

The Tobacco Market

THE GLOBAL TOBACCO ECONOMY

**A SNAPSHOT OF THE ECONOMIES OF
MULTINATIONAL TOBACCO COMPANIES
AND OF INTERNATIONAL TOBACCO
CONTROL EFFORTS IN 2008.**

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Executive Summary

The use of tobacco around the world is increasingly recognized as a globalized phenomenon. The business forces which fuel tobacco use have garnered strength from the economic, cultural and trade dimensions of globalization to penetrate new markets and to homogenize their brands and products. Nations have responded by establishing a globalized tobacco control system in the form of the Framework Convention on Tobacco Control, but resources applied to implement this globalized public health instrument remain modest.

The financing of tobacco control is mostly independent of the economics of the tobacco market. Revenues from tobacco sales that flow to government, either in the form of excise or corporate income tax, or in the form of revenues from their ownership in tobacco companies, are not usually factored into the budgets of government efforts to reduce tobacco use. Canada is perhaps unique in applying a “health surtax” on tobacco industry profits, but this additional revenue is not overtly linked to tobacco control budgets.

The globalization of the tobacco market has resulted in significant trans-national transfers of revenues from tobacco sales. The globalization of tobacco control, in the form of the FCTC, has not yet resulted in significant trans-national transfers of revenues to support tobacco control efforts.

NOTES TO READER ABOUT INFORMATION SOURCES

The data presented in this paper come from a variety of industry and trade sources, such as corporate annual reports, investor presentations, articles in the trade press, etc. These sources present a consistent picture about the economics of the tobacco market, but they often differ in their exact measurements. This could result from differences in their methodologies, or in the period they reviewed, or from other causes.

Despite these variations, we believe that the information presented below generally describes the tobacco market and its economy in the period reviewed (2007-2008). For further information on data sources, please contact the authors.

NOTES TO READER ABOUT EXCHANGE RATES

The major companies reviewed in this study report their earnings in their local currencies: British American Tobacco and Imperial Tobacco Group report their financial statements in British Pounds, Japan Tobacco Incorporated reports in Japanese Yen (but provides equivalent U.S. dollars), and Philip Morris and Altria report in U.S. dollars.

For convenience and comparability, all figures have been translated into U.S. dollars at the rate of the end of the fiscal period reported.

This method is the most accurate available, but nonetheless creates some distortions, as there were significant shifts in exchange rates in all currencies as a result of the market collapse and the steps taken by governments to address the ‘financial crisis’ during the period reviewed. The British pound, for example, traded at 1.7802 at September 30, 2008 (the fiscal year end for Imperial Tobacco group Inc), but fell to 1.4614 by December 31, 2008 (the fiscal year end for British American Tobacco).

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1

Around the world, a handful of globalized tobacco companies control virtually all tobacco sales.

The global tobacco market is increasingly concentrated in the hands of a very few companies. Repeated mergers have reduced the number of tobacco companies operating in either global or domestic markets. Among the companies which have been acquired or brought under the control of other companies during the course of the past decade are Rothmans, Reemstma, SEITA, Tabacalera, Gallaher, Sampoerna, Rothmans, Benson and Hedges Lakson and Tekel.¹ In only a few nations (including, among others, China, the United States, Japan and Egypt) is the tobacco market controlled by companies headquartered in that country.

Increased corporate concentration in the tobacco sector has brought 50% of the world's cigarette market under the control of 4 multinationals. These companies (and their share of global market as reported by BAT) are Philip Morris International (16%), British American Tobacco and its associates (16%), Japan Tobacco (11%) and Imperial Tobacco (6%). The remaining market share for cigarettes is returned to the state-monopolies operating in China, principally the China National Tobacco Company (39%), the U.S. operations of Philip Morris through Altria (3%), with all other tobacco companies accounting for the remaining 11%.^{2 3} It is estimated that 5.6 trillion cigarettes are sold world-wide each year.⁴

One consequence of this global concentration is the ability to track the movement of earnings from cigarette sales across borders, as these publicly held companies are required to disclose detailed financial statements to their shareholders. Despite fluctuations in currency values, differences in reporting periods, and lack of uniform regional structures, it is possible to aggregate the earnings of these companies. The annual reports of these companies^{5 6 7 8} and other industry reports⁹ record that, for reporting periods ending in calendar year 2008, more than USD 19 billion was earned by tobacco companies operating in a foreign market. (See Table 1)

The global tobacco trade is expected to become increasingly globalized, as further mergers and acquisitions are planned by operating companies. The Chinese State Tobacco Monopoly Administration, for example, announced in early 2009¹⁰ its three-stage plan to expand its operations overseas: "Step one involved the establishment of cigarette factories and marketing networks, the second step would involve capital investments in overseas enterprises and the third would involve the launch of mergers and acquisitions."

A few domestic tobacco operations continue to exist despite the push for globalized and integrated markets. Companies operating principally in domestic markets include companies such as Egypt's Eastern Tobacco (Egypt), Thailand's Tobacco Monopoly, Bulgaria's Bulgartabak, Taiwan's Tobacco & Liquor Corp (Taiwan) and Vietnam's National Tobacco Corporation.

FIGURE 1.1: MERGERS AND ACQUISITIONS AMONGST MAJOR TOBACCO COMPANIES.¹¹

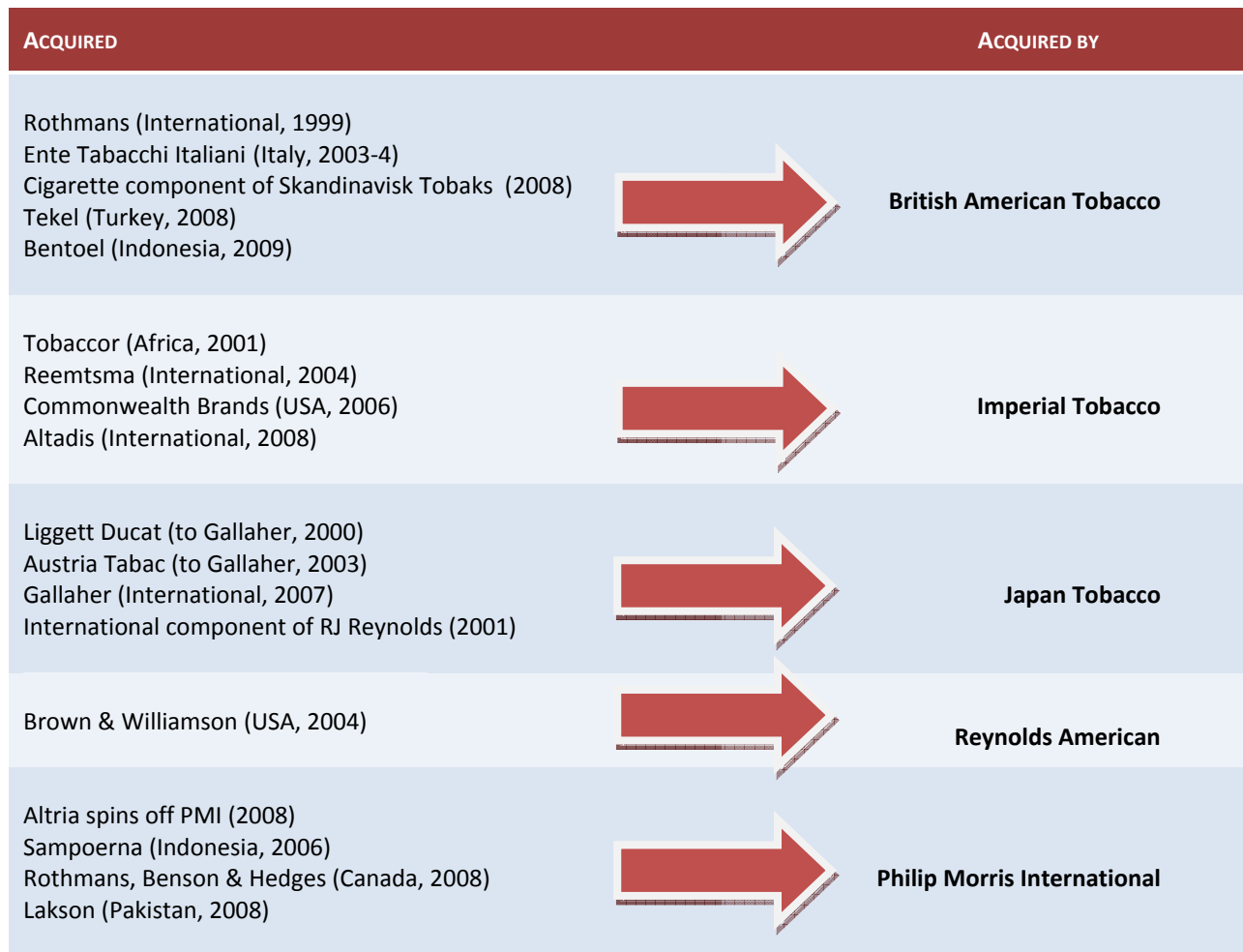


TABLE 1.1: GLOBAL MARKET SHARE OF MAJOR TOBACCO COMPANIES.

COMPANY	DOMESTIC SALES			OVERSEAS SALES		EARNINGS ^A FROM DOMESTIC SALES	EARNINGS FROM OVERSEAS SALES	GROSS REVENUES
	<i>Fiscal year end</i>	<i>billions of cigarettes and equivalents</i>	<i>Share of global market</i>	<i>billions of cigarette</i>	<i>Share of global market</i>	<i>(millions of US dollars) (conversion calculated at date of Fiscal Year End)</i>		
Altria	31-Dec-08	169	3%	0	0	4,886	0	19,356
British American Tobacco and Associates (BAT)	31-Dec-08	3.8	<1%	919 ^a	16%	0	5,220	49,572
China National Tobacco Company (CNTC)		2,200	39%	15	<1%	† ^b	†	† ^b
Imperial Tobacco Group (ITG)	30-Sep-08	24.8	<1%	270	6%	1,040	2,711	36,543
Japan Tobacco (JTI)	31-Mar09	160	3%	452	7%	1,917	1,779	64,326
KT&G (Korea Tobacco and Ginseng)	31 Dec 08	62.7	1%	38.9	<1%	†	128	
Lorillard	31 Dec 08	37	<1%			1,415		4,204
Philip Morris International (PMI)	31-Dec-08			870	16%		10,248	63,640
Taiwan Tobacco & Liquor Corporation		14	<1%			76		76
Thai Tobacco Monopoly (TTM)	Dec 06	22	<1%	.02	†	1.1	0.2	1,487
Vietnam National Tobacco Corporation (VINATAB)		34	<1%			†	†	†
All other companies			9%					
Total		3,171	55%	2,550	45%	7,844	20,086	233,438+

a Earnings variously reported as operating income, operating profit, and describes revenues from tobacco sales after excise taxes and costs of manufacture, distribution and overhead have been accounted for, but before income taxes and extraordinary expenses have been factored in. † Public reports not available/not found; ^a BAT's sales include 715 billion sold directly by BAT, and 204 billion sold through the companies of which it has effective ownership-control, including Reynolds American.; ^b "Manufacturing and commercial profits" of US\$ 26 billion in China are likely calculated in a different way, and may not be directly comparable to other corporate earnings.

Sources: Altria: Annual Report, 2008; British American Tobacco and Associates (BAT): Annual Report, 2008; China National Tobacco Company (CNTC): PMI Investor Report, February 2009; Imperial Tobacco Group (ITG): Annual Report, 2008; Japan Tobacco International (JTI): Annual Report, 2008; Philip Morris International (PMI): Annual Report, 2008; KT&G (Korea Tobacco and Ginseng): Annual Report, 2008; Thai Tobacco Monopoly: Annual Report 2006.; Tobacco China Online;¹² Taiwan Ministry of Finance "Government Annual Financial Report, 2008"

