. Extending the priority basis of developing markets translates to the indulgence approach in underdeveloped markets. The level of needs in the four national dimensions

economy, societal norms, technology needs
and government regulation

does not admit equally all concerns at this point. Choices on priority are made, and non-priority concerns are controlled in expeditious ways (according to the leader's will, v. 36). Freedoms not in the best interests of the population are indulged, intentionally by tolerance or negligently (tobacco as "opiate of the masses" [Klebnikov, 1994]). As stabilization and development of the nation occurs, so will priorities change (that is determined shall be done, v. 36) as described in the other markets (above). The rate of change in transitional markets is greater than in underdeveloped markets.

The international tobacco industry, while not substantial in terms of world trade, has a far-reaching destructive force (see WHO estimates, above). That force will require increased regulatory effort in the four kinds of arenas of the international market.

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Table 1. Tobacco Trade Analysis
of U.S. and Western Hemisphere Countries
for Calendar Year 1996
(units as $ million)

U.S. EXPORT

Country	Product: Cigarette	Product: All Mfgd Products
Panama	49.5	50.3
Mexico	35.8	38.1
Paraguay	36.4	36.4
Aruba	34.6	35.4
Chile	24.8	25.2
Colombia	21.6	21.6
Canada	7.7	20.7
Iceland	12.1	12.2
Brazil	-	10.4
Neth. Antilles	8.6	9.6
Uraguay	4.6	4.6
Peru	2.9	3.0
Belize	2.5	2.5
Venezuela	1.2	2.5
Bermuda	1.9	2.0
Dom. Republic	-	1.9
Suriname	1.3	1.3
	245.5	277.7
World Total	4735.8	5327.6

Country	Leaf: Total Leaf
Dom. Republic	66.8
Canada	4.5
Honduras	2.5
Jamaica	2.4
Chile	2.3
Neth. Antilles	1.0
	79.5
World Total	1390.1

U.S. IMPORT

Country	Product: Cigarette	Product: All Mfgd Products
Dom. Republic	-	106.6
Honduras	-	41.7
Canada	22.3	26.2
Mexico	-	10.8
Nicaragua	-	9.3
Jamaica	-	9.3
Panama	5.2	5.8
Brazil	1.3	2.1
	28.8	211.8
World Total	68.6	279.4

Country	Leaf: Total Leaf
Brazil	284.6
Argentina	60.9
Mexico	29.0
Dom. Republic	28.5
Canada	19.8
Chile	12.3
Guatamala	12.2
Honduras	4.3
Columbia	4.2
Ecuador	3.1
	458.9
World Total	1052.5

Table 2. Tobacco Trade Analysis
of U.S. and European Union
for Calendar Year 1996
(Units as $ million)

U.S. EXPORT

	Product			Leaf
Country	Cigarette	All Mfgd Products	Country	Total Leaf
Belgium	1228.3	1303.5	Germany	192.2
Finland	70.1	80.6	Netherlands	110.9
Spain	1.6	79.6	Belgium	91.4
Netherlands	4.6	45.4	U.K.	90.8
Germany	21.0	41.9	Spain	52.8
Austria	-	11.5	Italy	47.3
Greece	3.7	3.8	Denmark	40.2
U.K.	-	1.5	Sweden	11.0
	1329.3	1567.8	France	10.7
			Norway	7.4
			Austria	3.0
			Greece	1.8
			Ireland	1.5
				661.0
Switzerland	2.6	5.7	Switzerland	25.9
Gibraltar	2.0	2.0		686.9
	1333.9	1575.5		
World Total	4735.8	5327.6		1390.1

U.S. IMPORT

	Product			Leaf
Country	Cigarette	All Mfgd Products	Country	Total Leaf
U.K.	13.1	14.3	Greece	70.2
Germany	4.0	8.6	Italy	14.8
Netherlands	1.0	7.6	France	5.3
Sweden	-	5.6	Germany	3.2
Spain	2.2	4.1		93.5
Denmark	-	2.7		
Ireland	-	1.6		
	20.3	44.5		
Switzerland	-	2.4	Switzerland	3.6
	20.3	46.9		97.1
World Total	68.6	279.4		1052.5

Table 3. Tobacco Trade Analysis
of U.S. and FSU & Sphere of Influence
for Calendar Year 1996
(Units as $ million)

