

## **CHINA**

(October 1998)

One out of every three cigarettes smoked in the world today is smoked in China. One third of all Chinese adults (67% of men and 4% of women), or close to 350 million people, already smoke an estimated 1.7 trillion cigarettes per year.<sup>1</sup> As one multinational cigarette company executive puts it, "Thinking about Chinese smoking statistics is like trying to think about the limits of space."<sup>2</sup>

China's huge market has made it the prime target of the multinational tobacco companies. Historically, China's cigarette market has been highly protected, with foreign multinationals barred from operating in the country. However over the past fifteen years, as China's economy has begun to open up, the tobacco sector has been transformed. Hungry for technology, marketing strategies, and capital, the state-owned China National Tobacco Corporation (CNTC) has begun to form joint ventures and other unprecedented partnerships with foreign tobacco companies.

Philip Morris recently entered into a number of joint ventures with CNTC to grow tobacco as part of an agreement to produce and sell Marlboro cigarettes on both domestic and foreign markets.<sup>3</sup>

RJ Reynolds has built a cigarette factory as part of a joint venture with CNTC to produce 2.5 billion Camels, Winstons and Golden Bridges (a local brand) annually.<sup>4</sup>

British American Tobacco (BAT) is involved in a project to increase leaf production with seeds that the company has developed in other countries.

Other foreign companies have been involved in a number of initiatives, ranging from the introduction of new tobacco seeds to the importation of high speed cigarette making equipment. In 1997, US-based Standard Commercial Corporation announced a joint venture with CNTC to build and operate a tobacco processing factory for domestic and export production. The company will supply and oversee the installation of the machinery and provide "expertise in the growing, grading and selection of export quality" tobacco.<sup>5</sup>

The multinational cigarette companies have actively courted Chinese government leaders in an attempt to win business. Philip Morris is a member of the Business Coalition for US-China Trade, a trade association which has heavily lobbied the US Congress to ease trade restrictions on China.<sup>6</sup> It has also supported Most Favored Nation trading status for China. At the same time, however, the cigarette companies are playing hardball, taking advantage of international trade rules to break open China's markets.

In 1994 the Chinese government increased taxes on foreign tobacco and cigarette imports, effectively doubling their retail price.<sup>7</sup> Unhappy with these and other restrictions, foreign tobacco companies have sought to condition China's entry into the World Trade Organization (WTO) on the opening up of its market. The pressure appears to be working. In August of 1997, the *Financial Times* reported that China would cut tariffs on tobacco imports "as part of its bid to join the World Trade Organization."<sup>8</sup>

Another way to break open China's cigarette market is through smuggling. Many observers believe that the multinational companies are involved in smuggling as a way for them to develop brand loyalty prior to the full opening of the Chinese market. Smuggling also encourages more people to smoke, since smuggled cigarettes are cheaper, often selling at one third the cost of legal cigarettes. In the past few years, billions of cigarettes have been smuggled into China, often transhipped by violent criminal gangs based in Hong Kong. Estimates go as high as 50 billion, many times more than the 700 million which are allowed in legally each year under China's import quota.<sup>9</sup> The Chinese government estimates that it loses \$1.8 billion in revenue each year from smuggling.<sup>10</sup>

Recently, a former executive with BAT was convicted with accepting over \$33 million in kickbacks from a Hong Kong-based smuggling ring. According to a cigarette dealer who later turned up dead after cooperating with the authorities, he paid BAT executives to arrange the sale of millions of dollars of cigarettes to his firm, complete with phony shipping papers, which were then resold to smugglers bringing them into China. According to the *Wall Street Journal*, BAT executives held “weekly meetings at which smuggling activities were discussed, down to specific boats, inlets, and villages involved...”<sup>11</sup>

Smoking in most public areas in China is restricted, including public transportation, schools, theaters, department stores, museums, stadiums, and all domestic flights. Unfortunately, the ban is often ignored. The fine for smoking in public places is just 10 yuan (about \$1), or less than the cost of a pack of imported cigarettes.<sup>12</sup> The week prior to the 10<sup>th</sup> World Conference on Tobacco or Health in Beijing in August 1997, a group of 138 ministerial-level officials signed a highly publicized pledge not to smoke in public places and promised to persuade their aides and children to quit. This was considered an important accomplishment, since many leaders have reached a ripe old age and continue to smoke, sending a false message that smoking is not necessarily bad for your health.

