

DENATIONALISATION OF THAILAND TOBACCO MONOPOLY

Chronology of Events



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CIGARETTE MANUFACTURING AND SALE IN THAILAND

Thailand has had a Tobacco Law stating that cigarettes produced in the country are allowed to be manufactured only by the Thailand Tobacco Monopoly (TTM).

The TTM has been a state enterprise (S.E.), operating under supervision of the Excise Department, Ministry of Finance.

Since August 1992 foreign cigarettes entered Thai market after the landmark case of section 301/GATT fight with the U.S.

There have been big differences between the TTM and the TTCs and their importers, e.g.:

1. Before the enactment of the Tobacco Product Control Act B.E.2535 (1992) the TTM had a very minimal promotional activities. After the passage of the bill it never promotes. In contrast, the TTCs continuously tried different tactics to promote, advertise and circumvent the ads ban.
2. The TTM has never resisted the regulations and the law. The TTCs tediously tried to sabotage the enactment of the laws and vehemently resist the passage of the rules of some sections of the laws. Section 11, mandating disclosure of the ingredients of each brand of cigarettes, took 5 years to be passed because of strong resistances, plus help from embassies and under-the-table payment to certain politicians.
3. The TTCs have been using dumping tactics to capture more market share. They had only 3-3+% of the market share during the first 5 years after the entry of the Thai market because they could not advertise and promote freely but the percentage has been increasing up to about 6 % this year in spite of marked devaluation of the Thai currency and increase of the import tax (from 30 to 60 % of the c.i.f price). The c.i.f. price of Marlboro is claimed to be merely US14cents. The price gap between the domestic and foreign cigarettes has been narrowed progressively.

WEAKENED TOBACCO CONTROL

The tobacco control mechanism of the country has been weakened drastically for the past five years, most likely engineered by the TTCs, i.e.,:

- I was first relieved from the position of the first secretary of the National Committee for the Control of Tobacco Use (NCCTU) after a front page news that 10 million Baht (US\$250,000) was paid to reduce the size of health warnings on the cigarette packages. The then health minister was irate and ordered a change of the secretary.
- The Office of Tobacco Consumption Control (OTCC) which I first established in the Office of the Permanent Secretary of the Ministry of Public Health was transferred to be under the Department of Medical Services, downgraded from being under the ministry to being under the department. Furthermore its name was changed to ‘The Institute of Tobacco Consumption Control’ (ITCC) which should be more academic than an action unit. Therefore law enforcement has been very weak.
- For the new National Health Plan the institute is further downgraded to being merely a unit under the Division of Substance Abuse. It used to have a status of a division when first established in the ministry.
- The budget of the the OTCC in the first year was 33 million Baht (1.32 Million US\$) but this year the ITCC got only 10 million (250,000 US\$) in spite of high inflation and almost 100% Baht devaluation.
- The anti-smoking NGOs -Prakit's ASH has received very little financial support from the ministry. My THPI is the same.

All of the downgrading was due to few health ministers who were corrupt and a lot of questionable payments most likely have been made.

THE ATTEMPT TO DENATIONALIZE THE TTM

The TTCs have made several intrusions,i.e.:

- **July 1993** PM proposed to pay the TTM for its factory to ‘finish’ its products from prepared materials. It was refused. If the TTM agreed it would get some extra income

from PM but the government would lose the import tax and step 1 (courtship) of denationalisation would begin.

- **August 1993** the TTM' General Manager gave the press interview that the TTM was on a list of state enterprises which the world bank recommended the Government should privatise.
- **November 1996** a newspaper reported that the Ministry of Foreign Affairs revealed that the U.S. had been trying to push for an acceptance to joint venture of cigarette manufacturing. The latest attempt was made last month and this was passed to the Ministry of Finance for consideration of the US investment of US\$50million in buildings and machinery. The TTM manager refused the offer.
- **Early 1997** the Deputy Minister of Finance, who was a Deputy Minister of Public Health visited Thailand Health Research Institute and told the staff there that foreign cigarette companies proposed to the Deputy Premier and concurrent Finance Minister to help improve technology in manufacturing and a joint venture with the TTM. The Deputy Premier said it should be beneficial.