U.S. EXPORT

Country	Product: Cigarette	Product: All Mfgd Products	Country	Leaf: Total Leaf
Russia	360.8	366.8		
Ukraine	42.5	42.5		
Kazakstan	1.0	8.7		
Byelarus	5.5	5.5		
Poland	-	22.7	Poland	2.0
Czech Republic	-	13.8	Bulgaria	1.3
Romania	5.4	5.4	Yugoslavia	1.3
	415.2	465.4	Hungary	1.0
				5.6
Turkey	25.8	89.3	Turkey	77.0
			Pakistan	3.2
	441.0	465.4		85.8
World Total	4735.8	5327.6		1390.1

U.S. IMPORT

Country	Product: Cigarette	Product: All Mfgd Products	Country	Leaf: Total Leaf
	[NIL]		Macedonia	23.5
			Bulgaria	10.5
				34.0
			Turkey	278.5
				312.5
World Total				1052.5

Table 4. Tobacco Trade Analysis
of U.S. and Asia
for Calendar Year 1996
(Units as $ million)

U. S. EXPORT

Country	Product: Cigarette	Product: All Mfgd Products	Country	Leaf: Total Leaf
Japan	1523.0	1553.4	Japan	230.9
S. Korea	129.5	130.1	S. Korea	54.5
Hong Kong	108.4	113.0	Thailand	52.1
Singapore	91.4	91.8	Malaysia	45.5
Taiwan	45.9	46.0	Taiwan	27.4
Malaysia	6.0	18.7	Singapore	25.9
Philippines	18.1	18.1	Indonesia	22.6
Thailand	17.1	17.2	Philippines	19.7
Australia	7.6	7.8	Hong Kong	18.9
Brunei	2.6	2.6	Australia	15.5
	1949.6	1998.7	New Zealand	4.8
			Bangladesh	1.6
				519.4
World Total	4735.8	5327.6		1390.1

U.S. IMPORT

Country	Product: Cigarette	Product: All Mfgd Products	Country	Leaf: Total Leaf
Japan	9.6	9.6	Thailand	38.2
Indonesia	3.5	3.7	Indonesia	16.1
India	1.5	1.8	S. Korea	10.0
Philippines	-	1.0	China	8.0
	14.6	16.1	Philippines	4.2
			India	1.7
				78.2
World Total	68.6	279.4		1052.5

Table 5. Tobacco Trade Analysis
of U.S. and Middle East
for Calendar Year 1996
(Units as $ million)

U.S. EXPORT

	Product			Leaf
Country	Cigarette	All Mfgd Products	Country	Total Leaf
Saudi Arabia	194.7	194.9	Israel	2.9
Lebanon	183.5	184.2	Cyprus	1.6
Cyprus	134.7	140.6	Egypt	1.0
Israel	61.3	61.4		5.5
Kuwait	39.0	39.0		
U.A.E.	37.6	38.1		
Syria	15.9	15.9		
Oman	7.0	7.0		
Qatar	5.9	5.9		
Baharain	5.7	5.8		
Jordan	1.7	4.4		
Yeman	4.7	4.7		
	690.0	701.9		
World Total	4735.8	5327.8		1390.1

U.S. IMPORT

	Product			Leaf
Country	Cigarette	All Mfgd Products	Country	Total Leaf
	[NIL]		Lebanon	11.1
			Syria	0.8
				11.9
World Total				1052.5

Table 6. Tobacco Trade Analysis
of U.S. and Africa
for Calendar Year 1996
(Units as $ million)

U. S. EXPORT

	Product			Leaf
Country	Cigarette	All Mfgd Products	Country	Total Leaf
Egypt	2.5	45.1	Nigeria	3.6
Morocco	30.7	30.7	S. Africa	1.1
Guinea	9.7	9.7		4.7
S. Africa	7.3	7.8		
Senegal	1.8	6.3		
Mauratania	4.3	4.3		
Tunisia	3.3	3.3		
Ivory Coast	-	2.1		
Gambia	1.6	1.6		
Mali	1.6	1.6		
Djibouti	-	1.2		
	62.8	113.7		
World Total	4735.8	5327.6		1390.1

U.S. IMPORT

	Product			Leaf
Country	Cigarette	All Mfgd Products	Country	Total Leaf
	[NIL]		Malawi	57.0
			Zimbabwe	30.4
			Kenya	2.1
			S. Africa	0.3
			Ivory Coast	0.1
				89.9
World Total				1052.5

Table 7A. Major U.S. Tobacco Trade Partners
for Calendar Year 1996
(Units as $ million)