China has passed laws banning tobacco ads on television, radio, and in print media, and requiring that all tobacco advertisements include the warning: “Smoking is hazardous to your health”. Cigarette advertisements are forbidden from encouraging youth smoking and health warnings must cover a minimum of 10% of the advertisement’s space.<sup>13</sup> By the end of 1997, 300 cities, including Beijing, became “Tobacco Advertisement-Free Cities.” According to a Ministry of Public Health spokesman, “Our aim is drive out tobacco advertising from our cities one by one, until all the advertising is eradicated from China.”<sup>14</sup> In Hong Kong, meanwhile, tobacco ads have been banned on TV, radio and in cinemas, and in 1999 will be banned in print media and on billboards.

Historically, CNTC has engaged in very little advertising. Yet with the growing presence of multinational tobacco companies, cigarette advertising has increased dramatically. By simply leaving the word “cigarette” out of their ads, foreign companies have circumvented China’s advertising laws, leading to a slew of billboards promoting the pleasures of the “Marlboro World”. Philip Morris, RJ Reynolds and BAT have also spent millions of dollars in recent years on other forms of advertising, including promotional giveaways, and sponsorship of music and sports events. Cash-strapped soccer, basketball, or tennis associations will take the money where they can get it, and the foreign tobacco companies have plenty to give. Such sponsorship of sporting events is of great concern to tobacco control activists, since it is so widespread and makes the link between cigarettes and healthy activities.

The national soccer league was recently renamed the Marlboro Soccer Association, BAT’s 555 brand sponsors the Hong Kong-Beijing car rally, and Hilton, another BAT brand, sponsors the national basketball league. These sponsorships give the companies a television audience of hundreds of millions. Not coincidentally, these are the three most popular foreign brands in China.<sup>15</sup>

Philip Morris pays \$1 million to sponsor the Zhuhai International Car Race. There are rumors that China will re-draft its legislation to clear the way for cigarette companies who invest \$1 million or more to advertise their product at the venue.<sup>16</sup> And, once tobacco sponsorship of Formula 1 car racing is banned in Europe, many of the races may move to China.<sup>17</sup>

At the Canton Disco, RJ Reynolds pays internationally know artists to perform, distributes free cigarette samples during the shows and has banners advertising Salems. Philip Morris, which is the market leader for premium cigarettes in Hong Kong, sponsors televised rock concerts called the “Marlboro Rock-In” series.

Three times a week, BAT sponsors a fancy disco in Beijing to advertise its 555 brand. The *Washington Post* reports that “slender Chinese women in blue tops, miniskirts and boots all emblazoned with the 555 logo greet people at the door, handing out free cigarettes. Customers

crowd the smoke-filled dance floor, writhing to rock music below two huge banners with the 555 logo that proclaim: 'Be free from worldly cares.'" <sup>18</sup>

A Madonna concert that took place in Spain was rebroadcast on Hong Kong television as a "Salem Madonna Concert" where RJ Reynolds had the Salem logo superimposed over the stage. Salem also sponsors a "virtual reality dome" where teenagers can come and fire laser guns at each other, and distributes removable tattoos of the Salem logo. <sup>19</sup>

The tobacco industry accounts for approximately 10% of all government tax revenues, representing the largest single industrial tax source. <sup>20</sup> Even so, cigarettes continue to be relatively cheap in China. Legally imported foreign cigarettes cost a little over US\$1 per pack, and many local brands are significantly cheaper. A 1993 study showed that an additional penny tax on each pack of cigarettes sold would generate about \$964 million in revenues, or the equivalent of the government's annual health budget. <sup>21</sup> Tobacco control activists are pushing for even higher taxes in order to discourage smokers. Unfortunately, proposals to raise the cigarette tax by half a cent have been defeated in the national parliament on at least two occasions. <sup>22</sup>