FIGURES 1.3: GLOBAL MARKET SHARE OF MAJOR TOBACCO COMPANIES BY REGION. ¹³

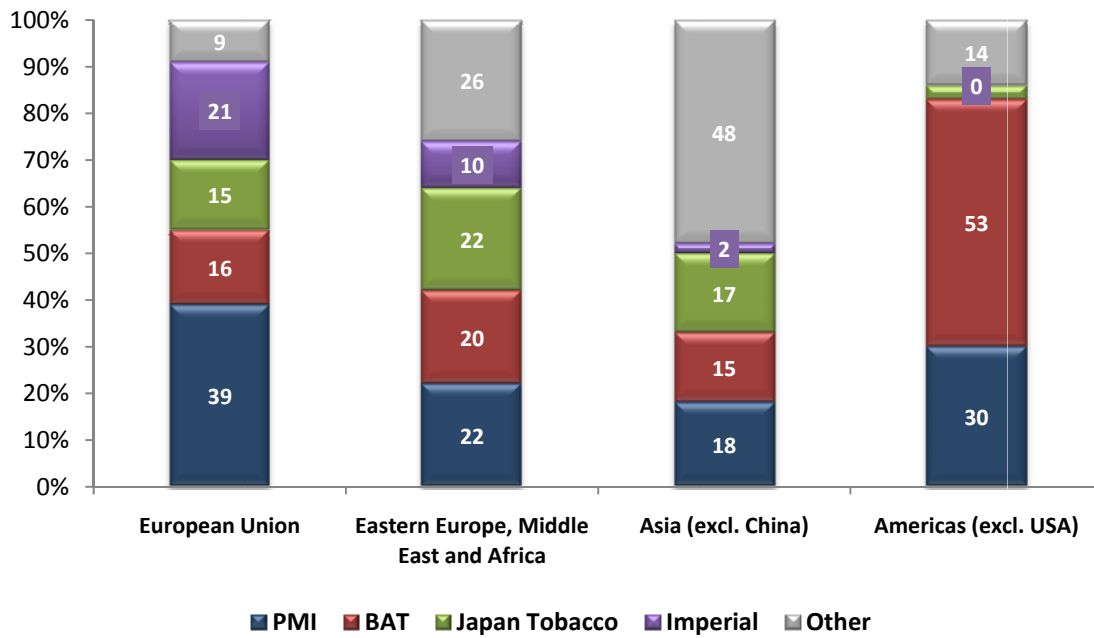
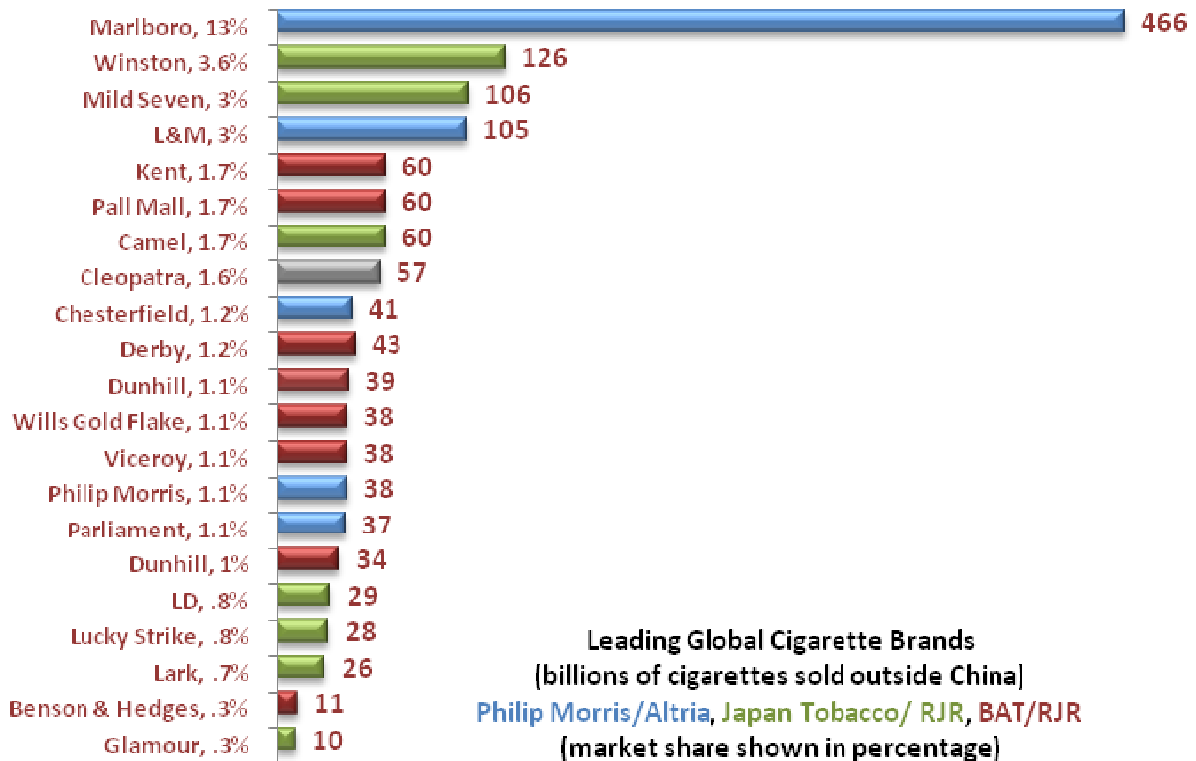


FIGURE 1.4: GLOBAL SALES AND MARKET SHARE OF LEADING CIGARETTE BRANDS



Source: Investor presentations and Annual Reports.

2 Repatriated profits result in the trans-national transfer of large sums of money

In 2008, approximately US\$ 20 billion was earned by four tobacco companies operating outside their national base. These earnings would not have resulted in the physical shipment of money from one jurisdiction to another, or necessitated virtual shipment and transfer of money to the home base of the multinational, they nonetheless represent a transfer of wealth from one region of the world to another.

With rare exception, the companies do not report sales on a per-country basis, especially for small countries and small markets. There are, however, a dozen or so countries which are responsible for the majority of the world's tobacco consumption.

China's tobacco market, the largest in the world by far (representing 38% of the cigarettes smoked globally), is one of the few markets served by domestic industry (in this case state-owned). Of the 3.5 trillion cigarettes smoked outside of China, about half are smoked by only ten countries: Russia, the United States, Japan, Indonesia, the Ukraine, Turkey, India, Brazil, Korea, and Italy). The proportion of cigarettes smoked outside of China rises to 70% if the next 10 largest markets are included (Germany, Spain, Vietnam, Philippines, Israel, Egypt, Poland, France, United Kingdom, Mexico). Fifty national markets representing about 90% of global tobacco sales are shown in the table below.

The relationship between volume of cigarettes sold and volume of profits shipped is not consistent across countries. Philip Morris International, for example, reports that although sales in OECD nations make up only one-third of its total sales, they make up 46% of its earnings. Conversely, sales in non-OECD nations make up two-thirds of its total sales, but only 54% of its profits. The average earnings on a package of cigarettes sold by PMI in OECD-member countries is twice as high (at US\$ 0.55) as it is in developing countries (at \$US 0.27).

Few tobacco companies report sales on a per-nation basis, even fewer report earnings on a per-nation basis. They do, however, report results on a regional basis. Because they use different approaches to organizing their regional operations, their regional sales and earnings are presented individually on the following pages. The figure below summarizes the results. Comparable data on smaller tobacco companies and companies which operate in a domestic market only are also provided in the following tables.

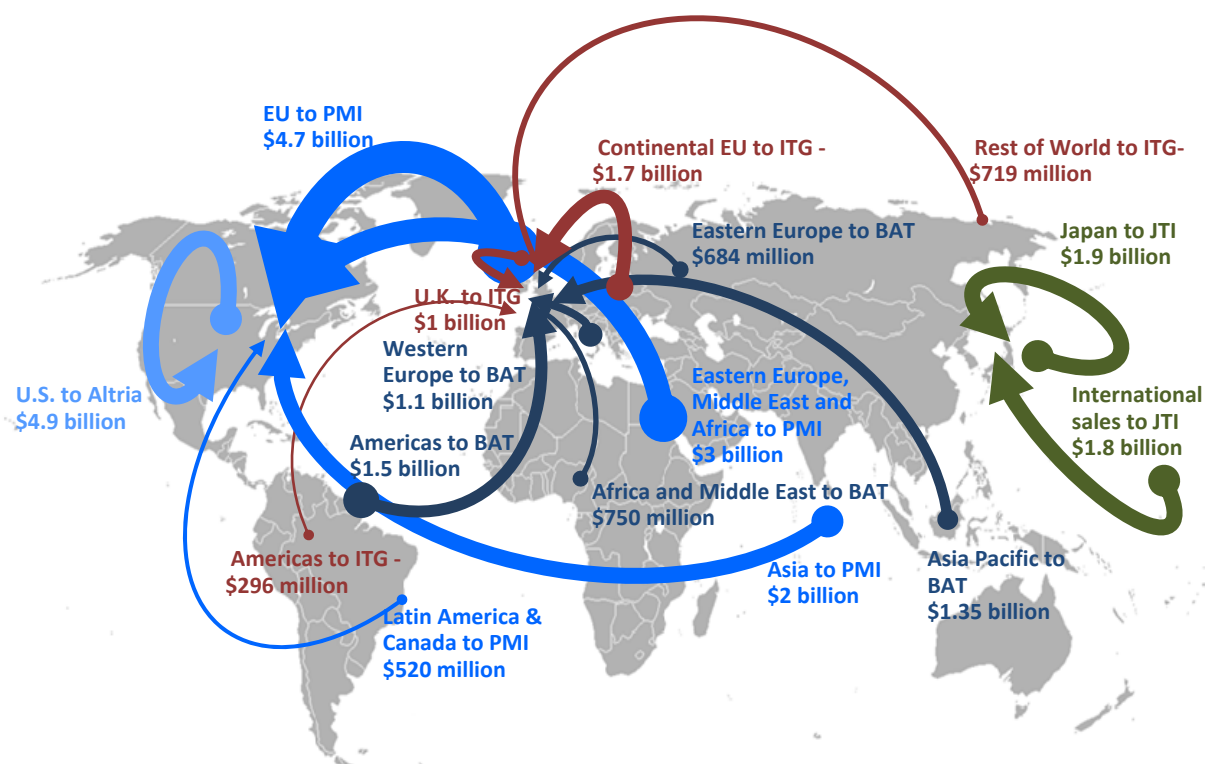
TABLE 2.1 MARKET SHARES IN MAJOR MARKETS (BILLIONS OF CIGARETTES)^{14 15 16 17 18 19 20 21 22}

COUNTRY	TOTAL VOLUME	% OF WORLD CONSUMPTION	CIGARETTE SALES BY COMPANY (BILLIONS)				
			<i>PMI/Altria</i>	<i>BAT & Assoc.</i>	<i>Japan Tobacco</i>	<i>Imperial Tobacco</i>	<i>Other</i>
By Region^a							<i>Other</i>
European Union	623	11%	243	100	93	131	56
Eastern Europe, Middle East and Africa	1377	24%	303	275	303	138	358
Asia (excl. China)	1244	21%	224	187	212	25	597
Latin America and Canada (ex. USA)	330	6%	99	175	10	0	46
By Country							<i>State-owned</i>
China	2200	38.5%					2,178
Russia	405	7.1%	101.7	101.3	145.8	44.6	
United States	345	6.0%	189.8	69.0		10.4	
Japan	249	4.4%	57.3	24.9	162.1		
Indonesia	247	4.3%	71.6	22			
Brazil	128	1.8%	11.8	108			
Ukraine	122	2.1%	44.4	22.0	35.4	26.6	
India	107	1.9%	0.0	66.3			
Turkey	107	1.9%	45.7	38.5	18.2	3.4	
South Korea	95	1.7%	9.0	16.2	3.9		63.7
Italy	92	1.6%	49.7	23.0	12.3	2.7	
Germany	91	1.6%	34.8	22.8	2.7	19.5	
Spain	91	1.6%	29.1	9.6	15.7	25.6	4.2
Vietnam	85	1.5%	0.9	21.3			
Philippines	79	1.4%	27.3	14.8			
Israel	77	1.4%					
Egypt	75	1.3%					74.3
Poland	70	1.2%	26.5	21.3	4.2	17.3	
France	55	1.0%	22.9	8.2	7.1	14.6	
Argentina	49	0.9%	35	14.2			
United Kingdom	49	0.9%	3.1	3.9	19.0	21.4	
Mexico	47	0.8%	32.4	19.6			
Bangladesh	45	0.8%		20.3			
Taiwan	42	0.7%	2.2	4.4	14.9	4.2	
Iraq	41	0.7%				6-12	
Thailand	39	0.7%	9.3	1.1			27.7
Greece	34	0.6%	12.9	5.5	4.4	3.9	
Canada	30	0.5%	9.9	15.3	3.3		
Romania	27	0.5%	8.1	10.9	7.4		
Czech Republic	24	0.4%	13.3	3.3	2.3	2.6	
Algeria	24						<8
Norway	23	0.4%			0.2	1.6	
South Africa	21	0.4%	0.9	18.6	1.1		
Australia	21	0.4%	8.2	9.5		3.6	
Syria	20	0.3%				3-6	
Colombia	19	0.3%					

COUNTRY	TOTAL VOLUME	% OF WORLD CONSUMPTION	CIGARETTE SALES BY COMPANY (BILLIONS)			
			11.5	3.9	0.9	
Saudi Arabia	18	0.3%	11.5	3.9	0.9	
Portugal	18	0.3%	14.4	1.1	1.7	0.7
Hungary	17	0.3%	5.1	7.2		2.1
Malaysia	16	0.3%	2.9	10.1	3.1	
Venezuela	15	0.2%	1.5	11.0		
Morocco	15	0.3%	1.4	0.6	0.2	12.4
Netherlands	14	0.3%	4.6	4.3	2.3	1.4
Nigeria	14	0.3%		7.1		
Austria	13	0.2%	3.7	0.7	5.1	1.5
Switzerland	12	0.2%	4.9	4.8	1.6	
Belgium	12	0.2%	4.5	2.5	1.3	1.9
Denmark	8	0.1%	0.4	7.1		0.2
Lebanon	7	0.1%				1-2
Sweden	6	0.1%	1.8	1.8	2.2	0.0
Ireland	6	0.1%		0.7	2.8	2.0
Finland	5	0.9%	33.7	6.4		8.6

a. Philip Morris International Operating Region

FIGURE 2.2: REPATRIATION OF PROFITS FROM THE SALE OF MANUFACTURED TOBACCO PRODUCTS ACROSS NATIONAL BOUNDARIES TO CORPORATE HEAD OFFICES, 2008.



Source: Annual Reports of Companies.

3 A Closer Look at the financial statements of the major companies

Philip Morris International and ALTRIA.

The world's largest private tobacco company is Philip Morris International. Philip Morris brands have been sold internationally for decades, but Philip Morris International (PMI) is a very new corporate entity. It was created in 2008, when it was spun off from ALTRIA.