U.S. EXPORT

Country	Product: Cigarette	Product: All Mfgd Products
Japan	1523.0	1553.4
Belgium	1228.3	1303.6
Russia	360.8	366.8
Saudi Arabia	194.7	194.9
Lebanon	183.5	184.2
Cyprus	134.7	140.6
S. Korea	129.5	130.1
Hong Kong	108.4	113.0
Singapore	91.4	*91.8
Turkey	25.9	89.3
Finland	70.1	80.6
Spain	1.6	79.6
Israel	61.3	61.4
Panama	49.5	50.3
Taiwan	45.9	46.0
Netherlands	4.6	45.4
Egypt	2.5	45.1
Ukraine	42.5	42.5
Germany	20.9	41.9
Kuwait	39.0	39.0
U.A.E.	37.6	38.1
Mexico	35.8	38.1
Paraguay	36.4	36.4
Aruba	34.6	35.4
Morocco	30.7	30.7
Chile	24.8	25.2
Poland	-	22.7
Colombia	21.6	21.6
Canada	7.7	20.7
	4547.2	4968.4
World Total	4735.8	5327.6

Country	Leaf: Total Leaf
Japan	230.9
Germany	192.2
Netherlands	110.9
Belgium	91.4
U.K.	90.8
Turkey	77.0
Dom. Republic	66.8
S. Korea	54.5
Spain	52.8
Thailand	*52.1
Italy	47.3
Malaysia	45.5
Denmark	40.2
Taiwan	27.4
Singapore	25.9
Indonesia	22.6
Hong Kong	18.9
Australia	15.5
	1262.7
World Total	1390.1

* 80% of trade

Table 7B. Major U.S. Tobacco Trade Partners
for Calendar Year 1996
(Units as $ million)

U.S. IMPORT

	Product	
Country	Cigarette	All Mfgd Products
Dom. Republic	-	106.6
Honduras	-	41.7
Canada	22.3	26.2
U.K.	13.1	14.3
Mexico	-	10.8
Japan	9.6	9.6
Jamaica	-	*9.3
Nicaragua	-	9.3
Germany	4.0	8.6
Netherlands	1.0	7.6
Panama	5.2	5.8
Sweden	-	5.6
Spain	2.2	4.1
Indonesia	3.5	3.7
Denmark	-	2.7
Brazil	1.3	2.1
	62.2	268.0
World Total	68.6	279.4

	Leaf
Country	Total Leaf
Brazil	284.6
Turkey	278.5
Greece	70.2
Argentina	60.9
Malawi	57.0
Thailand	38.2
Zimbabwe	30.4
Mexico	*29.0
Dom. Republic	28.5
Macedonia	23.5
Canada	19.8
Indonesia	16.1
Italy	14.3
Chile	12.3
Guatemala	12.2
Lebanon	11.1
Bulgaria	10.5
S. Korea	10.0
China	8.0
France	5.3
Honduras	4.3
Colombia	4.2
Philippines	4.2
	1033.1
World Total	1052.5

* 30% of trade

Table 8. Summary of U.S. Export/Import Trade
for Calendar Year 1996
(Units as $ million)

to/from World Region	U.S. Exports Products C'ettes	U.S. Exports Products All Mfgd Products	U.S. Exports Leaf	U.S. Imports Products C'ettes	U.S. Imports Products All Mfgd Products	U.S. Imports Leaf
W. Hemisphere	245.5	277.7	79.5	28.8	211.8	458.9
Eur. Union	1333.9	1575.5	686.9	20.3	46.9	97.1
FSU & Sphere	441.0	465.4	85.8	-	-	312.5
Asia	1949.6	1998.7	519.4	14.6	16.1	78.2
Middle East	690.0	701.9	5.5	-	-	11.9
Africa	62.8	113.7	4.7	-	-	89.9
Total *	4722.8	5132.9	1381.8	63.7	274.8	1048.5
Total US Ex/Imp	4735.8	5327.6	1390.1	68.6	279.4	1052.5

(percent)

	Export C'ettes	Export non-C'ettes	Export Leaf	Import C'ettes	Import non-C'ettes	Import Leaf
Trade Mix	70.5	8.8	20.7	5.2	15.8	79.0

* Differences to Total U.S. export and import are due to omission of countries with small trade quantities.