As is often the case, the government is torn between the desire to conserve its biggest single source of tax revenue and an obligation to protect the population's health. Studies have shown, however, that in the long term it is in the country's health *and* economic interest to control tobacco use, since the revenues raised from the tobacco industry do not cover the economic and health related costs of smoking. The World Health Organization (WHO) estimates, for example, that in 1993 China gained \$4.9 billion in cigarette taxes, but lost \$7.8 billion in productivity and additional healthcare costs. <sup>23</sup> On a household level, the economic costs of cigarette smoking are equally astounding. A study of smoking habits in the Minhang District in 1993 showed that smokers spent an average of 60% of their personal income and 17% of household income on cigarettes. <sup>24</sup> These figures are even higher for poorer households. A study of peasants outside Shanghai found that the average farmer spent more on tobacco and rice wine than on grain, pork and fruit. <sup>25</sup>

Recent smoking rates are alarming. Over the past decade, more people are smoking, they are starting younger, and they are smoking in larger quantities. Since 1984, the average number of cigarettes smoked daily has increased from 11 to 15 for men and from 9 to 10 for women. <sup>26</sup> Lung cancer and other smoking-related diseases are the most common causes of death in China, accounting for some 700,000 fatalities per year, which is projected to rise to 3 million by the year 2025. <sup>27</sup> A recent study of middle-aged men in Shanghai showed that 21% of deaths were attributed to cigarette smoking (compared to a rate of 20% in the United States). <sup>28</sup> Another study in the *Journal of the American Medical Association* stated that smoking-related illnesses could eventually kill 150 million current smokers in China. <sup>29</sup> Since smoking rates among women and youth are comparatively low, they are sure to be a target of the foreign tobacco companies. As tobacco control expert Judith Mackay notes, "the greatest single opportunity for prevention of non-communicable diseases in the world would be to prevent a rise in smoking among girls and women in China." <sup>30</sup>

There is still a great deal of public education to be done regarding the risks of smoking. Recent studies have found that few people know that smoking could cause lung cancer. One study actually showed that 35% of school students thought that smoking was good for your health. <sup>31</sup> It doesn't help that role models continue to smoke in public. For example, about 55% of male medical workers continue to smoke. <sup>32</sup>

There are about 10 million tobacco farmers in China, each of whom nets about \$75 in annual income. <sup>33</sup> Approximately 2% of arable land -some 4.4. million acres- is used for tobacco farming in China. This is land that could be used to grow more nutritious food to feed the country's 1.2 billion people. China accounts for about 37% of the world's tobacco leaf production and generates about 31% of the world's cigarettes. <sup>34</sup> Although Chinese tobacco exports currently represent only about 6% of the world total, analysts say the country is rapidly emerging as a major exporter. In 1997, tobacco exports reached

76,000 tons, valued at a record \$480 million.<sup>35</sup> With increasing exports to the mainland, meanwhile, Hong Kong has become the region's largest exporter of cigarettes.

As the world's leading producer and consumer of tobacco products, China could be an extremely important actor in the fight against the tobacco epidemic worldwide. But that position also makes it the target of a massive campaign by the multinational tobacco companies to gain access to, and eventually control of, its market. As Mackay notes, "If multinational tobacco companies could capture the China market, it wouldn't make a difference if every American stopped smoking tomorrow."<sup>36</sup>

Resources:

San Francisco Tobacco Free Project: <http://www.globalink.org/gtm/SFTFP>

South China Morning Post (Hong Kong english language newspaper): <http://www.scmp.com/>

Tobacco BBS (useful news and resources on tobacco): <http://www.tobacco.org>

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## EndNotes

<sup>1</sup> Seth Faison, "The Next Battleground for Tobacco?," *The New York Times*, 28 August 1997.

<sup>2</sup> David Holzman, "Tobacco Abroad: Infiltrating Foreign Markets," *Environmental Health Perspectives*, Vol. 105, No. 2, February 1997.

<sup>3</sup> Zhao Qinghua, "China Syndrome," *Tobacco International*, March 1998.

<sup>4</sup> Glenn Frankel and Steve Mufson, "Vast China Market Key to Smoking Disputes," *Washington Post*, 20 November 1996.

<sup>5</sup> Standard Commercial, *Press Release*, 14 August, 1997.

<sup>6</sup> Robert Dreyfuss, "The New China Lobby," *The American Prospect*, January-February 1997.