So I wrote an article “ *If we want to prevent an increase in tobacco consumption of our population we must block the advance of the TTCs*” and published in a daily newspaper. In the article I described the 4 stages of courtship, marriage, marriage turns sour, and divorce, citing examples in various countries. I then wrote a personal letter, and sent the article along with, to the Deputy Premier explaining that the move was dangerous. That apparently stalled further action.

THAILAND ECONOMIC CRISIS, THE IMF RESCUE, AND THAILAND'S OBLIGATIONS

In **August 1997** Thailand's economic bubble burst. 56 financial institutions were closed down and the country was in a bad shape. A total of US\$17,000 million was granted by the IMF to rescue the crumbled economy.

One of the conditions put forward by the IMF was *privatisation of state enterprises*.

The 1st to the 4th letter of intent, sent from Thai Minister of Finance to the IMF, mentioned privatisation of energy, public services, communication and transport enterprises but no naming of cigarette production was made. In the 5th letter of intent dated 25th August 1998 it stated for the first time about the TTM. It said in the section on privatisation that “ study of direction for the TTM to be finished within the first trimester of 1999”

In the 6th letter of intent dated December 1, 1998 it stated “...Further progress has been made in the government's privatization plan, the major aspects of which were set out in the Master Plan for state enterprise reform. Most importantly, the work on defining a regulatory framework to increase competition in key sectors such as telecommunications and energy is now well advanced and Cabinet approval is expected by the first quarter of 1999, after which Parliamentary approval will be sought. A draft Corporatization Law has been cleared by the Cabinet and we will be seeking its early enactment by Parliament, together with amendment of the Aviation Act. Accordingly, we do not anticipate any significant slippages in the timetable for privatization set out in the August 25 MEP. These market opening initiatives are underpinned by our resolve to maintain a liberal trade regime, consistent with our commitments to the WTO and AFTA.”

The **first week of February 1998** a big group of American corporation executives came to Bangkok and paid visits to the Prime Minister, the Deputy Prime Minister in charge of economic affairs, the Finance Minister and stated that they were interested to invest in Thailand to help rescuing the ailing economy. They were keen in joint venture of the soon to be privatised state enterprises namely Thai Airways International, Telephone Organisation, The Petroleum Authority, The Communication Authority, and “**Tobacco Business Organisation**”, according to the newspapers.

When I saw the news I realised that among the group of the big bosses there must be tobacco merchants. So I started to study the consequences of denationalisation of state cigarette production and sale in various countries around the world to be used as data for my writing a media article.

2 February 1998 Dr. Hatai Chitanondh sent an e-mail to the GLOBALink network with the subject “**Asian financial crisis is MORE THAN facilitating foreign tobacco company expansion in the region**” as follows:

Dear Globalinkers,

This is a critical issue wisely raised by Robert Weissman.

International tobacco control advocates should learn about this very important development.

Economic, resulting from financial havoc, crisis started in Thailand in August of last year, followed by other Asian countries. Thailand was first rescued by the IMF, followed by Indonesia and South Korea. Other countries have also been much disturbed by currency devaluation as well.

The IMF prescribed several bitter medicines, one of which is PRIVATIZATION OF STATE ENTERPRISES. In Thailand few of them are lost-ridden and are a great burden to the government but many are profit-making, e.g. The Petroleum Authority, Thai Airway International

(THAI), and of course *The Thailand Tobacco Monopoly*. The IMF has been complaining that the privatization process has been remarkably slow and asking that there have been political interference or not.