Table 9. U.S. Tariff-Rate-Quota System

Effective September 12, 1995
(units as thousand kilograms)

1996-1997 Quota

Country	Import Quota
Argentina	12,000
Brazil	80,200
Chile	2,750
Eur. Union	10,000
Guatemala	8,875
Malawi	12,000
Philippines	3,000
Thailand	7,000
Zimbabawe	12,000
* Others	3,000

* Others include China and India

Table 10. A Balance Sheet for U.S. Tobacco Industry

Reference: State Tobacco Control Highlights - 1996
Atlanta: Centers for Disease Control and Prevention
CDC Publication No. 099-4895

ASSETS: ECONOMY & REVENUE

GSP - gross state product

State	Agriculture			Manufacturing	
	Acres (000)	Revenue $-milln	Ag Total pct	Revenue $-milln	GSP Total pct
N Carolina	243.2	943	14.8	10,378	6.5
Kentucky	187.0	786	24.1	1,923	2.54
Tennessee	60.4	248	11.5	238	0.22
S Carolina	47.0	172	12.7	15	0.02
Virginia	46.4	168	7.7	4,944	3.21
Georgia	37.0	136	2.9	835	0.54
Ohio	8.5	33	0.7	1	-
Indiana	7.1	29	0.6	8	0.01
Florida	6.5	27	0.5	61	0.02
Connecticut	1.6	24	5.1	76	0.8
Pennsylvania	9.0	21	0.6	38	0.01
Maryland	8.5	19	1.4		
West Virginia	2.0	7	1.6	8	0.03
Alabama	-	-	-	24	0.03
Total	664.2	$2613		$18,549	
					pct GDP
Total U.S.	676.16	$2651	1.5	$19,316	0.32

LIABILITIES: HEALTH IMPACT & COSTS

	Deaths	Direct Medical Costs $-milln
States with over 10,000 deaths per year		
California	42,574	3966
New York	30,992	3132
Florida	23,596	2303
Texas	25,452	2007
Pennsylvania	22,624	1982
Illinois	19,269	1614
Ohio	18,114	1643
Michigan	15,454	1352
New Jersey	13,605	1136
N Carolina	11,032	833
Massachusetts	10,430	1330
Tennessee	10,214	782
Indiana	10,250	700
Missouri	10,177	816
Total	249,669	23,596
Total U.S.	416,890	50,000

Table 10. (contd) A Balance Sheet for U.S. Tobacco Industry

SUPPLEMENTAL DATA

	Deaths	Deaths per 100,000	Direct Medical Costs $-milln
Top Five State Death Rate			
Nevada	2234	478.1	198
D.C.	1287	444.7	215
Tennessee	10,214	442.1	782
West Virginia	4221	433.6	260
Kentucky	7449	428.7	517
Total	25,405	-	1972
Other States (over 5000 deaths)			
Indiana	10,250	394.3	700
Oklahoma	6138	390.4	390
Texas	25,452	389.1	2007
Louisiana	6887	388.2	611
Missouri	10,177	383.8	816
Georgia	9694	383.5	880
S Carolina	5619	380.1	390
Maryland	7370	378.1	794
Michigan	15,454	372.5	1352
N Carolina	11,032	367.6	833
Washington	7790	367.4	706
Virginia	9237	366.6	829
California	42,574	366.3	3966
Illinois	19,269	360.0	1614
Florida	28,596	357.5	2303
New York	30,992	352.8	3132
Alabama	6801	350.4	573
Ohio	18,114	347.7	1643
Pennsylvania	22,624	346.8	1982
Massachusetts	10430	345.3	1330
New Jersey	12,605	334.1	1136
Wisconsin	7620	313.3	683
Minnesota	6127	295.3	722
Total	330,352	-	29,392
Total U.S.	416,890	363.3	50,000