<sup>7</sup> Jane Shea, "Philip Morris Asia: Defying the Odds with Quality and Flexibility," *Tobacco International*, October 1996.

<sup>8</sup> "News Briefs," *Financial Times*, 22 August, 1997.

<sup>9</sup> "BAT Faces Chinese Smokescreen," *The Independent*, 19 October 1997.

<sup>10</sup> T. Korski, "Tax Cuts to Curb Cigarette Smuggling," *South China Morning Post*, 5 May 1997.

<sup>11</sup> Quoted in David Holzman, "Tobacco Abroad: Infiltrating Foreign Markets," *Environmental Health Perspectives*, vol. 105, no. 2, February 1997.

<sup>12</sup> Benjamin Kang Lim, "China in Uphill Battle Against Smoking," *Reuters*, 21 August 1997.

<sup>13</sup> "Anti Agenda Advancing," *Tobacco Reporter*, August 1996.

<sup>14</sup> "Health-China: Is Tobacco in China a Sunset Industry?" *Inter Press Service*, 7 July 1997.

<sup>15</sup> Mark O'Neill, "Tobacco Giants in Extra Time of Sports Sponsorship Battle," *South China Morning Post*, 12 January 1998.

<sup>16</sup> Unus Alladin, "Motorsport Tobacco Bidding War Looms as Zhuhai Steps Up F1 Race Bid," *South China Morning Post*, 8 November, 1997.

<sup>17</sup> Judith Mackay, personal communication, 17 May 1998.

<sup>18</sup> Glenn Frankel, "Vast China Market Key to Smoking Disputes," *Washington Post*, 20 November 1996.

<sup>19</sup> "Selling Cigarettes in Asia," *The New York Times*, 10 September 1997.

<sup>20</sup> "Beyond the Clouds-Tobacco Smoking in China," *Journal of the American Medical Association*, vol. 278, no. 18, 12 November 1997.

<sup>21</sup> "China Provinces to Tax Tobacco Sales," *Reuters*, 27 August 1997.

<sup>22</sup> Benjamin Kang Lim, "Chinese Cities to Hike Taxes to Fight Smoking," *Reuters*, 20 August 1997.

<sup>23</sup> World Health Organization, *China: A Time Bomb for the 21<sup>st</sup> Century*, August 1997.

<sup>24</sup> "Cigarette Smoking in China," *Journal of the American Medical Association*, vol. 274, no. 15, 18 October 1995.

<sup>25</sup> "Health-China: Is Tobacco in China a Sunset Industry?" *Inter Press Service*, 7 July 1997.

<sup>26</sup> 1996 *National Prevalence Survey of Smoking Patterns*, Beijing, cited in "Beyond the Clouds," *Journal of the*

*American Medical Association*, 12 November 1997.

<sup>27</sup>“Beyond the Clouds-Tobacco Smoking in China,” *Journal of the American Medical Association*, vol. 278, no. 18, 12 November 1997.

<sup>28</sup>“Morbidity and Mortality in Relation to Cigarette Smoking in Shanghai, China,” *Journal of the American Medical Association*, vol. 275, no. 21, 5 June 1996.

<sup>29</sup>“Study Says Smoking Could Kill 150 Million Chinese,” *Reuters*, 11 November 1997.

<sup>30</sup>“Smoking Among Chinese Youth: A Cure for Crying?” *Tobacco Control*, 1992.

<sup>31</sup>“Smoking Among Chinese Youth: A Cure for Crying?” *Tobacco Control*, 1992.

<sup>32</sup> 1996 *National Prevalence Survey of Smoking Patterns*, cited in *JAMA*, vol. 278, no. 18, 12 November, 1997.

<sup>33</sup> “Master Tobacco Farmer Sees Prosperous Future,” *Tobacco Reporter*, August 1996.

<sup>34</sup> Zhao Qinghua, “China: World’s Top Tobacco Producer,” *Tobacco International*, March 1997.

<sup>35</sup> “Tobacco Leaf News,” *Tobacco International*, March 1998.

<sup>36</sup> Jennifer Lin, “Smoking Deaths Predicted to Triple,” *Philadelphia Inquirer*, 25 August 1997.