Philip Morris and Altria continue to operate in tandem: the same brands that are sold by Altria in the United States are sold in other parts of the world by PMI. Virtually all the revenue of both companies results from the sales of tobacco products (about 1% of Altria's revenue comes from Financial Services). Both Altria and Philip Morris International are headquartered in New York.^{23,24}

Altria's operations are primarily in the United States,²⁵ where its Marlboro brand has a 41% market share.²⁶ Following the acquisition of US Smokeless Tobacco Company (UST) in January 2009, Altria will again have a small international tobacco interest, as UST sells smokeless tobacco outside of the United States. Its international sales, however, were less than 3% of its overall operations in 2007.²⁷

PMI manufactures seven of the 15 leading international tobacco brands, including Marlboro, L&M, Chesterfield, Bond Street, Philip Morris, Parliament and Lark. Its business activities are restricted to tobacco products. It sells cigarettes in 160 countries, and has a workforce of over 75,000 employees.²⁸ In Canada it owns Rothmans, Benson & Hedges.

TABLE 3.1: FINANCIAL INDICATORS, PHILIP MORRIS INTERNATIONAL AND ALTRIA^{29 30}

	PHILIP MORRIS INTERNATIONAL		ALTRIA	
	Amount (US\$ millions)	%	Amount (US\$ millions)	%
Total Revenues	63,640	100%	19,356	100%
Costs	15,457	24%	11,075	17%
Cost of sales	9,328	15%	8,270	
• Tobacco Leaf	3,600	6%		
• Materials	2,400	4%		
• Other	3,300	5%		
Operating costs	6,129	10%	2,805	15%
Taxes	40,722	64.0%	5,098	26%
Excise Taxes	37,935	60%	3,399	18%
Income Taxes	2,787	4%	1,699	9%
Earnings				
Operating Income	10,248	16%	4,886 ^a	25%
Net Earnings	6,890	11%	3,133 ^a	16%
Payments to public shareholders	2,100	3%	4,428	23%
Annualized dividend per share	\$2.16		\$1.28	

^a Net earnings stated for Altria are those from the sale of cigarettes through PM USA

THE RECIPIENTS OF PHILIP MORRIS INTERNATIONAL'S PROFITS.

In 2008, PMI reported revenues (including excise taxes on tobacco products) of over \$63 billion. About one quarter of their revenue went to pay for manufacturing and operating costs and two-thirds went to pay excise and income taxes. They retained about 11% of revenues as net earnings, of which 3% were sent to shareholders in the form of dividend payments.³¹

PMI AND THE TRANSBOUNDARY FLOW OF TOBACCO-BASED REVENUES

Philip Morris International sells only outside of the United States and organizes its activities in four regions: European Union, Eastern Europe, Middle East and Africa, Asia, Latin America and Canada. Two-thirds of Philip Morris' sales are in developing country markets.³²

Philip Morris International's revenues and sales are growing at a higher rate in developing countries than in developed countries: between 2003 and 2004, it reported growth of operating income of 216% in non-OECD countries, compared with 129% in OECD countries. Sales volumes were, respectively 148% and 92% of their 2003 levels in 2007.³³

*Philip Morris International T
repatriates about
US\$10 billion in earnings
from global tobacco sales to
the United States*

*One half of its sales (and one
third of its earnings) are
from non-OECD countries.*

TABLE 3.2: PHILIP MORRIS INTERNATIONAL SALES AND REVENUES BY REGION.^{34 35}

	EARNINGS BEFORE INCOME TAXES		VOLUME OF SALES		EARNINGS PER PACK
	(\$US millions)	%	(billions of cigarettes)	%	
Total Sales	9,937	100%	869	100%	US\$ 0.23
European Union	4,738	48%	243	28%	US\$ 0.39
Eastern Europe, Middle East and Africa	3,119	31%	303	35%	US\$ 0.21
Asia	2,057	21%	224	26%	US\$ 0.18
Latin America and Canada	520	5%	99	11%	US\$ 0.11
(costs not allocated to regions)	(497)	-5%			
Non-OECD Countries	3,279	33%	469	54%	US \$0.27
OECD Countries	6,657	67%	399	46%	US\$ 0.55

British American Tobacco

British American Tobacco (BAT) is the second largest tobacco company, based on the number of cigarettes sold (after the Chinese National Tobacco Company), and the largest tobacco company operating out of a European Country.

BAT's total revenues (including excise taxes) were almost \$50 billion in 2008, which is about the same size as the world's 70th largest national economy. Its operating revenue (receipts after deductions for costs of production, excise taxes, etc.) is as large as the world's 141st economy. (A comparison of tobacco industry and national economies is provided in Appendix 1).

BAT claims to employ more than 50,000 workers and to sell more than 300 brands of cigarettes across a market of 180 countries. Its largest selling brands are Dunhill, Kent, Lucky Strike, Pall Mall, Viceroy, and Vogue.³⁶ It has two associated companies in which it has a substantial holding and influence: Reynolds American (42% shareholding) and ITC (formerly the Indian Tobacco Company) (32% shareholding)³⁷.

THE RECIPIENTS OF BAT'S PROFITS.

In 2008, about two-thirds of BAT's revenues are returned to governments in the form of excise and income taxes. \$2 billion is returned to BAT's owners in the forms of dividends, and \$2.3 billion is kept by the company in the form of retained earnings.

Although there are over 110,000 individual or corporate shareholders of BAT, more than four-fifths of the shares are held by only 400 shareholders.³⁸ Among those shareholders with large holdings is the Canada Pension Plan Investment board³⁹ (1,1 million shares) and Quebec's pension Caisse de depot (.5 million shares).⁴⁰

Formerly, a significant portion of BAT's shares were still held by the Rupert family corporate interests, Richemont and Remgo.⁴¹ Since 2008, these shares have been dispersed to private ownership, including to the South-Africa based Rupert family.

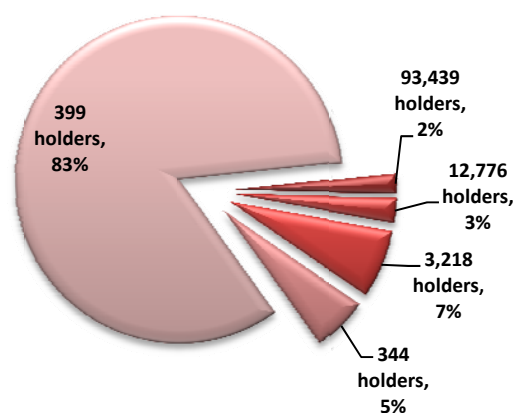
A total of US\$ 14.5 million was paid to 16 current and former directors, including more than US\$5 million to Chief Executive, Paul Adams.

TABLE 3.3: KEY FINANCIAL INDICATORS, BRITISH AMERICAN TOBACCO (BAT) ⁴²

	AMOUNT		%
	(£ millions)	(US\$ millions) ¹	
Total Revenues	33,921	49,572	100%
Costs	8,550	12,495	25%
Cost of materials	3,335	4,874	10%
Operating and other costs	5,215	7,621	15%
Taxes	22,824	33,355	67%
Excise Taxes	21,799	31,857	64%
Income Taxes	1,025	1,498	3%
Earnings			
Operating Income ^a	3,572	5,220	11%
Associates income	503	735	1%
Profit	2,659	3,886	8%
Payments to public shareholders	1,393	2,036	4%
Retained Earnings	1,578	2,306	5%
Annual dividend	£0.837	US\$ 1.22	
Operating margin	31%		

^a BAT uses the term "Profit from Operations" to describe operating income.

Concentration of BAT ownership



¹ Currency conversion set for December 31, 2008 .

BAT AND THE TRANSBOUNDARY FLOW OF TOBACCO-BASED REVENUES

BAT is based in the United Kingdom, but, for historical business and legal reasons, has a much smaller presence in the United Kingdom and operates indirectly (through Reynolds American) in the United States.⁴³ BAT organizes its markets in five regions: Europe, Latin America (which includes the Caribbean), Africa and the Middle East (including Turkey), Asia Pacific, and America Pacific (Canada and Japan). BAT's associated companies, which provide one-eighth of its revenues, include the U.S.-based Reynolds American and India's ITC. A regional breakdown of BAT's earnings is shown in table 2.5 below.

British American Tobacco repatriates about US\$6 billion in earnings from global tobacco sales to Britain.

Three-quarters of their sales (by volume) are in developing countries.

TABLE 3.4: BAT EARNINGS FROM CIGARETTE SALES BY REGION^{44 45}

	OPERATING INCOME ^A			VOLUME		INCOME PER PACKAGE
	£ millions	US\$ millions	%	Billions of cigarettes	%	
Total	4,075	5,955	100%	920	100%	
Direct Operations ^{46 b}	3,717	5,432	88%	716	78%	US\$ 0.15
Americas	1,052	1,537	25%	161	18%	US\$ 0.19
Western Europe	760	1,111	18%	123	13%	US\$ 0.18
Asia Pacific	924	1,350	22%	180	20%	US\$ 0.15
Eastern Europe	468	684	11%	137	15%	US\$ 0.10
Africa and Middle East	513	750	12%	114	12%	US\$ 0.13
Associated Companies ⁴⁷	503	735	12%	204	22%	US\$ 0.07
Reynolds American (USA)	339	495	8%	90	10%	US\$ 0.11
ITC (India)	117	171	3%	81	9%	US\$ 0.04
Other	47	69	1%	33	4%	US\$ 0.04
Developed countries ⁴⁸				172	24%	
Developing countries				544	76%	

^aBAT states these as "Profit from Operations before Adjusting Items" (items for which adjustment was made include acquisitions). These are earnings from tobacco sales after excise taxes have been paid and before income taxes are levied.

^b. BAT presents its regional results in a slightly different configuration in its annual report

The Imperial Group.

The Imperial Tobacco Group PLC (ITG) is an increasingly important multinational tobacco company that is also based in the United Kingdom (not to be confused with Imperial Tobacco Canada, Ltd., which is a subsidiary of British American Tobacco based in Montreal, Canada).

ITG is solely focused on tobacco and tobacco related products and services: it manufactures cigarettes (including the Lambert and Buttlar, Davidoff, West , Gauloise, Gitanes and Fortuna brands). It is the world's largest manufacturer of cigars (including Cohiba, Montecristo), fine-cut tobacco (including the Drum and Golden Virginia brands) and rolling papers (such as Rizla). It also runs the logistical operations of tobacco distribution in some European countries. ITG reports that it employs 40,000 workers in 58 manufacturing sites.⁴⁹

Whereas a decade ago only one-quarter of its earnings were from sales outside of the United Kingdom, international sales now make up three-quarters of ITG's operating income, although most of those are sales within the European Union. This increased international market was a result of the purchase of the Spanish-French Altadis, the German based Reemtsma,⁵⁰ the American Commonwealth Brands and African Tobaccor.

THE RECIPIENTS OF IMPERIAL TOBACCO'S PROFITS.

In 2008, about one-half of Imperial Tobacco's revenues were returned to governments in the form of excise and income taxes. \$1 billion was returned to ITG's owners in the forms of dividends, and \$2.3 billion is kept by the company in the form of retained earnings. A total of US\$ 22 million was paid to 21 current and former directors of the company in the form of executive compensation, with the highest payment of almost US\$ 7 million to current Chief Executive, Gareth Davis.⁵¹

Imperial Tobacco reported in 2007 that about one-quarter of its ordinary shares were owned by U.S. holders.⁵²

TABLE 3.5: KEY FINANCIAL INDICATORS, IMPERIAL TOBACCO GROUP PLC (ITG)⁵³

	AMOUNT		%
	(£ millions)	(US\$ millions) ²	
Total Revenues	20,528	36,543.95	100%
Costs	9,495	16,903	46%
Cost of materials	6,253	11,132	30%
Operating and other costs	2706	4,817	13%
Financing costs	536	954	3%
Taxes	10,592	18,856	52%
Excise Taxes	10,412	18,535	51%
Income Taxes	180	320	1%
Earnings			
Operating Income before adjustments	1,157	2060	6%
Profit after tax	441	785	2%
Payments to public shareholders	588	1,046	3%
Annual dividend per share	£0.63	\$ 1.12	
Operating margin	40.2%		

² Currency conversion set for September 30, 2008 .

IMPERIAL TOBACCO AND THE TRANSBOUNDARY FLOW OF TOBACCO-BASED REVENUES

Imperial Tobacco's market outside of the United Kingdom reflects the market presence of the companies it acquired (Reemstma, and Altadis and Commonwealth brands). Only one-fifth of its market is outside the European Union and Americas, and more than 50% of its "Rest of World" sales are in Russia and the Ukraine,⁵⁴ leaving about 80 billion cigarettes sold outside of the United States, CIS and Europe.

Imperial Tobacco repatriates about US\$4 billion in earnings from global tobacco sales to Britain.

More than one half of its sales (by volume) are in developing countries.