During the first week of February a big contingent of US businessmen arrived and held meetings with government officials and policy makers of the Foreign Ministry, the Finance Ministry, and met with the Prime Minister. They expressed keen interest in investing in THAI, Telephone Organization, Petroleum Authority, and TOBACCO BUSINESS.

As Thailand is in very poor economic state, with high foreign debt and 100% devaluation of its currency, things are extremely cheap and there are not much chance to bargain. The door is open to international capitalists, among which are the MERCHANTS OF DEATH !

My friends, this is the truth of life.

More than Bob Weissman's concern about the expansion of the TTCs I envisage a great TOBACCO NEOCOLONIALISM is in the making.

A world tobacco war room is needed!

Sincerely,

Hatai Chitanondh, M.D.

President

Thailand Health Promotion Institute

3 March 1998 I gave an interview published in the newspaper Krungthep Turakit (Bangkok Business) with the headline "*Opposing the use of Thailand as a base of cigarette production for export*" saying that joint venture with PM, RJR, BAT, or Japan Tobacco would increase cigarette consumption in Thai people. Wherever the TTCs go in they would have strong influence upon politicians and bureaucrats of the related ministries. The TTM should not be privatized because the TTM, being under the Ministry of Finance, would be obedient and not trying to circumvent the law.

10 March 1998 I gave an interview published in the newspaper Bangkok Post, p.2, headlined "*Activists slam deal to boost tobacco sales. Local production will raise puffing: doctor*":

"Anti-smoking campaigners have voiced concerns over a proposal for multinational tobacco companies to set up a cigarette manufacturing base here jointly with Thailand Tobacco Monopoly (TTM) so as to boost their sales.

A leading anti-smoking activist, Hatai Chitanondh, who is also president of the Thai Health Promotion Institute, said the decision to manufacture foreign tobacco brands here would not only increase smoking among the general public but also encourage youths to smoke because of cheaper prices.

As part of the state enterprise's reform talks are going on between TTM and transnational companies, including Philip Morris, RJ Reynolds, British American and Japan Tobacco, which are thinking of setting up a tobacco manufacturing base in Thailand for export...

Dr. Hatai said apart from increasing tobacco sales in Thailand, the production is also expected to boost sales in the region.

He said it is feared the joint venture would adversely affect anti-smoking campaigns, as in the case of South America..."

30 March 1998 The newspaper 'The Nation' Section: Business headlined "*TTM planning privatisation of huge assets*" with the news as follows:

THAILAND Tobacco Monopoly (TTM) has started to prepare a privatisation plan with total assets of Bt15 billion to Bt 16 billion to be used in joint ventures with new partners.

"We want to operated and expand as a professionally managed company," Ong-ard Chumpoonta, managing director of TTM said.

TTM is not allowed to consider foreign investment proposals because of the Finance Ministry's regulations. The master plan, laid in preparation for Thailand's privatisation policy, however, will be implemented after the Cabinet lets TTM become a corporate entity.

TTM is currently studying proposals conducted by investment banks and security companies including Thai Investment & Securities Plc (Tisco), Krugthai Thanakit Plc and others.

TTM is considered a well-rated state enterprise under the Finance Ministry and last year generated over Bt39 billion in taxes for the government. A major part of TTM's income comes from cigarette sales, which earned Bt47 Billion in the 1997 fiscal year.

Under the restructuring programme TTM would set up a holding company to invest in agribusiness, tourism, hospitals, printing, banking, hotels, food and restaurants.

"Tobacco consumption trends seem to have declined because of health concerns amongst consumers. The plan would help TTM survive by means of new revenue sources to compensate for this," Ong-ard said.

A senior official source at the Finance Ministry said that the ministry was not planning an immediate privatisation of TTM yet because it still generated a large amount of revenue for the government.

Ong-ard said TTM had also hired CD Associate Ltd to set up an ad-hoc restructuring programme to reduce unnecessary costs. The Programme will be implemented in three steps, 1998-1999, 2000-2001 and 2002.