Exhibit I. The Internationalization Process

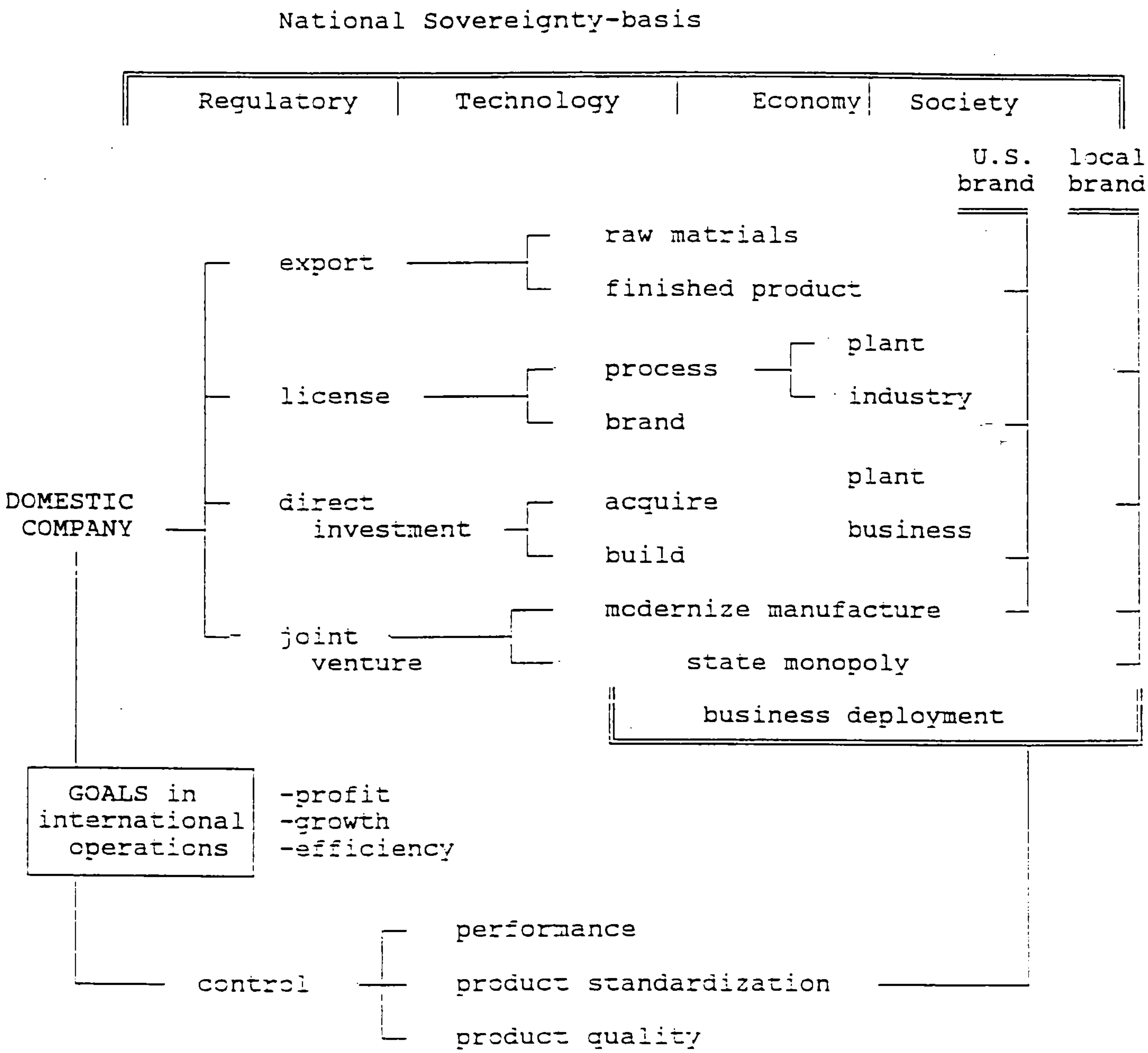
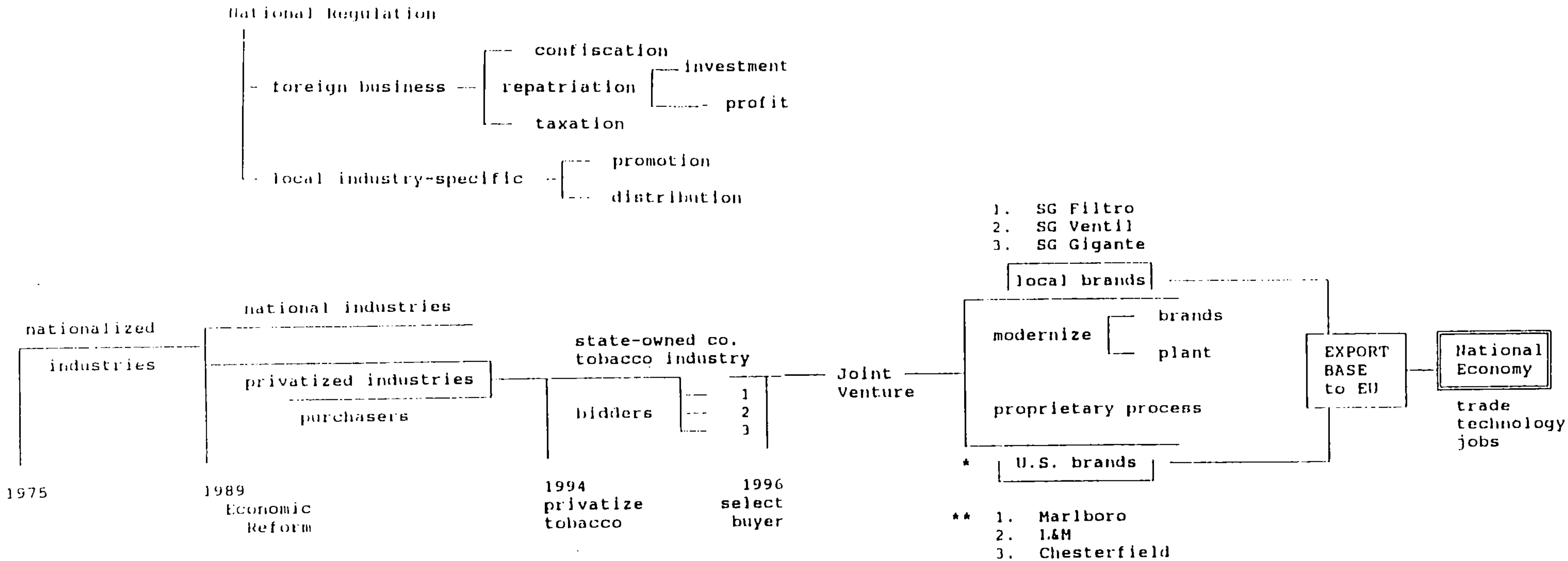