TABLE 3.6: IMPERIAL TOBACCO GROUP EARNINGS FROM CIGARETTE SALES BY REGION ⁵⁵

	OPERATING INCOME ^A			CIGARETTES	FINE CUT	TOTAL CIGARETTES AND CIGARETTE EQUIVALENTS ³	EARNINGS PER PACKAGE OF CIGARETTES/FINE-CUT EQUIVALENTS	
	(£ millions)	(US\$ millions) ⁴	%				£	US\$
				Billions	Tonnes	Billions		
Direct Operations	2,107	3,751	100%	291.8	20,850	329	0.13	0.19
United Kingdom	584	1,040	28%	21.4	2,350	25	0.47	0.84
Germany	309	550	15%	22.9		30	0.21	0.37
Spain	150	267	7%	22.9	1,550	25	0.12	0.21
Rest of European Union	494	879	23%	56.8	14,300	77	0.13	0.23
Americas	166	296	8%	15.2	600	16	0.21	0.37
Rest of World	404	719	19%	152.6	2050	156	0.05	0.09
Developed countries				40%				
Developing countries				60%				

^a Imperial Tobacco Group PLC states this as "Adjusted Profit From Operations". These are earnings from tobacco sales after excise taxes have been paid and before income taxes are levied. Additional adjustments are taken into effect when calculating overall operating income, as stated in previous table.

³ Calculated at .7 grams of fine-cut per cigarette

⁴ Conversion set to September 30, 2008, the fiscal year end for Imperial Tobacco Group PLC

Japan Tobacco International

Japan Tobacco International (JTI) is based in Japan, where the Japanese government currently holds one-half of its shares. The Japanese Minister of Finance has the authority to supervise its operations.⁵⁶ Unlike the other major multinational tobacco companies, Japan Tobacco also has interests in other areas of business, including a multinational Pharmaceutical business and a Food business.

THE RECIPIENTS OF JAPAN TOBACCO'S PROFITS.

About 60% of JTI's stocks are held by the Japanese government or Japanese investors. Dividend payments to the Japanese government from international tobacco sales by JTI are estimated at US\$ 132 million.⁵⁷

Canadian government revenues from JTI's tobacco sales (domestic and international), in the form of dividend payments to the Canada Pension Plan, are estimated at \$440,000.⁵⁸

TABLE 3.7: KEY FINANCIAL INDICATORS, JAPAN TOBACCO

	AMOUNT		%
	Yen (Millions)	(US\$ millions) ⁵	
Total Revenues (including excise taxes)	6,832,307	69,554	100%
Domestic Tobacco	3,200,494	32,581	47%
International Tobacco	3,118,319	31,745	46%
Pharmaceutical	56,758	578	1%
Food	435,966	4,439	6%
Others	20,770	211	0%
Net Sales (excluding excise taxes)	2,295,117	23,365	100%
Domestic Tobacco	679,302	6,915	30%
International Tobacco	1,102,320	11,222	48%
Pharmaceutical	56,758	578	2%
Food	435,966	4,439	19%
Others	20,770	211	1%
Operating Income (after costs)	363,806	3,704	100%
Domestic Tobacco	188,259	1,917	52%
International Tobacco	174,772	1,779	48%
Pharmaceutical	1,020	10	<1%
Food	-11,451	-117	-3%
Other/Corporate	11,206	129	3%
Net Income (all sectors)	123,400	1,256	
Taxes	2,150,991	21,897	
Excise Taxes on Cigarettes	2,016,019	20,523	
Income Taxes	134,972	1,374	
• Attributable to domestic tobacco sales	70,185	714	
• Attributable to international tobacco sales	64,787	660	
Dividends paid to Government of Japan	27,008	275	
• Attributable to domestic tobacco sales	14,044	143	
• Attributable to international tobacco sales	12,964	132	
Dividends paid to other shareholders	26,992	275	
Annual dividend per share	¥5,400	US\$ 55	
• Dividend attributable to International Tobacco	¥2,592	US\$ 26	
• Dividend attributable to Domestic Tobacco Sales	¥2,808	US\$ 29	
Operating margin (all sectors of company)	12.9		

⁵ Stated as presented by JTI in its Annual report at an exchange rate of ¥98.23 per \$1, as of March 31, 2009.

JAPAN TOBACCO AND THE TRANSBOUNDARY FLOW OF TOBACCO-BASED REVENUES

JTI sells twice as many cigarettes outside of Japan as it does within its home country. It organizes its international operations into the following regions: North and Central Europe (United Kingdom, Ireland, Austria and Sweden), the Commonwealth of Independent States (CIS) (Russia, Kazakhstan, Ukraine and Romania), South and West Europe (Spain, France, Italy and Greece), and the Rest of the World (Turkey, Taiwan, Malaysia and Canada). About 60% of JTI's tobacco sales are in international markets. It operates 30 tobacco factories outside of Japan

Japan Tobacco repatriates about US\$2 billion in earnings from global tobacco sales to Japan.

Like the Imperial Tobacco Group, JTI increased its global market presence through the recent acquisition of other multinational tobacco companies, such as the purchase of RJ Reynolds international tobacco business in 1999 and the acquisition of the U.K. Gallaher Group in 2007. The major international brands reflect the RJ-Reynolds and Gallaher roots: Winston, Camel, Mild Seven, Benson & Hedges, Silk Cut, LD, Sobranie and Glamour are sold by JTI outside of the United States.

TABLE 3.8: JAPAN TOBACCO INTERNATIONAL SALES BY REGION ⁵⁹

	NET REVENUE		VOLUME OF CIGARETTES SOLD Billions	EARNINGS PER PACKAGE OF CIGARETTES	
	(¥ millions)	(US\$ millions) ⁶		¥	US\$
International Tobacco	174,772	1,779	452.3	¥7.73	\$0.08
North and Central Europe			50.8		
CIS countries			219.7		
South & West Europe			64.0		
Rest of World			117.7		
Domestic (Japan) Tobacco	188,259	1,917	159.9	¥23.55	\$0.24
Total	353,031	3,696	612		

⁶ Conversion set to September 30, 2008, the fiscal year end for Imperial Tobacco Group PLC.

Other tobacco companies

China's National Tobacco Company

The cigarette industry in China is managed through the State Tobacco Monopoly Administration. There are about 16 provincial tobacco companies, which operate as subsidiaries of the China National Tobacco Corporation, even though they are separate legal entities.⁶⁰

TABLE 3.9: SALES BY STATE-OWNED TOBACCO COMPANIES IN CHINA⁶¹

	AMOUNT	
	(Yuan millions)	(US\$ millions)
Total revenues	†	†
Taxes and profits⁶²	449,941	64,280
manufacturing and commercial taxes	264,086	37,730
manufacturing and commercial profits	185,855	26,550
Value of exports⁶³		738
Domestic sales (trillions of cigarettes)		2,200
Export sales (billions of cigarettes)		15.8

† Not available

KT&G (Korea Tobacco and Ginseng)

KT&G Corporation is a former state-monopoly based in Seoul, Korea, formerly known as the Korea Tobacco and Ginseng Corporation. KT&G was privatized in three steps over the past decade, and is no longer controlled by the Korean government, although the government owns about 14% of KT&G's shares.⁶⁴

TABLE 3.10: KT&G FINANCIAL INDICATORS.⁶⁵

	AMOUNT	
	(Korean Won billions)	(US\$ millions)
Total revenues	†	†
Net sales (after excise)	2,514	1999
Domestic	641.8	510
International	502	399
Costs	1669	1327
Cost of good sold	1,023	813
Other costs	646	514
Operating Income	975	776
Domestic Tobacco	615 ^a	489
International Tobacco	160.8	128
Food	200	159
Taxes		
Excise Taxes	†	†
Income Taxes	287	228
Net Income	894	711
Payments to public shareholders		
dividend per share	KRW 2,800	\$2.23
Operating Margin (all sectors)		36.90%

† Not available

^a Operating income from domestic tobacco sales is not stated in KT&G's Annual report, but is calculated from figures stated for other sectors.

Source: KT&G Annual Report, 2008.

Thailand Tobacco Monopoly (TTM).

The Thailand Tobacco Monopoly (TTM) was created in 1939 when the Thai government took over ownership and direction of existing tobacco operations.⁶⁶ The TTM was the only source for legal tobacco products in Thailand until the WTO demanded that Thailand end its ban on cigarette imports in 1990. The TTM manufactures about 22 billion cigarettes.⁶⁷

The TTM continues to make and sell the majority of cigarettes sold in Thailand.

TABLE 3.11: SALES BY THAI TOBACCO MONOPOLY⁶⁸

2007	Amount	
	<i>Bhat millions</i>	<i>(US\$ millions)</i>
Total revenues	47,418	\$1,487
Tax contribution	38,920	\$1,220
Total Expenses	41,184	\$1,291
Net profit	6,234	\$195
Contribution to government	4,649	\$146
Profit margin	12.15	

† Not available

Taiwan Tobacco & Liquor Corporation (TTL).

The government-owned Taiwan Tobacco & Liquor Corporation and its predecessor agencies had a complete monopoly of tobacco sales in Taiwan until the late 1980s, when Taiwan opened its doors to imports as part of its entry to WTO.⁶⁹

The TTL has about 40% market share of Taiwan's 40 billion annual cigarette sales,⁷⁰ and generates about US\$76 million revenues.⁷¹

Vietnam National Tobacco Corp (VINATABA) and other Vietnam producers.

Vinataba was created by the Government of Vietnam in 1995,⁷² and is part of a complex set of tobacco operating units reporting to differing elements of the Vietnam government and ruling communist party.⁷³ There are about 20 different producers in Vietnam, and a market size of about 85 billion cigarettes.⁷⁴

The tobacco market in Vietnam was protected from imports until 2006, when Vietnam joined the WTO and had to remove barriers to imported tobacco products. Prior to that, multinational tobacco companies had operated through agreements with VINATABA, and imports are still controlled through this state agency.⁷⁵

Imported brands are produced in Vietnam through "co-operation contracts" with VINATABA. BAT brands, produced with VINATABA, have 25% of the market.

Lorillard

Lorillard is the third-largest manufacturer of cigarettes in the United States, after Altria and Reynolds' America. Formerly linked with Loews's, it has, since May 2008, been a separately managed and traded company.

Lorillard sells about 37 billion cigarettes each year (about 10% of the U.S. market), and earns about US\$ 0.48 on each package of 20 cigarettes.

TABLE 3.12: KEY FINANCIAL INDICATORS, LORILLARD

	AMOUNT
	<i>US\$ Millions</i>
Total revenues	4,204
Net sales (after excise)	3,492
Costs	2,789
Cost of good sold	2428
Other costs	361
Operating Income	1415
Taxes	1259
Excise Taxes	712
Income Taxes	547
Net Income	887
Payments to shareholders	783
dividend per share	\$4.67

Reynolds American Inc. (RAI)

Reynolds American Incorporated was created in 2004 from a merger of RJR Tobacco and the operational end of BAT's subsidiary, Brown and Williamson. RAI is a holding company, of which BAT owns 42%. RAI's revenues are generated by the sale of cigarettes through RJR Tobacco and the sale of smokeless tobacco products by Conwood. It also operates the Sante Fe Natural Tobacco Company.

RJR Tobacco sells brands, like Camel and Winston, that are sold elsewhere in the world by Japan Tobacco as well as brands, like Pall Mall and KOOL, that are sold elsewhere in the world by BAT and its subsidiaries and associates.

TABLE 3.13: KEY FINANCIAL INDICATORS, REYNOLDS AMERICAN INC.⁷⁶

	AMOUNT
	<i>US\$ Millions</i>
Total revenues	
Net sales (after excise)	8,845
RJR Tobacco	7,678
Conwood.	723
Other	444
Costs	6,363
Cost of good sold	4,863
Other costs	1,500
Operating Income	2,141
RJR Tobacco	1,756
Conwood.	232
Other	153
Taxes	2,680
Excise Taxes	1,890
Income Taxes	790
Net Income	1,338
Dividend per share	\$3.40

Swedish Match

Swedish Match is still a Swedish company based in Stockholm, but the ‘match’ component of its business is now less than 10% of its business. The bulk of its revenues come from the sale of Snuff and snus, chewing tobacco, cigars and pipe tobacco. Swedish Match does not manufacture cigarettes. Swedish Match employs more than 11,000 people and has production plants in 11 countries.

THE RECIPIENTS OF SWEDISH MATCH’S EARNINGS.

Swedish Match returned US\$ 1.3 billion to governments in the form of excise taxes and a further US\$ 49 million in income taxes. About US\$ 133 million was returned to shareholders, three-quarters of whom reside outside of Sweden (34% in the United States, 23% in the United Kingdom and 19% elsewhere).

TABLE 3.14: KEY FINANCIAL INDICATORS, SWEDISH MATCH

	AMOUNT		%
	Swedish Krona millions	US \$ million:	
Total Revenues	23,718	3,010	100%
Sales after excise taxes	13,162	1,670	55%
*Nordic region	5,437	690	
*North America	4,167	529	
*Rest of World	3,558	452	
Costs	10,166	10,941	43%
Cost of materials	6,685	848	28%
Operating/other costs	3,481	442	15%
Taxes	10,941	10,941	46%
Excise Taxes	10,556	1,340	45%
Income Taxes	385	49	2%
Operating Income^a	3,090	392	13%
*snuf and snus	1,689	214	
*pipes & accessories	210	27	
*cigars	679	86	
*chewing tobacco	329	42	
Profit	2,261	287	10%
Payments to shrhldr.	1,046	133	4%
Retained Earnings	782	99	3%
Annual dividend	4.1	0.52	
Operating margin	22.9%		

Eastern Company SAE (Egypt)

The Egyptian government has controlling ownership in Eastern Company SAE, which was nationalized in 1963. About half of its shares are held privately.^{77 78}

Eastern Company has a virtual monopoly on cigarettes sold in Egypt, with a 99% market share. It makes some brands under license with BAT and Philip Morris. It manufactures about 78 billion cigarettes, and its most commonly-purchased brand is “Cleopatra”.