The programme is expected to streamline the authority, especially in terms of staff, and help develop product quality, manufacturing plant, marketing and exporting to cope with international brands.

Under the programme more than half of the 6,700 employees are to be given early retirement with a satisfactory compensation package.

TTM plans to seek the Finance Ministry's approval by June.

"I think that TTM has too much fat compared to efficiency and revenue generation," Ong-ard said."

20 April 1998 The Bangkok Post reported with a headline **"Monopoly looks at partnership**

with foreign firms" that *"...Managing director Gen. Ong-art Champoontha: The TTM is looking at international tobacco*

manufacturers as possible partners to raise its competitive standing in the future....The companies viewed Thailand as a promising market with a solid base for growing tobacco and capable as serving as a launch pad for expansion into markets in Indochina.....would bring new technology to the state enterprise. Any deal with a foreign producer would require safeguards to prevent conflicts of interest and allow Thai brands enough time to upgrade quality and adjust prices. For instance, production limits within a given time frame might be set for foreign brand. I dont think a deal would result in the new foreign partner competing directly with Thai cigarettes. Foreign brands focus primarily on the high end of the market, while the TTM will continue to focus on the mass market.

(My comment:

Traditionally the Supreme Command, equivalent to the US Joint Chief of Staff, send a soon-to-retired army general to take the position of managing director of the TTM. It is a practice in a developing country where the arm forces grab positions in various state enterprises. In a confidential TTCs' document they said that the TTM is always managed by an old, almost retired army general. Thus the TTM is quite inefficient and the TTCs predicted that if they could open Thailand cigarette market they would get 15% market share in the first year and 25% in the second. The generals have not been loyal to the TTM, the last went to join a company which is an importer of foreign cigarettes. This general just assumed the duty on the first of October 1997. Before that 2 successive managers were promoted from deputy directors who were life-long TTM employees. In this interview there are few points to be considered:

1. The manager director is not a policy maker (the Finance Minister is the ultimate policy maker) and he should not give such interview before the Finance Minister.
2. The TTCs would bring new technology to the TTM - we dont need new technology for a products that kill.
3. Safeguards to prevent conflicts....- it is ignorant to expect the TTCs to be lenient to the domestic products. In every country they go in they go all out to produce their brands without caring for the domestic ones.

A general who just be in this position for not more than a year would not know any thing about the tactics of the TTCs. His loyalty to the TTM is almost nil.

30 April 1998 My article *“Effects of the IMF’ Bitter Medicine upon Tobacco Consumption of Thai People”* was published in a daily business newspaper 'Manager'.

The article described the consequences of privatisation of state tobacco monopolies/companies in various countries that could be summarised as follows:

1. Increase in number of smokers. During 5 year after privatisation in central and eastern Europe the number of smokers increased 8.2%. The increase of number of smokers consequently leads to higher morbidity, mortality and several types of costs.
2. Tobacco manufacturing workforce is reduced. In the E.U. during 1978 to 1984 cigarette production increased 12% but the employment decreased 49%.
3. Tobacco growers become jobless. In Poland the number of tobacco farmers reduced from 138,000 in 1987 to 40,000 in 1994. In Bulgaria tobacco production declined from 140,000 tons in 1986 to 25,000 tons in 1995.
4. The government would lose a high income from cigarette manufacturing (the TTM in 1997 sent US\$1000 million to the government coffer in addition to the excise tax) and lose an income from import tax if foreign cigarettes were allowed to be manufactured in the country. The TTCs' profit would be sent out of the country to their home bases.

20 May 1998 The newspaper Krungthep Turakit (Bangkok Business) p.3 headlined *“Opposing privatisation of the TTM - not contradicting IMF condition”*

Dr. Chuchai Supawong, a WHO consultant, said the government would not use the policy of privatising all types of state enterprises, especially the TTM. It would open the opportunity to the TTCs to occupy the domestic cigarette market and control

measures would be carried out with difficulties. If the government insists on the change the society should suspect that there is some vested interest.