Exhibit II. An Illustration of Tobacco Internationalization
The Case of Portugal



(The Philip Morris Globe, Vol. 9, No. 4, April, 1997, p. 3)

* displace current imports
** international brands
acquired from other U.S. companies

Exhibit 1. The Business of Tobacco

Financial markets — brand values (global basis)

Diversification — food & alcohol

Upstream Operations — natural resource to product

PRODUCTION
- field usage — quota under subsidy program; alternative use (cotton)
- crop yield — major states: NC, KY, TN, SC, VA, GA
- curing process

SUPPLY
- leaf tobacco — leaf dealers & processors
- reconstituted tobacco
- paper & filter — suppliers (liability concern)
- glass fiber — experimental for "heating"

MANUFACTURE of product ... highly automated
- input
- design — filter, heating (vs burning); patents to set content
- additives — ammonia, menthol
- quality control

Downstream Operations — product distribution to consumer

DISTRIBUTION

Product — 20% of brands, 80% of profit
- premium, regular
- discount, generic, private label
- market share, and trend
- experimental: heating v burning
- microbrands
- package design
- trademark diversification

Price — includes federal and state excise tax
- about 40% profit margin, 90% pack sales
- price elasticity
  - price cut, discount (25-50 c/pack), coupon
- total industry sales: $45-50 billion

Downstream Operations
DISTRIBUTION (contd)

Promotion — $6.3 billion in U.S. (1993)
- advertising, promotion, slotting
  - point-of-sales
  - media: newspaper, magazine, radio, TV
  - couponing & giveaways
  - anti-youth campaign
- special promotions
  - magazine: unique, glossy
    - offers, celebrity interviews, fashions
    - no merits of product
  - club: "loyalty programme" vs ostracism
    - parallel to airline, financial services, auto manufacturers
  - events: sporting, unique focus on auto racing
- direct promotion: consumer databases

Place
- Chain-of-Distribution
  - partnering between manufacturer and distributer
    - shared data base: customer, promotion analysis
    - shared store data
    - security monitoring
  - category management
    - increase value-added inventory: essential base
    - reduce non-productive inventory: cost reduction
  - price management
    - deals: package versus carton contract
    - "buydowns": subsidy to meet brand competition
  - brand continuity programs
    - direct mail, carton inserts, point-of-sale
    - "flex money" for retailer promotion
- Specialty
  - convenience stores: largest sales outlets
  - minimart chains: discount emphasis
  - cigarette stores (under 10% of sales)
    - "smokers welcome!"
    - all brands, expert staff, smoking accessories
  - vending machines
- Direct merchandising
  - merchandise sales, merchandise redemption
  - consumer databases, reward programs
  - special events (dinner, train charter)

Exhibit 5. State Lawsuits on Medicaid Cost Recovery

State	Filing to October, 1996	Recovery Sought
Mississippi	May 1994	not est
Minnesota	August 1994	not est
West Virginia	September 1994	not est
Florida	February 1995	$1 billion
Massachusetts	December 1995	> $1 billion
Texas	March 1996	$4.2 billion
Louisiana	March 1996	not est
Maryland	May 1996	$13 billion
Washington	June 1996	$1.2 billion
Connecticut	July 1996	$1 billion
Michigan	August 1996	$14 billion
Kansas	August 1996	> $50,000
Oklahoma	August 1996	> $1 billion
Arizona	August 1996	> $300 million
New Jersey	September 1996	not est
Illinois	October 1996	not est

Basis for Medicaid Recovery ... to avoid proof of individual causation

State as Victim Theory Wrongdoing by the tobacco industry caused the state to pay medical costs of smokers. State is a party to recover costs.