TABLE 3.15: REVENUES OF EASTERN COMPANY SAE

	AMOUNT	
	Egyptian pounds millions	US\$ Millions
Operating Revenue	3,819	699.63
Net income	751	137.64

4 Governments share more than \$160 billion in annual revenue from tobacco sales from only 9 companies.

The information on corporate revenues (presented above) shows that the proportion of the total tobacco economy that is received by governments in the form of excise taxes and taxes on the corporate income of tobacco manufacturers is usually in excess of 50%. Although tax rates and profit margins vary greatly across the countries in which these companies operate, the consolidation of financial reporting that results from the globalization of tobacco sales allows for easier insight into the financial impact of tobacco on global government revenues.

Governments will receive monies from tobacco sales in at least three forms:

- **Excise taxes**, which are collected by tobacco companies at the point of sale and remitted to government. In 2008, the four major multinationals reported paying excise taxes in excess of \$100 billion dollars.
- **Corporate income taxes** paid on profits from tobacco sales. In 2008, the four major multinationals reported payments of almost \$6 billion in income tax payments (with U.S. based producers adding \$2 billion more). From the annual reports of BAT and Imperial Tobacco group, it would appear that these taxes are paid by the subsidiary companies to the country in which the income was generated. Including the corporate income taxes paid by retailers, leaf suppliers and other participants in the tobacco economy would push this amount well in excess of \$6 billion.
- **Profit-sharing** when governments are owners or part-owners of tobacco companies. Companies with significant state-ownership include the China National Tobacco Company and other companies wholly owned by the government of China, the Eastern Company SAE (about half-owned by the government of Egypt), Japan Tobacco International (JTI) (about half-owned by the Japanese government), KT&G, formerly Korea Tobacco and Ginseng (about 14% owned by the government of South Korea), the Taiwan Tobacco and Liquor Corporation (wholly owned by the Taiwan government), the Thai Tobacco Monopoly (wholly-owned by the Thai government) and the Vietnam National Tobacco Company (wholly owned by the Vietnam Government). Governments may also be share-holders in publically traded companies, as the Canadian government is (see below).

TABLE 4.1: GOVERNMENT REVENUES FOR EXCISE AND INCOME TAXES FROM TOBACCO SALES, SELECTED COMPANIES.

COMPANY		% GLOBAL CIGARETTE MARKET	EXCISE TAXES/DUTIES	INCOME TAXES	TOTAL
	<i>Fiscal year end</i>			<i>US\$ millions</i>	
Altria	31-Dec-08	3%	3,399	1,699	5,098
British American Tobacco and Associates (BAT)	31-Dec-08	17%	33,355	1,498	34,853
China National Tobacco Company (CNTC)	31-Dec-08	38%	†	†	37,730
Imperial Tobacco Group (ITG)	30-Sep-08	6%	18,856	320	19,176
Japan Tobacco International (JTI)	31-Mar09	10%	20,523	1,374	21,897
KT&G (Korea Tobacco and Ginseng)	31 Dec 08	1%	†	†	†
Philip Morris International (PMI)	31-Dec-08	16%	37,935	2,787	40,722
Reynolds American	31-Dec-08	*	1,890	790	2,680
Thai Tobacco Monopoly (TTM)	31 Dec 06	1%	\$1,220		1,415
Total		91%	116,628	7,727	162,280

† Not available or not found; * included with BAT total;

Sources: Annual reports of companies and investor presentations, Tobacco China Online

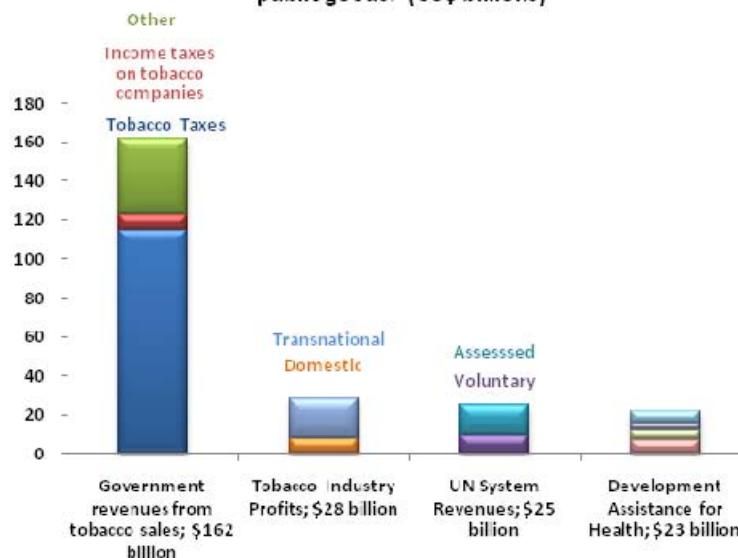
Government revenues from tobacco sales exceed the economies of more than 130 nations.

The size of the tobacco economy relative to the global economy can be considered by comparing it with other measurements of economic activity.

Tax revenues reported by large tobacco companies exceed the Gross Domestic Product as reported by the World Bank for all but the wealthiest 50 nations.⁷⁹ The operating income (earnings) of the big five companies is larger than the economies of 100 nations.

Government revenues from excise taxes on tobacco products are six times the total budget of all United Nations operations, including peacekeeping and specialized agencies like the World Health Organization and UNESCO, and about equal to the operating income of the large five multinational companies.⁸⁰

Government revenues from tobacco taxes and industry profits compared with global financing of health and other public goods. (US\$ billions)



Tobacco revenues are about 1% of the total income of all governments world-wide, as estimated by the U.S. Central Intelligence Agency.⁸¹

Canadian pensioners receive financial benefits from global tobacco sales.

The financial investment of governments in tobacco companies runs counter to the Framework Convention on Tobacco Control. Through Article 5.3, parties to the treaty, such as Canada, under take “In setting and implementing their public health policies with respect to tobacco control, Parties shall act to protect these policies from commercial and other vested interests of the tobacco industry in accordance with national law.”⁸² Guidelines on the implementation of this provision were agreed to by the third Conference of Parties to the Treaty in November 2008. These guidelines recommend against ownership or investments in tobacco companies.

*7.2 Parties that do not have a State-owned tobacco industry should not invest in the tobacco industry and related ventures. Parties with a State-owned tobacco industry should ensure that any investment in the tobacco industry does not prevent them from fully implementing the WHO Framework Convention on Tobacco Control.*⁸³

Despite this, the government of Canada and Quebec, which have both formally approved the treaty, continue to invest public funds in tobacco companies, notably through the investment of Canada/Quebec Pension Plan contributions. Public pension funds managed by other levels of Canadian government (such as the Ontario Teachers’ Pension Plan, the British Columbia Investment Management Corporation, the Ontario Municipal Employees Retirement System also invest in tobacco companies.⁸⁴

Other governments have chosen to not invest in tobacco. In October 2007, the New Zealand Superannuation Fund decided in October 2007 to divest of tobacco stocks,⁸⁵ and in April 2009 the Norwegian Minister of Finance announced that country would no longer invest in tobacco and other harmful industries.⁸⁶

As a result of these investments, the financial benefits to Canadians/Quebecers of international tobacco sales far exceed the support Canadians give to reducing tobacco use worldwide. The value of the CPP/QPP holdings in tobacco exceeds CDN\$ 400 million, and the dividend revenue in 2009 is estimated at CAD \$25 million. [It is not possible to calculate exactly the dividend income of these funds with the information available, but estimates based on share value declared in past year and declared holdings are presented in the tables below.]

TABLE 4.2A : TOBACCO HOLDINGS OF THE CAISSE DE DÉPÔT ET DE PLACEMENT DU QUÉBEC, AS OF DECEMBER 31, 2008, ESTIMATED VALUE OF DIVIDENDS RECEIVED FROM TOBACCO SALES BASED ON THOSE HOLDINGS.⁸⁷

COMPANY	DECLARED DIVIDEND	NUMBER OF SHARES HELD BY CAISSE	DECLARED VALUE OF SHARES† (\$CDN)	REVENUES FROM DIVIDENDS (\$CDN) ^B
Altria	\$1.28	297,300	\$5,500,000	\$466,014.18
British American Tobacco Malaysia	\$0.75	73,200	\$1,200,000	\$67,230.54
British American Tobacco PLC	1.22	515,636	\$16,500,000	\$770,366.37
Imperial Tobacco Group PLC	1.12	340,759	\$11,200,000	\$467,368.69
ITC (Indian Tobacco Company)	\$0.08	869,572	\$3,800,000	\$85,190.23
Japan Tobacco Inc	55	2,269	\$9,100,000	\$152,823.96
KT&G (Korea Tobacco & Ginseng)	\$2.23	161,256	\$12,500,000	\$440,367.24
Lorillard	\$4.67	880,740	\$61,300,000	\$5,036,848.13
Philip Morris International	\$2.16	287,400	\$15,400,000	\$760,212.09
Reynolds American	\$3.40	1,900	\$100,000	\$7,910.92
Souza Cruz	\$1.70	31,964	\$800,000	\$66,543.29
Swedish Match AB	\$0.52	217,478	\$3,800,000	\$138,488.25
Total		3,679,474	\$141,200,000	CDN\$ 8,459,363 US\$ 6,907,859

† Value of shares as declared in the Annual Report for December 31, 2008; b Currency converted for December 31, 2008.

TABLE 4.2B : TOBACCO HOLDINGS OF THE CANADA PENSION PLAN INVESTMENT BOARD AS OF MARCH 31, 2009 AND ESTIMATED VALUE OF DIVIDENDS RECEIVED FROM TOBACCO SALES.⁸⁸

COMPANY	DECLARED DIVIDEND	NUMBER OF SHARES HELD BY CPPIB	DECLARED VALUE OF SHARES† (\$CDN)	ESTIMATED REVENUES FROM DIVIDENDS (\$CDN) ^B
Altria	\$1.28	2,318,000	\$47,000,000	\$3,633,437.18
British American Tobacco PLC	\$1.22	1,168,000	\$34,000,000	\$1,745,006.02
Gudang Garam (Perusahaan Rokok Tjap) P.T.	\$0.03	1,097,000	\$1,000,000	\$40,301.59
Imperial Tobacco Group PLC	\$1.12	121,000	\$3,000,000	\$165,957.79
Japan Tobacco Inc	\$55.00	8,000	\$26,000,000	\$538,824.00
KT&G (Korea Tobacco & Ginseng)	\$2.23	265,000	\$18,000,000	\$723,677.37
Lorillard	\$4.67	279,000	\$22,000,000	\$1,595,568.08
Philip Morris International	\$2.16	2,735,000	\$122,000,000	\$7,234,446.96
Reynolds American	\$3.40	30,000	\$1,000,000	\$124,909.20
Souza Cruz	\$1.70	138,000	\$3,000,000	\$287,291.16
Swedish Match AB	\$0.52	914,000	\$17,000,000	\$582,027.89
Total		2,318,000	\$294,000,000	CDN\$ 16,671,447 US\$ 13,613,790

† Value of shares as declared in for March 31, 2009; b Currency converted for December 31, 2008.

5 Government expenditures on tobacco control are a small fraction of the revenues they receive from tobacco sales.

Governments are requested – but not required – to report their expenditures on tobacco control activities to the World Health Organization. WHO has collected data on domestic tobacco control expenditures through the development of its MPOWER report,⁸⁹ and has collected information on transnational expenditures (i.e. support to developing countries) during the course of research for the Framework Convention on Tobacco Control.⁹⁰

Almost half of the member nations to the World Health Organization responded to the MPOWER report request for information on expenditures. The total spent by those 78 countries was \$375 million, with the largest budgets reported by the United Kingdom and Canada (see table 4.1 below). The total figure is likely to be much higher, as some large economies with advanced tobacco control (such as the United States) did not report and because the tobacco control expenditures of states, provinces, cities and other sub-national governments were not necessarily included. Even if the real amount spent is four times as high as the amount reported, it would still be only 1% of the government revenues from tobacco sales of reported in Table 3.1 above.

The global trickle of support for tobacco control.

The benefit to economies from the trans-border shipment of profits from tobacco sales greatly surpasses the support across nations for tobacco control efforts. Efforts to support global tobacco control included the work of the World Health Organization (both its Tobacco Free Initiative and the Secretariat of the Framework Convention on Tobacco Control), Bloomberg Philanthropies, bilateral aid and other programs of governmental international development agencies, like the Swedish International Development Agency and project activities of non-governmental organizations like the Framework Convention Alliance or Global Smokefree Partnerships. They also include the support of philanthropic organizations, like the Bloomberg Foundation and the Gates Foundation.

Development Assistance for Tobacco Control.

In 2005, the secretariat to the Framework Convention on Tobacco Control attempted to identify and quantify existing and potential sources of transnational support for tobacco control initiatives. Although the study finally concluded that it was “impossible to provide a clear indication of the amounts of funding” either provided or available for provision across national boundaries, it did canvas donor nations (all OECD members) and international donor agencies and identified parties (7), other nations (1), intergovernmental (1) or international organizations (5) which had provided trans-national support for tobacco control initiatives in the preceding 5 years.⁹¹ Neither the aggregate nor individual amounts of the support from those 14 donors was made public.