Dr. Supakorn Buasai, deputy director of Health System Research Institute said that privatisation of the TTM should not occur according to the letters of intent sent to the IMF.

Dr. Prakit Vateesatokit, secretary-general of the Smoking and Health Foundation said that at present the government is not under pressure by foreign government to privatise the TTM and the World Bank has the policy of not supporting tobacco business.

21 May 1998 As the president of Thailand Health Promotion Institute I sent a formal letter, along with the published articles “ Effects of the IMF Bitter Medicine upon Tobacco Consumption of Thai People”, to the Prime Minister asking him not to privatise the TTM because of grave consequences.

18 June 1998 The Asian Wall Street Journal p.1 headlined “*Thailand Weighs Tobacco Joint Venture*”

“Several international tobacco companies are in talks with the state-owned Thailand Tobacco Monopoly to set up one or more cigarette-making joint ventures...”

“Excessive taxation, from our point of view, always hit those who can afford less,” said Axel Gietz, senior director for external relations at R.J.Reynolds International BV in Geneva. “Local manufacturing would be a more interesting proposition to us.”...Mr. Gietz described the talks with the monopoly as “a little but like a beauty contest” among tobacco companies, held by the monopoly to find the best deal.

In a faxed response to questions, a Philip Morris official confirmed that “over the past several months, Philip Morris and Thailand Tobacco Monopoly officials have held exploratory discussions about the possibility of (a) cooperative commercial relationship.”

“...Privatisation of the monopoly could be more time-consuming and more difficult than privatisation of other state agencies, given the profitability of the business. Finance Minister Tarrin Nimmanhaeminda said the government isn’t in a hurry to privatise the monopoly, because of concerns that it will lose a significant chunk of revenue.

Any move toward privatisation could prompt vigorous resistance from the agency’s employees, Mr.Tarrin said in a brief interview. The union representing the agency’s more than

7,000 workers is one of the country’s most powerful. “We don’t want to move too swiftly in changing the way of life there,” Mr. Tarrin said”

...The Chairman of the tobacco monopoly, Somchainuk Engtrakul, said, “We have been talking with many companies, and may pick more than one partner for the project”

The monopoly began considering joint venture possibilities before the government accepted the IMF-backed bailout. “We prefer this type of joint venture” to a sale of government’s stake, but if the government wants to sell part of us - like they are doing with other agencies - we’ll have to accept it...”

“.. Freeing the monopoly from government’s control could be controversial because of public health concern, as well. “We don’t think the tobacco monopoly should be privatised at all,” said Hatai Chitanondh, president of the Asia Pacific Association for Control of Tobacco, a Bangkok-based antismoking group that submitted a petition against such a move to the government in May. “This isn’t a kind of agency whose efficiency the government should improve. I think it’s even better that the management of the tobacco monopoly remains inefficient, so that they wouldn’t be so good at what they’re doing”

19 June 1998 The Business Section of the newspaper 'The Nation' headlined "**Foreign tobacco firms eye TTM joint venture**" with some part of the news published as follows:

"SEVERAL international tobacco companies are holding talks with the state-owned Thailand Tobacco Monopoly to set up one or more cigarette-making joint ventures.

The companies include Philip Morris and RJ Reynolds Tobacco International of the US, and UK-based BAT Industries, according to government officials overseeing the Thai monopoly, Philip Morris makes Marlboro and Benson & Hedges cigarettes; RJ Reynolds, a unit of RJR Nabisco Inc, makes Camel, Winston, and Salem; and a US unit of BAT makes Lucky Strike and Kool.

Since 1943, the Thailand Tobacco Monopoly has been the only company allowed to make cigarettes in Thailand, manufacturing brands such as the top-selling Krong Thip. If joint ventures materialise, foreign tobacco companies might be able to grab market share by avoiding the 60 per cent duty charged on imported cigarettes.