Fairness Theory When smokers cannot afford to pay for medical expenses due to smoking, then taxpayers are required by state and federal Medicaid law to pay those bills.

It is only fair for the industry that primarily caused the damage to pay for it; state action is about corporate responsibility (M. Moore, Attorney General, State of Mississippi).

Subrogation Defense States, under state and federal Medicaid law, are subrogated to the rights of a Medicaid recipient for whom they have paid medical bills. This "stand in the shoes" of the Medicaid recipient requires proof of the condition and recovery, and that it was incurred for treatment of tobacco-caused disease. States attempt to avoid this proof, based on a novel "fairness" theory (D. W. Donahue, Deputy General Counsel, R.J. Reynolds Tobacco Company).

A Policy Role of Government ... re: tobacco use
- to inform on health risks, addictiveness
- to be in "discouragement" business
  - restrict distribution, promotion
  - hector smokers on location, juxtaposition of use
  - adjust public attitudes on fairness
- to impose society's cost of smoking
  - excise tax, pay public costs

Exhibit 11. The International Environment for Tobacco

World Regions

North America

Canada	tax on tobacco less than tax on hard spirits
	tobacco tax reduced , surcharge tobacco profits in 1994
	warning labels on packages, includes fetal harm
	smuggling from US: Canadian export to U.S. re-entered
	30% of Canadian market

South America

Argentina	no age or advertising restriction
Brazil	major import tobacco market, dominated by internationals
Andean Trade Preference Act	Bolivia, Columbia, Ecuador, Peru
	Ecuador a major tobacco exporter

Europe

European Union	Action Plan of Council (1990)
	by Member States and consistent for the Union
	"take appropriate measures to ban smoking in all enclosed public places and on public transportation"
	health warnings on tobacco products
	Union ban on TV advertising (1991)
	Directive on the Reduction of Smoking (1996)
	criticism: "undermines the competitive principles of the Treaty of Rome"
	reform proposed: Union support to tobacco production policy
United Kingdom	Health Education Authority (National Health Service)
	provide information & advice to public
	principal risk factors on use, nutrition, activity
	Smee report on effect of advertising ban
France	ban on tobacco advertising, with exemptions
	ban on smoking in public places
Germany	U.S. export to Germany; U.S. firm acquire 3 factories
Italy	state monopoly in tobacco
	high rate of illegal imports, avoid high taxes

Eastern Europe

Opportunity Basis:	high increase in smoking; manufacturing modernization
	limited regulation of tobacco use & advertising
	initial government regulation of promotion
	sporadic health warning
	uniform ban to promoting youth smoking
	beginning of anti-smoking organization effort
Joint Ventures	Hungary, Poland, Russia, Ukraine
Poland	ban TV & radio advertising
Czech Republic	ban only daytime radio advertising
Slovakia	ban TV & radio, print, movie, billboard
	allow point-of-sale promotion
	open access from Czech Republic
Hungary	ban all public advertising
	vague ban laws subject to challenge
Turkey	new factory by U.S. firm with lower product tax

World Regions (contd)

Former Soviet Union

Russia	underdeveloped & underregulated market
	import for post-Soviet "pent-up" demand
	privatized plants acquired by U.S. firms
	acquired brands & market share

ASIA network of antismoking activists

China	300 million smokers 10% of central tax intake
	national monopoly: Chinese National Tobacco Company
	joint ventures with branches of CNTC
	product brands: local, U.S. brands, international
	import duty of 250%, with imports only 5% of market
	supply to Asian countries, smuggled into China
	limit advertising at sporting events: banner with name
	brand and corporate advertising by U.S. firms
Hong Kong	restrictive tobacco law: use, advertising
	smuggling of U.S. brand products into China
Japan	national monopoly: Japan Tobacco Company
	eased restriction on imports from U.S.
India	60% of male population smokers, ban imports
	national company: India Tobacco Company,
	major shareholder as B.A.T Industries
	only international brand Rothmans
	U.S. firms plans on investment in plants, promotion
Taiwan	law differentiates local and foreign content
	advertising by local firms, ban foreign firms
	anti-smoking organization
	to print warnings, to ban advertising
Cambodia	90% of male population smokers
	ban advertising to women, on teams
Thailand	advertising ban, avoided by name-only promotion
Australia	regulated by Australian Tobacco Board
	requires domestic content label
	substantial tobacco industry
	leafgrowing and cigarette manufacture