By May 2009, 111 parties to the FCTC had had their first reports made available on the official FCTC web-site.⁹² Parties were required to report, among other things, on whether they had provided or received financial or technical assistance and to whom this assistance had been provided to or received from. These reports showed that the number of FCTC parties who were also OECD members and who identified as providing support had grown to 12. Thirty-one other parties identified that they had provided support, and 61 parties identified that they had received assistance. Parties were requested to identify to whom assistance had been provided or from whom it had been received, and though not all did, 108 provisions of assistance were identified, and the World Health

Organization was by far the most frequent provider. Table 4.2 shows the results and Figure 4.1 illustrates the reporting tool required of FCTC parties.⁹³

We are not aware of any published estimates of global funding for tobacco control. Attempts to quantify global funding for development assistance for health have identified other disease or objective, but have not included tobacco control. The Bloomberg Philanthropies, which as one of the larger known contributors to tobacco control may be well situated to assess the situation estimates that US\$ 200 million is spent on tobacco control globally in 2007.⁹⁴

Expenditures likely included in the above are the US\$ 6.5 million annual budget for the functioning of the Framework Convention on Tobacco Control,⁹⁵ the undisclosed budget of the WHO Tobacco Free Initiative (part of a US\$ 80 million budget for tobacco, alcohol, drugs, unhealthy diets, physical inactivity and unsafe sex),⁹⁶ the annual expenditure of the six-year \$375 million Bloomberg Initiative to Reduce Tobacco Use, averaged at US\$ 62 million per year, and an additional \$125 million contribution from the Bill and Melinda Gates Foundation over 5 years (annualized at \$25 million per year),⁹⁷ and the bilateral support of countries like Canada, whose annual expenditure on tobacco control averaged at slightly under CDN\$ 1 million in recent years.⁹⁸

TABLE 5.1: THE OVERALL NATIONAL BUDGET FOR TOBACCO CONTROL ACTIVITIES, AS REPORTED TO THE WORLD HEALTH ORGANIZATION AND THE OFFERING OR RECEIPT OF INTERNATIONAL ASSISTANCE FOR TOBACCO CONTROL.^{99 100}

COUNTRY	FUNDING FOR TOBACCO CONTROL MPOWER US\$ EXCHANGE 2006	FCTC PARTY	FCTC REPORT - ASSISTANCE GIVEN	FCTC REPORT - ASSISTANCE RECEIVED	FCTC ASSESSMENT 2010-2011 BUDGET (US\$)
Afghanistan	†				
Albania	†	yes		yes	\$680
Algeria	\$0	yes			\$9,635
Andorra	†				
Angola	\$0	yes			\$340
Antigua and Barbuda	†	yes			\$227
Argentina	\$867,000				
Armenia	†	yes		yes	\$227
Australia	\$2,651,515	yes	yes		\$202,567
Austria	†	yes			\$100,553
Azerbaijan	†	yes			\$567
Bahamas	†				
Bahrain	†	yes			\$3,741
Bangladesh	\$50,000	yes	yes	yes	\$1,133
Barbados	†	yes			\$1,020
Belarus	†	yes			\$2,267
Belgium	\$291,139	yes			\$124,923
Belize	\$12,400	yes		yes	\$113
Benin	†	yes			\$113
Bhutan	\$29,000	yes		yes	\$113
Bolivia	†	yes			\$ 680
Bosnia and Herzegovina	†	yes			*
Botswana	†	yes	yes	yes	\$1,587
Brazil	\$4,608,295	yes	yes	yes	\$99,306
Brunei Darussalam	†	yes	yes	yes	\$2,947
Bulgaria	†	yes		yes	\$2,267
Burkina Faso	\$31,150	yes	yes	yes	\$224
Burundi	\$0	yes	yes	yes	\$ 113
Cambodia	\$1,637	yes		yes	\$ 113

COUNTRY	FUNDING FOR TOBACCO CONTROL MPOWER US\$ EXCHANGE 2006	FCTC PARTY	FCTC REPORT - ASSISTANCE GIVEN	FCTC REPORT – ASSISTANCE RECEIVED	FCTC ASSESSMENT 2010-2011 BUDGET (US\$)
Cameroon	\$0	yes			\$1,020
Canada	\$64,247,788	yes	yes		\$337,465
Cape Verde	\$17,880	yes			\$113
Central African Republic	\$16,065	yes			\$113
Chad	\$100,518	yes			\$113
Chile	\$780,720	yes	yes		\$18,249
China	\$1,204,517	yes			\$302,326
Colombia	+	yes			\$11,902
Comoros	\$22,185	yes			*
Congo	\$0	yes			\$ 113
Cook Islands	\$12,987	yes		yes	\$ 113
Costa Rica	+	yes			\$3,627
Côte d'Ivoire	\$53,051				
Croatia	+	yes			\$5,667
Cuba	+				
Cyprus	\$30,544	yes			\$4,987
Czech Republic	+				
South Korea	+	yes			\$798
DR Congo	\$0	yes			\$340
Denmark	\$3,619,529	yes			\$83,777
Djibouti	\$2,926	yes			\$ 113
Dominica	+	yes			\$113
Dominican Republic	\$0				
Ecuador	+	yes	yes	yes	\$2,380
Egypt	\$12,500	yes			\$9,975
El Salvador	+				
Equatorial Guinea	+	yes			\$227
Eritrea	+				
Estonia	\$56,180	yes			\$1,814
Ethiopia	+				
European Community		yes	yes		\$283,374
Fiji	+	yes	yes	yes	\$340
Finland	\$1,597,468	yes	yes		\$63,929
France	\$37,959,881	yes	yes	yes	\$714,273
Gabon	+	yes			*
Gambia	\$0	yes			\$113
Georgia	+	yes		yes	\$340
Germany	\$1,265,823	yes	yes		\$972,280
Ghana	\$257,059	yes			\$453
Greece	+	yes			\$67,556
Grenada	+	yes			\$113
Guatemala	+	yes	yes	yes	\$3,627
Guinea	\$0	yes			\$113
Guinea-Bissau	+	yes			*
Guyana	+	yes		yes	\$113
Haiti	+				
Honduras	+	yes		yes	\$567
Hungary	\$202,006	yes		yes	\$27,657
Iceland	+	yes			\$4,194
India	\$551,876	yes		yes	\$51,007
Indonesia	+				
Iran	\$2,000,000	yes			\$20,403
Iraq	+	yes			\$1,700
Ireland	\$2,531,646	yes	yes		\$50,441
Israel	+	yes			\$47,494
Italy	\$14,374,644	yes			\$575,749
Jamaica	\$103,039	yes	yes	yes	\$1,133
Japan	\$4,256,600	yes	yes		\$1,762,200
Jordan	\$93,986	yes	yes	yes	\$1,360
Kazakhstan	+	yes			\$3,287
Kenya	\$30,000	yes			\$1,133

COUNTRY	FUNDING FOR TOBACCO CONTROL MPOWER US\$ EXCHANGE 2006	FCTC PARTY	FCTC REPORT - ASSISTANCE GIVEN	FCTC REPORT – ASSISTANCE RECEIVED	FCTC ASSESSMENT 2010-2011 BUDGET (US\$)
Kiribati	+	yes			\$113
Kuwait	\$181,638	yes		yes	\$20,630
Kyrgyzstan	+	yes		yes	\$113
Lao People's DR	+	yes			\$113
Latvia	\$26,786	yes		yes	\$2,040
Lebanon	\$30,000	yes			\$3,854
Lesotho	\$6,130	yes	yes	yes	\$113
Liberia	+				
Libyan Arab Jamahiriya	+	yes			\$7,028
Lithuania	\$21,818	yes			\$3,514
Luyesembourg	+	yes			\$9,635
Madagascar	\$16,014	yes	yes	yes	\$227
Malawi	+				
Malaysia	+	yes			\$21,536
Maldives	+	yes		yes	\$113
Mali	\$5,737	yes			\$113
Malta	\$81,826	yes			\$1,927
Marshall Islands	+	yes			\$113
Mauritania	+	yes			\$113
Mauritius	\$11,199	yes		yes	\$1,247
Meyesico	+	yes	yes	yes	\$255,853
Micronesia	+	yes		yes	\$113
Monaco	+				
Mongolia	+	yes	yes	yes	\$113
Montenegro	+	yes	yes		\$113
Morocco	+				
Mozambique	+				
Myanmar	+	yes		yes	\$567
Namibia	+	yes			\$680
Nauru	+	yes	yes	yes	\$113
Nepal	+	yes			\$340
Netherlands	\$18,987,342	yes	yes		\$212,315
New Zealand	\$19,480,519	yes	yes		\$29,018
Nicaragua	+	yes			\$227
Niger	\$34,424	yes	yes	yes	\$113
Nigeria	\$418,984	yes		yes	\$5,441
Niue	\$0	yes		yes	\$113
Norway	\$6,864,275	yes	yes		\$88,651
Oman	\$84,211	yes			\$8,275
Pakistan	\$82,960	yes	yes		\$6,688
Palau	\$36,000	yes		yes	\$113
Panama	+	yes	yes	yes	\$2,607
Papua New Guinea	+	yes			\$227
Paraguay	\$33,830	yes	yes	yes	\$567
Peru	+	yes	yes	yes	\$8,841
Philippines	\$9,745	yes		yes	\$8,841
Poland	\$161,290	yes			\$56,788
Portugal	+	yes			\$59,735
Qatar	\$96,978	yes		yes	\$9,635
Republic of Korea	\$32,991,915	yes	yes	yes	\$246,332
Republic of Moldova	+	yes			
Romania	+	yes		yes	\$7,934
Russian Federation	+	yes			\$136,031
Rwanda	\$69,602	yes			\$113
Saint Kitts and Nevis	+				
Saint Lucia	+	yes			\$113
Saint Vincent & Grenadines	+				
Samoa	+	yes		yes	\$113
San Marino	+	yes			\$340
Sao Tome and Principe	+	yes			\$ 113
Saudi Arabia	\$2,540,107	yes	yes	yes	\$84,797

COUNTRY	FUNDING FOR TOBACCO CONTROL MPOWER US\$ EXCHANGE 2006	FCTC PARTY	FCTC REPORT - ASSISTANCE GIVEN	FCTC REPORT – ASSISTANCE RECEIVED	FCTC ASSESSMENT 2010-2011 BUDGET (US\$)
Senegal	\$95,622	yes		yes	\$453
Serbia	†	yes	yes	yes	\$ 2,380
Seychelles	\$20,000	yes		yes	\$227
Sierra Leone	†	yes			
Singapore	†	yes	yes		\$39,332
Slovakia	\$22,173	yes		yes	\$7,147
Slovenia	\$47,117	yes		yes	\$10,882
Solomon Islands	†	yes			\$113
Somalia	†				
South Africa	\$221,566	yes		yes	\$32,871
Spain	†	yes			\$336,445
Sri Lanka	†	yes			\$1,814
Sudan	\$4,421	yes	yes		\$1,133
Suriname	†				
Swaziland	†	yes			\$227
Sweden	\$4,070,556	yes			\$121,409
Switzerland	†				
Syrian Arab Republic	\$133,690	yes			\$1,814
Tajikistan	†				
Thailand	\$131,996	yes	yes	yes	\$21,083
The former Yugoslav Republic of Macedonia	†	yes			\$567
Timor-Leste	†	yes			\$113
Togo	\$38,249	yes			\$113
Tonga	†	yes			\$113
Trinidad and Tobago	†	yes			\$3,060
Tunisia	†				
Turkey	†	yes			\$43,186
Turkmenistan	†				
Tuvalu	†	yes			\$113
Uganda	\$1,092	yes			\$340
Ukraine	†	yes		yes	\$5,101
United Arab Emirates	†	yes	yes	yes	\$34,232
United Kingdom	\$138,888,889	yes	yes		\$752,925
United Republic of Tanzania	\$11,183	yes			\$680
United States of America	†				
Uruguay	†	yes		yes	\$3,060
Uzbekistan	†				
Vanuatu	†	yes			\$ 113
Venezuela	\$4,657,662	yes		yes	\$22,670
Viet Nam	\$10,000	yes		yes	\$2,270
West Bank and Gaza Strip	\$30,000				
Yemen	\$25,000	yes			\$793
Zambia	\$6,057	yes			\$113
Zimbabwe	\$0				

† Not reported; * Became an FCTC Party after the preparation of the budget presented at COP3.

Sources: WHO MPOWER report. FCTC Party Phase I reports; FCTC Decisions of COP 3

TABLE 5.2: FCTC PARTY REPORTS MADE PUBLIC BY MAY 1, 2009.

	TOTAL	WORLD BANK INCOME GROUP:			
		High Income	Middle Income	Low Income	No income group
Number of parties reporting	111	37	54	16	4
Parties reporting they provided assistance	43	17	19	5	2
Parties reporting they received assistance	61	10	38	12	3
Parties reporting they both provided and received assistance	14	5	17	5	2
Nations or agencies most frequently identified as provider of support and number of times mentioned by income group of recipient party					
• World Health Organization	47	8	29	8	2
• Centre for Disease Control, USA	13	1	11	1	
• United States of America	5	1	4		
• New Zealand	4		1	1	2
• European Union	4	1	3		
• International Development Research Centre, Canada	3		1	2	
• Canada	3		2	1	
• Framework Convention Alliance	3		2	1	
• All other mentions	26	6	16	3	1

Source: FCTC Secretariat: Reports submitted by Parties

FIGURE 5.1: PHASE 1 REPORTING TOOLS: QUESTIONS ON TECHNICAL AND FINANCIAL ASSISTANCE.