For the tobacco monopoly, its interest in possible joint ventures is partly driven by a desire for self-preservation. The Thai government is under pressure to eventually sell off many state-run businesses, partly at the behest of the International Monetary Fund. So the monopoly is eager to offer alternatives to privatisation, and that way, perhaps, to decide its own fate.

No matter what happens, any action probably will have to wait at least until the end of August. That's when the government is set to issue a so-called privatisation master plan, as part of the \$17.2 billion IMF requirements for reviving the Thai economy.

The Thai market has been a tough one for foreign cigarette makers to crack. The ban on manufacturing and the steep taxes have kept foreign cigarette makers at the market's margins. According to tax records, they sold only 5 per cent of the 2.4 billion packs of cigarettes smoked in Thailand last year.

Still, Thailand, with its population of 60 million, is a substantial market for the companies. RJ Reynolds sold 760 million cigarettes in Thailand in 1997, representing a 1 per cent market share, company officials said.

That's not to say Thais are paying a 60 per cent impost on every Lucky Strike they light. Foreign cigarettes smuggled into Thailand without duty are widely available.

Tobacco companies consider a deal with the Thailand Tobacco Monopoly a way to build sales amid Thailand's economic crisis, which is sharply curtailing local spending power. "Excessive taxation, from our point of view, always hits those who can afford less," said Axel Gietx, senior director for external relations at RJ Reynolds International BV in Geneva. "Local manufacturing would be a more interesting proposition to us."

On the other hand, he says that people tend to continue smoking as the only luxury they can afford in times of economic crisis such as these. "I wouldn't say they smoke more, but they don't seem to cut down on smoking consumptions so much."

Gietx described the talks with the monopoly as "a little bit like a beauty contest" among tobacco companies, held by the monopoly to find the best deal.

In a faxed response to questions, a Philip Morris official confirmed "that over the past several months, Philip Morris and Thailand Tobacco Monopoly officials have held exploratory discussions about the possibility of a cooperative commercial relationship. " He declined to provide further details.

Officials from BAT's Asia operations couldn't be reached for comment.

The steep import duty serves two purposes. It keeps the monopoly firmly entrenched in the lucrative market, and since the duty was increased to 60 per cent from 30 per cent in January, it has supplied the government with a steady stream of income at a time when the economic crisis has slashed government revenue.

The chairman of the tobacco monopoly, Somchainuk Engtrakul, said, " We've been talking with many companies, and may pick more than one partner for the project." According to Ong-ard, the monopoly is looking to hold the majority stake in the venture or ventures, preferably more than 51 per cent.

Before any deals can be struck, the plan must be approved by the Finance Ministry, and if the investment is large enough, by the Thai Cabinet.

The IMF requires Thailand to privatise some of its 70 state agencies as part of the conditions attached to the IMF-led \$17.2 billion economic bailout package. The government is currently drafting its privatisation master plan, which will outline privatisation procedures.

Agencies subject to privatisation this year include Thai Airways International, Bangchak Petroleum, the Telephone Organisation of Thailand, and the Electricity Generation Authority of Thailand. The Finance Ministry now owns 100 per cent of the tobacco monopoly.

The monopoly began considering joint-venture possibilities before the government accepted the IMF-backed bailout. " We prefer this type of joint venture to a sale of the government's stake," said Somchainuk, who is also director general of the Customs Department, "but if the government wants to sell part of us—like they're doing with other agencies—we'll have to accept it."

Any move toward privatisation could prompt vigorous resistance from the agency's employees, Tarrin said in a brief interview. The union representing the agency's more than 7,000 workers is one of the country's most powerful. " We don't want to move too swiftly in changing the way of life there," Tarrin said.