Exhibit 10. Cigarette Consumption - Select Countries

	[1] consumption per person (over 18 yr)	[2] population million
Far East		
Japan	3150	125
S Korea	2200	47
Taiwan	1700	20
China	1450	1210
India	*	950
Philippines	1200	74
Australia	1000	18
Thailand	750	60
Western Hemisphere		
United States	2100	265
Canada	1650	29
Brazil	1050	163
Argentina	1000	35
Europe		
Greece	2800	11
Hungary	2450	10
Poland	2350	39
Switzerland	2350	6
Spain	2000	42
Germany (W+E)	1900	84
Czech & Slovakia	1850	10 + 2
Britain	1700	58
Italy	1700	58
France	1600	57
Israel	1600	5
Netherlands	1150	15
Algeria	800	30
former Soviet Union	1600	303

* not available: dominance of hand-rolled

[1] ERC Statistics International, 1990, 1991

[2] The World Almanac Books, 1996

Appendix B. WHO's Scope of Tobacco Control (C. Challat-Traquet, 1996)

Thesis

Public action has the scope and authority to reverse the growing use of tobacco.

Partners

To promote and support action of public authorities, partners are identified:

- individuals
- groups
- nongovernmental organizations
- international organizations

Partnership action is useful to facilitate decisions that are politically or economically difficult; this is particularly true in international affairs.

The International Movement

Nongovernmental organizations have been the main activists dealing with specific diseases
- lung cancer, cardiovascular disease

in alliance with specific related entities
- hospital federations, medical societies,
- and newly created tobacco-risk bodies.

Methods used include
- rapid and systematic transmission of specific information
  - by means of newsletters and television,
- encouraging and supporting action by their members,
- publishing guidance on putting tobacco control into practice,
- coalescing action to pressure governments re: legislation
  - to influence agenda of political and scientific organizations.

Leadership of measures and programs is exerted at community, national and global levels.

Categories of Tobacco Control Measures

Health Protection: Economic Measures and Restrictions
1. Evaluating the impact of tobacco on national economies
2. The use of economic control measures
   - subsidies, taxes and individual economic incentives
3. Restrictions on tar and nicotine content
4. Reducing availability of tobacco: age restrictions
5. Tobacco-free environment in public places and transport
6. Reducing exposure at the workplace
7. Tobacco-free health services
8. Bans on tobacco advertising and sponsorship
9. Content, form and use of health warnings

Health Promotion: Advocacy, Information and Education
1. The use of mass media communication
2. Tobacco-use prevention programs for school-age children
3. Community intervention programs
4. Role of smoking cessation programs
5. Involvement of health personnel in tobacco control

Use and Effects of Legislation
Use and Effects of Litigation

Appendix A. National Policies & Foreign Business Environment

For a foreign company to consider a business venture, the business opportunity must be clear, the economic return to the business must be assured, and the role of government must be appropriately assessed. As opportunity and strength of contribution may readily be determined, so political risk must also be ascertained.

National Policies in Developed Countries

Foreign business ventures face the normal range of **interests** of a "host" country:

(1) economic benefits and costs in National Income and Balance of Payments;
(2) challenge to national sovereignty, by the business venture and by the venturer's home government through venture activities;
(3) role of nationalism, regarding basis of the business venture (e.g., oil & gas as a major resource of the national economy, valued largely as "a national treasure of the people").

While these interests are generic, specific applications are made in multiple ways:

(a) regulations on the business, and with express restrictions on foreign participation in the venture;
(b) national subsidy of markets and domestic industry;
(c) the ultimate exercise of national interest:
confiscation by the host government (as expropriation);
confiscatory taxation having the same converging effect.

Those host interests arise directly in the affairs of the business venture, and as interconnection to broad national policies
(national security, governmental ideology).

National Policies in Developing Countries

Foreign participants' main **issues** in countries developing and/or undergoing transition of government and economy are
(1) security of interests, and
(2) repatriation of return (profit) and investment.

In active investment projects, nationalism and/or governmental change can lead to confiscation of property
Mexico, Venezuela, Iran, within a half century
or to abrupt shifts in rules of the game
Azerbaijan's change of government in 1993,
and its reformation of three oil & gas development projects
into one, with eight foreign oil companies
and adding Russian Lukoil Company without capital contribution.

Repatriation of current return (profit), and ultimately of investment, is more strictly dependent on "host" investment policy including currency considerations. "In kind" repatriation, as **trade barter** or **countertrade**, is substituted in crisis current situations.

Certain limited term (or transaction) projects are amenable to insurance,
with the U.S. Overseas Private Investment Corporation
and Export-Import Bank,
and by self & private insurance.