7.2	Pursuant to Article 21.3, have you either provided or received financial or technical assistance to support developing country Parties and Parties with economies in transition in meeting reporting obligations?	Assistance provided (please give details below) <input type="checkbox"/> Yes <input type="checkbox"/> No	Assistance received (please give details below) <input type="checkbox"/> Yes <input type="checkbox"/> No
7.2(a)	If you answered 'Yes' to question 7.2, please identify the Party or Parties from which assistance was received or to which assistance was provided. [Redacted]		
7.2(b)	If you have not received or provided assistance, please identify any financial or technical assistance that may be under consideration. [Redacted]		
7.3	Have you identified any specific gaps between the resources available and the needs assessed, for the financial and technical assistance provided or received?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
	[Redacted]		

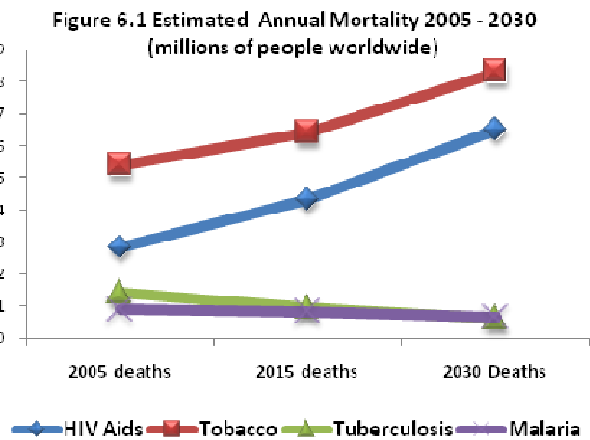
6 Tobacco control is underfunded compared with other preventable diseases.

The gap between government revenues from consumer taxes on tobacco sales and income taxes on tobacco manufacturing is matched by a gap between expenditures on the prevention of tobacco-caused diseases and other preventable diseases.

The World Health Organization estimates that the number of deaths caused by tobacco would cause it currently to rank as the third leading cause of death world-wide, ahead of diseases like HIV/AIDS, tuberculosis and malaria which have been identified by the Millennium Development Goals¹⁰¹ as a target for global action. As shown in the tables below, tobacco is estimated to currently caused more deaths than HIV/AIDS, tuberculosis and malaria combined, yet the funding provided to reduce tobacco use is less than 3% of the amount provided for the three priority diseases.

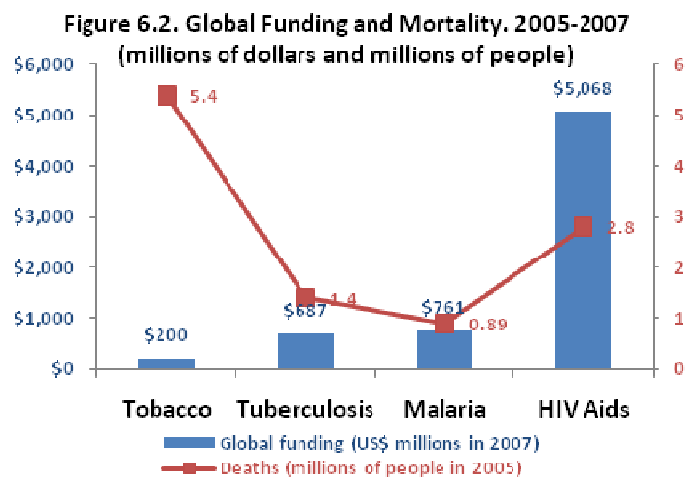
DEATHS FROM TOBACCO USE, TUBERCULOSIS, MALARIA AND HIV/AIDS.

WHO recently updated its projections of mortality from leading causes of disease.¹⁰² To reflect the various outcomes that could reasonably arise under differing scenarios of health programming, they established baseline, optimistic and pessimistic predictions for each major causes of disease: under all scenarios, deaths from tobacco and HIV/AIDS were expected to increase, where as deaths from tuberculosis and malaria were expected to fall. (Data shown in Figure 5.1).



GLOBAL FUNDING TO PREVENT DEATHS FROM TOBACCO USE, TUBERCULOSIS, MALARIA AND HIV/AIDS.

Global funding for tobacco is currently much smaller than for the other priority diseases, as shown in Table 5.2 and Figure 5.1 below.^{103 104} International financing is provided for each person living with HIV/AIDS in the amount of \$154 per year. For each person living with malaria or tuberculosis, the amount is US\$3 and \$50 respectively. But for each of the world's tobacco users only US\$ 0.18 is made available. If only smokers in developing countries are considered (as governments in richer countries may not be in need of international financing to manage their health programming) , that amount increases to \$0.22 cents.



When measured against the predicted deaths in 2030 which could be averted, the amounts invested are US\$ 780 for HIV/AIDS, US \$1,120 for tuberculosis, US\$ 1,189 for malaria, and US\$ 34 for smokers in developing countries.

TABLE 6.1: ESTIMATED MORTALITY FROM SELECTED DISEASES OR CAUSES OF DEATH. 2005, 2015 AND 2030.¹⁰⁶

	Scenario	2005 DEATHS		2015 DEATHS		2030 DEATHS	
		Global deaths	%	Global deaths	%	Global deaths	%
Total	Baseline	58,028,152	100	63,458,962	100	73,247,767	100
	Optimistic					64,900,000	100%
	Pessimistic					80,747,000	100%
HIV Aids	Baseline	2,829,588	4.9%	4,320,299	6.8%	6,500,785	8.90%
	Optimistic					3,700,000	5.70%
	Pessimistic					6,570,000	8.14%
Tobacco	Baseline	5,400,000	9.3%	6,400,000	10.1%	8,300,000	11.30%
	Optimistic					7,400,000	11.40%
	Pessimistic					10,000,000	12.38%
Tuberculosis	Baseline	1,411,201	2.4%	960,155	1.5%	613,124	0.80%
	Optimistic					303,000	0.60%
	Pessimistic					1,087,000	1.35%
Malaria	Baseline	887,925	1.5%	822,297	1.3%	639,978	0.90%
	Optimistic					322,000	0.50%
	Pessimistic					938,000	1.16%

TABLE 6.2: ESTIMATED GLOBAL FINANCIAL AID FOR THE AVOIDANCE OF DEATH BY SELECTED DISEASES OR CAUSES OF DEATH.^{107 108 109}

DISEASE/CAUSE	YEAR	ANNUAL FUNDING (2007)	GLOBAL PREVALENCE	AMOUNT PER INCIDENCE	DEATHS 2005	AMOUNT PER DEATH IN 2005	ESTIMATED DEATHS 2030	AMOUNT PER DEATH IN 2030
		US\$ millions	Millions of people	US\$	Millions of people	US\$	Millions of people	US\$
HIV Aids	2007	\$5,068	33	\$154	2.8	\$1,791	6.5	\$780
Tobacco	2007	\$200	1,100	\$0.18	5.4	\$37	8.3	\$24
• Developing/low & middle income only			919	\$0.22	2.7	\$74	5.8	\$34
Tuberculosis	2007	\$687	13.7	\$50	1.4	\$487	.61	\$1,120
Malaria	2007	\$761	250	\$3	.89	\$857	.64	\$1,189

Sources:

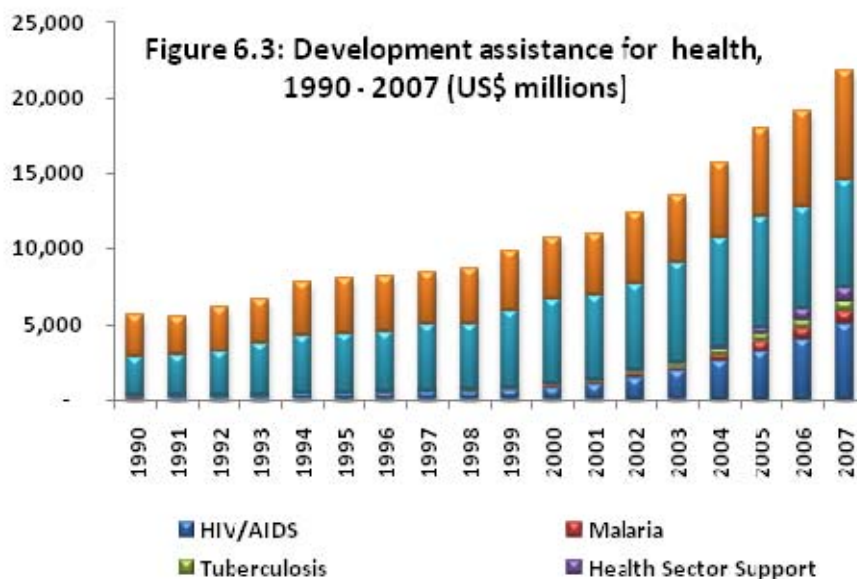
Funding: HIV/AIDS, Tuberculosis and Malaria: Institute for Health Metrics and Evaluation. Financing Global Health 2009. Tobacco: Bloomberg Philanthropies presentation, 2009.

Prevalence: HIV/AIDS and Malaria. Unitaid Annual report 2008, Tuberculosis: WHO Global Tuberculosis Control 2009. Tobacco: Jha et al. "Estimates of global and regional smoking prevalence in 1995, by age and sex," AJP, 2002.

Mortality: Mathers and Loncar. "Projections of global mortality and burden of disease from 2002 to 2030. PLOS Medicine. November 2006; Jha et al. Tobacco control in developing countries. OUP, 2000.

New funding mechanisms for global health have not yet benefitted tobacco control.

Funding for global health initiatives has increased markedly in recent years for all disease control, including tobacco control. U.S. researchers estimate that development assistance for health has increased by US\$9 billion from 2002 to 2007 (from US\$14.4 billion to US\$ 23.7 billion).¹¹⁰ In this context, annual funding of \$200 million for tobacco control (estimated to currently cause almost 10% of the world's deaths) is not much more than a rounding error in global funding for health.



There is yet no global mechanism established to function as a mechanism to provide transnational funding for tobacco control. This is unlike the situation for tuberculosis, immunization, HIV/AIDS and malaria, where several funding mechanisms have been established. They include:

PRIVATE-PUBLIC FINANCIAL INSTRUMENTS FOR GLOBAL HEALTH FUNDING

- **The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM)**

This public-private partnership functions as a financial instrument to raise and channel funds to fight AIDS, TB and Malaria. While the United States is the largest donor to the fund (and provides about one-third of its revenue), other nations also donate, as do philanthropic organizations like the Bill and Melinda Gates Foundation, private sector enterprises. The Global Fund was agreed to by member states of the United Nations in June 2001, following a special UN session on AIDS. It was formally established six months later, in January 2002.¹¹¹ By early 2008, the fund had approved 572 grants with a total value of US\$10.7 billion. About 61% of the fund's expenditures are on HIV/AIDS, with malaria programming receiving 25% and tuberculosis 14%. The fund establishes that it provides about two-thirds of the international financing for TB and malaria, and about one-fifth of the funding for HIV/AIDS.^{112 113 7}



⁷ The Global Fund estimates that US\$ 107 million is provided to malaria control through bilateral funding, \$63 million through multilateral funding and \$4.4 million through private or other donations.

- **The Global Alliance for Vaccines and Immunisation (GAVI)**

This private-public partnership organization was established in 2000 with money from the Bill and Melinda Gates Foundation with the goal of providing immunization to the 30 million children born each year without access to basic childhood immunization.¹¹⁴ By 2008, the GAVI fund had committed US\$ 4 billion, raised from governments (US\$1.5 billion, including US\$148 million from Canada), the Gates Foundation (US\$1 billion), and the International Finance Facility for Immunization (IFFiM, discussed below) (US\$1.2 billion).¹¹⁵



NEW MECHANISMS TO RAISE FUNDS FOR FOR GLOBAL HEALTH FUNDING

- **The Advance Market Commitment for Vaccines (AMC)**

The AMC was created in February 2007 as a pilot project to spur development of vaccines for disease strains prevalent in the developing world (pneumococcal disease and meningitis). It was launched with a combined donation of \$1.5 billion from the Gates Foundation and the governments of Italy, the United Kingdom, Russia, Norway and Canada (whose donation was US\$ 200 million).¹¹⁶ The AMC works by allowing donors to commit money to guarantee the price of vaccines once they have been developed, giving vaccine manufacturers an incentive to invest in development of vaccines. Participating companies make binding commitments to supply the vaccines at lower and sustainable prices after donor funds are expired. This allows developing countries to budget and plan for sustained immunization programs.