Freeing the monopoly from government control could be controversial because of public-health concerns, as well. " We don't think the tobacco monopoly should be privatised at all," said Hatai Chitanondh, president of the Asia Pacific Association for Control of Tobacco, a Bangkok-based anti-smoking group that submitted a petition against such a move to the government in May. " This isn't the kind of agency whose efficiency the government should improve. I think it's even better that the management of the tobacco monopoly remains inefficient, so they wouldn't be so good at what they're doing."

2 August 1998 The newspaper Matichon, p.1, published a news reporting a tobacco scientist who got in town and gave an interview to 2 invited newspapers. He stated that the ETS was not as dangerous as other pollutants. In the published news I gave my opinion about the act of that person after Judge O'Tool of North Carolina gave a verdict nullifying the EPA's report. I took that opportunity to say things about the privatisation of the TTM as follows:

"..Dr. Hatai Chitanondh said the emergence of the tobacco man is a dangerous sign indicating that the TTCs are making a strong thrust to denationalise Thai cigarette manufacturing in the light of Thailand being under conditions set by the IMF. During the Prime Minister's trip to the U.S. there were tobacco people among the American businessmen' meeting with the premier. I sent a letter to the prime minister before he went for the trip asking him not to say yes (accepting an investment) to these merchants. The letters of intent to the IMF so far had not mentioned the TTM in the plan of nation-wide privatisation but there must be a strong lobby to include it...."

7 September 1998 The Bangkok Post headlined "**Two - third of TTM may be held privately. But monopoly seen likely to remain**" The content were as follows:

" Local and foreign investors could take majority control of the Thailand Tobacco Monopoly (TTM) once privatisation is complete, according to managing director Ong-Art Champoontha.

The TTM board, chaired by Somchainuk Engtrakul, Customs Department director-general, is considering a privatisation framework, including the distribution of shares after the state enterprise is privatised.

Privatisation, however, will not mean liberalisation of the tobacco market. The state is expected to maintain the TTM monopoly, but with the equity participation of local and foreign investors.

One option calls for a 33% stake in TTM to be sold to a foreign strategic partner, another 33% to domestic investors and the remainder left in the hands of the Finance Ministry.

Later, the Finance Ministry could choose to divest its stake to local investors.

The Finance Ministry, which presently oversees TTM, has yet to comment publicly on the privatisation options suggested to the tobacco monopoly.

Finance Ministry officials have maintained that state enterprise privatisation was aimed not only at raising new funds for the state, but also to boost efficiency and quality of service and goods offered.

Options are to be finalised by the first quarter of 1999, according to the latest agreement made with the IMF.

Firms which have expressed interest in taking a strategic partnership in TTM include some of the largest tobacco firms in the world : Philip Morris, British American Tobacco, RJ Reynolds and Japan Tobacco.

Gen. Ong-Art said a strategic partner would bring TTM new technology, increased production efficiency and new marketing channels, both locally and abroad.

A strategic partner would be restricted from expanding its own tobacco sales in Thailand beyond its existing market share for a certain number of years to prevent unfair competition leading to a loss of sales of TTM products.

A new partner could use TTM factories to manufacture its own brand names, with production exceeding agreed limits to be used for export..."

11 September 1998 Krung Thep Turakit (Bangkok Business) newspaper p. 1 headlined **"Tobacco Privatisation Set up Holdings in March, Luring 10 Foreign Companies to Joint Venture"** with content more or less similar to the one in the Bangkok Post.

11 September 1998 Maticon Newspaper p.1 headlined **"The TTM Brings in Foreign Companies for Joint Venture. Giants Winston - Marlboro Are Grabbing"** the content of which was the same as that in Krung Thep Turakit.

11 September 1998 The Business Section of the newspaper 'The Nation' headlined **"Tobacco giants show interest in Thai monopoly"** with some part of the news as follows:

"THREE major cigarette makers, Phillip Morris, RJ Raynold and BAT Industries, have expressed an interest in becoming a strategic partner of state-owned Thailand Tobacco Monopoly (TTM), managing director Gen Ong-Ard Champoonta said yesterday.