- **International Finance Facility for Immunisation (IFFiM)**

The International Finance Facility for Immunisation is an investment instrument initiated by the government of the United Kingdom and launched in 2006. The IFFiM raises money for immunization by issuing bonds in the capital markets, which converts the long-term government pledges of donor countries into immediately available cash resources. In addition to the U.K., the governments of France, Italy, Spain, Sweden, Norway and South Africa had pledged contributions totaling US\$ 5.3 billion over 20 years. By June 2009, six bond issuances under this programme had taken place.¹¹⁷



- **UNITAID**

UNITAID was created in 2006 as a drug purchase facility using new tax revenues to provide improved access for developing countries to medicines to address HIV/AIDS, malaria and tuberculosis. More than 70% of UNITAID's funds are raised through an "airline solidarity" tax, which is imposed by 7 of the participating countries (Chile, Côte d'Ivoire, France, Republic of Korea, Madagascar, Mauritius) on airline tickets. France and Brazil are credited with leading the process of bringing a number of countries (now 29) to support the initiative. UNITAID is hosted by the World Health Organization, and works in partnership with the Global Fund and other partners active in HIV/AIDS, malaria and tuberculosis.¹¹⁸



- (RED)

(RED) is a cause-marketing initiative launched by Bono and Bobby Shriver to engage the private sector in the fight against AIDS in Africa. Current participating companies are American Express (UK only), Converse, Gap, Emporio Armani, Dell, Windows, Apple, Hallmark and Starbucks. Through (RED), established brands pay a licensing fee to (RED) and agree to marketing requirements, and market their RED products to consumers. A portion of profits on RED products go to Global Fund-financed AIDS programs in Africa (e.g. 1% of spending on the American Express RED card, 50% of profit on Gap RED apparel). Within the first 3 years, US\$ 120 million had been raised through sale of (RED) products.¹¹⁹



- Debt2Health

This financial instrument, initiated in April 2007, uses “debt swaps” to make domestic resources available for programmes under the Global Fund for AIDS, tuberculosis and malaria. Under this program, the Global Fund facilitates a three-party agreement between itself and creditors and grant-recipient countries. Creditor-nations forgo repayment of a portion of their claims on the condition that the beneficiary country invests an agreed-upon counterpart amount in Global Fund-approved programs.¹²⁰ The first three-party Debt2Health Agreement was signed between Germany, Indonesia and the Global Fund.

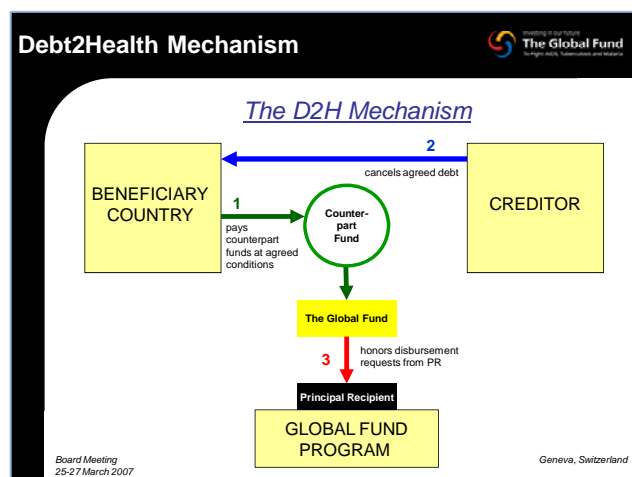


TABLE 6.3: GLOBAL HEALTH FUNDING BY CHANNEL OF ASSISTANCE¹²¹

CHANNEL	2007 US\$ millions
Bilateral Development Agencies	7,398
Regional Development Banks	
African Development Bank (AFDB)	85
Asian Development Bank (ASDB)	135
Inter-American Development Bank (IDB)	167
World Bank	
International Development Association (IDA)	819
International Bank for Reconstruction and Development (IBRD)	370
United Nations	
United Nations Joint Programme on HIV/AIDS (UNAIDS)	220
United Nations Population Fund (UNFPA)	575
United Nations Children's Fund (UNICEF)	722
World Health Organization (WHO)	1,541
European Commission (EC) ¹	521
Global Health Partnerships	
Global Alliance for Vaccines & Immunization (GAVI)	918
Global Fund Against AIDS, Tuberculosis & Malaria (GFATM)	1,799
Bill & Melinda Gates Foundation (BMGF)	855
Other Foundations ²	287
Non Governmental Organizations (NGOs) ²	5,375
Total	21,788

Source: Institute for Health Metrics and Evaluation. Financing Global Health 2009

Potential new funding sources for tobacco control.

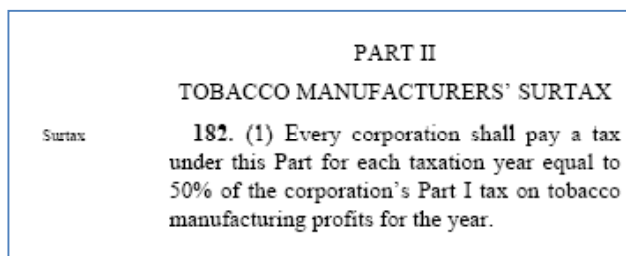
As discussed, national and sub-national governments are collectively in receipt of more than \$160 billion in revenues sourced from tobacco sales in the form of excise and other tobacco-specific duties, and of further amounts in the form of profit-sharing from tobacco earnings.

Innovations in Canada

No international financial instrument has yet been established to convert a portion of this revenue into resources for national or global tobacco control. Tax innovations that offer examples of how this could be structured have been initiated in Canada and elsewhere, including:

A SURTAX ON CORPORATE PROFITS.

Since 1994, tobacco manufacturers operating in Canada have been subject to a surtax on their tobacco-based revenues.¹²² Finance Canada reports that this has generated more than \$750 million in additional revenues over the 15 years it has been collected.¹²³ When this surtax was first imposed in 1994 at a rate of 40% it was called a “health promotion surtax,”¹²⁴ although the name was later changed when the tax was permanently imposed and increased to a rate of 50%.¹²⁵



A LEVY ON TOBACCO PRODUCTS PAID BY COMPANIES

In 1998, the government of British Columbia introduced the “Tobacco Fee Act” which was passed by the B.C. Legislative Assembly on July 30, 1998.¹²⁶ The Tobacco Fee Act imposed a licensing fee of CDN \$20 million to be collected from Canada's three major tobacco firms in proportion to their market share. This fee is to be spent on anti-smoking and smoking-cessation programs. A price-control mechanism prohibits tobacco companies from passing this cost on to consumers. While high prices are generally seen as a deterrent to smoking, the government of B.C. wants the cost of these programs to be paid by the industry and its shareholders, not by smokers. The \$20 million represents approximately the costs of tobacco industry promotion in the province at that time.¹²⁷ (The measure was never implemented, following threats by the industry to remove their products from the market in British Columbia and relinquish their trade to illicit traders).¹²⁸

DEDICATED TOBACCO TAXES.

Switzerland dedicates 2.6 centimes from every package of cigarettes sold to a Tobacco Prevention Fund, which is managed by the Federal Office of Public Health. Approximately \$18 million Francs are received each year. The fund is used to support activities of civil society organizations and others.¹²⁹

PROCEEDS FROM TOBACCO LITIGATION

Canadian governments resolved their first joint litigation efforts against tobacco companies in 2008, when they agreed to a settlement of \$1.1 billion as a resolution of all potential claims in relation to BAT/Imperial Tobacco Canada Ltds and Rothmans Benson & Hedges involvement in the movement of contraband tobacco in the early 1990s.¹³⁰ Federal government revenues from this initiative in 2008-2009 were \$300 million, an amount that was pledged the next day to a program to assist tobacco farmers in moving away from tobacco growing.¹³¹ Funds from the U.S. Master Settlement Agreement were also assigned to tobacco control initiatives.¹³²

Appendix

NATIONAL GROSS DOMESTIC PRODUCT (2008)¹³³ AND TOBACCO INDUSTRY REVENUES, INCOME, PROFITS AND TAXES PAID.

Rank	Country	GDP \$US millions
1	United States	14,204,322
	<i>EURO Area</i>	<i>13,565,479</i>
2	Japan	4,909,272
3	China	3,860,039
4	Germany	3,652,824
5	France	2,853,062
6	United Kingdom	2,645,593
7	Italy	2,293,008
8	Brazil	1,612,539
9	Russian Federation	1,607,816
10	Spain	1,604,174
11	Canada	1,400,091
12	India	1,217,490
13	Mexico	1,085,951
14	Australia	1,015,217
15	Korea, Rep.	929,121
16	Netherlands	860,336
17	Turkey	794,228
18	Poland	526,966
19	Indonesia	514,389
20	Belgium	497,586
21	Switzerland	488,470
22	Sweden	480,021
23	Saudi Arabia	467,601
24	Norway	449,996
25	Austria	416,380
26	Iran, Islamic Rep.	385,143
27	Greece	356,796
28	Denmark	342,672
29	Argentina	328,385
30	Venezuela, RB	313,799
31	Ireland	281,776
32	South Africa	276,764
33	Finland	271,282
34	Thailand	260,693
35	Portugal	242,689
36	Colombia	242,268
	Total Revenues – Big5	233,438
37	Czech Republic	216,485
38	Hong Kong, China	215,355
39	Nigeria	212,080
40	Romania	200,071
41	Israel	199,498
42	Malaysia	194,927
43	Singapore	181,948
44	Ukraine	180,355
45	Algeria	173,882
46	Chile	169,458
47	Pakistan	168,276
48	Philippines	166,909
49	United Arab	163,296

Rank	Country	GDP \$US millions
	Emirates	
50	Egypt Arab Rep.	162,818
	Government Income and Excise tax revenues	160,000
51	Hungary	154,668
52	Kazakhstan	132,229
53	New Zealand	130,693
54	Peru	127,434
	Tobacco excise taxes paid Big 5	114,068
55	Kuwait	112,116
56	Libya	99,926
57	Slovak Republic	94,957
58	Vietnam	90,705
59	Morocco	86,329
60	Angola	83,383
61	Bangladesh	78,992
62	Croatia	69,332
	Revenue – Japan Tobacco Revenue – Philip Morris Int	64,326
63	Belarus	60,302
64	Sudan	58,443
65	Syrian Arab Republic	55,204
66	Slovenia	54,613
67	Luxembourg	54,257
68	Qatar	52,722
69	Ecuador	52,572
70	Serbia	50,061
71	Bulgaria	49,900
	Revenue – BAT	49,572
72	Lithuania	47,341
73	Azerbaijan	46,259
74	Dominican Republic	45,790
75	Sri Lanka	40,714
76	Tunisia	40,180
77	Guatemala	38,977
	Revenue – Imperial Tobacco	36,544
78	Oman	35,729
79	Kenya	34,507
80	Latvia	33,783
81	Uruguay	22,186
82	Costa Rica	29,834
83	Lebanon	28,660
	Operating Income – Big5	28,019
84	Uzbekistan	27,918
85	Yemen, Rep.	26,576

Rank	Country	GDP \$US millions
86	Ethiopia	26,487
87	Trinidad and Tobago	23,898
88	Côte d'Ivoire	23,414
89	Cameroon	23,396
90	Estonia	23,089
91	Panama	23,088
92	El Salvador	22,115
93	Cyprus	21,277
94	Tanzania	20,490
95	Jordan	20,013
	Revenue – Altria	19,356
96	Macao, China	18,599
97	Equatorial Guinea	18,525
98	Bosnia and Herzegovina	18,452
99	Turkmenistan	18,269
	Profit – Big5	16,905
100	Bolivia	16,674
101	Iceland	16,658
102	Ghana	16,123
103	Paraguay	15,977
104	Bahrain	15,828
105	Jamaica	15,068
106	Uganda	14,529
107	Gabon	14,435
108	Zambia	14,314
109	Honduras	14,077
110	Senegal	13,209
111	Botswana	12,969
112	Georgia	12,793
113	Nepal	12,615
114	Albania	12,295
115	Armenia	11,917
116	Congo, Dem. Rep.	11,588
117	Channel Islands	11,515
118	Brunei Darussalam	11,471
119	Congo, Rep.	10,699
120	Afghanistan	10,170
121	Mozambique	9,735
122	Cambodia	9,574
123	Macedonia, FYR	9,521
124	Madagascar	8,970
125	Mali	8,740
126	Mauritius	8,651
127	Namibia	8,564
	Dividend payments issued by Big 5	8,476
128	Chad	8,361
129	Papua New	8,168

Rank	Country	GDP \$US millions
	Guinea	
130	Burkina Faso	7,948
	Corporate income taxes paid Big 5	7,678
131	Malta	7,449
132	Haiti	6,953
133	Bahamas, The	6,935
	Profit – Philip Morris Int.	6,890
134	Benin	6,680
135	Nicaragua	6,592
136	Moldova	6,048
137	Bermuda	5,855
138	Lao PDR	5,431
139	Niger	5,354
140	Mongolia	5,259
141	Tajikistan	5,134
142	Montenegro	4,521
143	Rwanda	4,457
144	Kyrgyz Republic	4,420
145	Malawi	4,269
146	Guinea	4,266
	Profit – BAT	3,886
147	Fiji	3,527

Rank	Country	GDP \$US millions
148	Isle of Man	3,437
149	Barbados	3,409
	Profit – ALTRIA	3,133
150	Suriname	2,881
151	Mauritania	2,858
152	Togo	2,823
153	Swaziland	2,618
154	Central African Republic	1,970
155	Sierra Leone	1,953
	Profit – Imperial Tobacco	1,739
156	Cape Verde	1,730
157	San Marino	1,703
158	Eritrea	1,654
159	Lesotho	1,622
160	Belize	1,367
161	Bhutan	1,359
162	Maldives	1,260
	Profit – Japan Tobacco	1,256
163	Antigua and Barbuda	1,225
164	Burundi	1,163
165	Guyana	1,158

Rank	Country	GDP \$US millions
166	St. Lucia	1,011
167	Djibouti	875
168	Liberia	870
169	Seychelles	833
170	Gambia, The	782
171	Solomon Islands	647
172	Grenada	638
173	St. Vincent and the Grenadines	594
174	Vanuatu	574
175	St. Kitts and Nevis	540
176	Comoros	530
177	Samoa	52
178	Timor-Leste	498
179	Guinea-Bissau	430
180	Dominica	364
181	Tonga	264
182	Micronesia, Fed. Sts.	247
183	Palau	182
184	São Tomé and Príncipe	175
185	Marshall Islands	158
186	Kiribati	131

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