According to TTM's privatisation plan, the board is expected to approve the terms of reference for commissioning an adviser late this month to help select local and foreign partners.

In principle, the agency will reduce its stake to 51 per cent from the current 100 per cent.

Thailand had agreed with the International Monetary Fund to complete a study outlining TTM's strateaic options by the first quarter of 1999. Ong-ard said his agency would like to retain its current production operations and probdably spin-off other aspects of its business which may be divided into domestic and foreign units including Tobacco Production Co, Fitler Cigarette Production Co, Export Cigarette Production Co and Cigarette Production.

We would like to be similar to Japan Tobacco, which is still a monopoly though it has other investors. We intend to prevent any resistance or negative impact on staff and quantity," he said.

According to the government's privatisation plan, prepared by Arthur Anderson Co, TTM is required to implement organisational restructuring before ownership dilution. The privatisation is also in line whith the trade liberalisation policy, which will go into effect in 2003.

Although Thail law prohibits aggressive tobacco advertising, foreign manufacturers have offered a fat profit to retailers as a marketing strategy, Naris Pradermsook, chief ot TTM's marketing division, said."

24 September 1998 The meeting of the National Committee for the Control of Tobacco Use (NCCTU).

I asked the deputy secretary of the NCCTU, who is the head of the Institute of Tobacco Consumption Control (ITCC), to put the subject of 'Privatisation of the TTM' in the agenda and invite both the TTM board chairman and the TTM managing director to attend the meeting. The invitation letters were accompanied by my 37 pages document on this issue. Only the TTM managing director came and he explained first the reasons of intended privatisation.

He said the TTM has not been able to fight the TTCs, the market share of foreign cigarettes climbed from 3% during the first 5 year after the entry to 7-8% just last year.

The TTM cannot expand or modernize its manufacturing since the government would not allow a new investment.

After his remark I presented my case along the content in my monograph.

The committee resolution concluded that if the TTM had to be privatised it should give an opportunity to Thai businessmen and not the TTCs.

WHO VIEWPOINT

13 October 1998 Dr. Judith Mackay sent an E-mail of Dr. Douglas W. Bettcher, Tobacco-free Project, WHO to Dr. Hatiai Chitanondh, with the content as follows: "The Tobacco-free Initiative is investigating issues of domestic and international trade, foreign direct investment, and the links between international trade agreements and public health. Dr Mackay, after requested that we provide an opinion on whether the privatization of the Thailand Tobacco Monopoly might be influenced by international trade agreements. In response to Dr. Mackay's request I have drafted, along with a legal colleague from Columbia University Mr Samrat Ganguly, an opinion on this issue (please find attached). We have concluded that:

If the Government of Thailand chooses to privatize the Thailand Tobacco Monopoly, there is no international law that would prevent it from doing so. However, external parties also do not have the benefit of international law in their efforts to force privatization simply on the basis of law. If the Government does proceed with privatization, it may be able to restrict foreign participation, provided that it does not affect access to the market for foreign producers. The value of such a restriction will depend on the situation in Thailand when the process occurs.

THE KOREA SITUATION

In *early 1998* Korea also had an economic downturn and had to ask the IMF for help. The IMF agreed to lend \$US70,000 million. The news came out that one of the first obligations was to privatise the biggest state enterprises or companies. The first big four were Pohang Iron and Steel Co., Korea Heavy Industry and Construction Co., Korea Telecom Co., and Korea Ginseng and Tobacco Co.

16 October 1998 Dr. Judith Mackay, while attending the WHO South East Asia Regional Consultative Meeting in Bangkok, sent an email to our friend Kim Il Soon asking about the situation in Korea.

Kim answered that the government announced that the Korea Tobacco and Ginseng Co. would be sold by the year 2002 but no other details were issued. He would like to discuss this matter with Dr. Mackay at the AFACT meeting to be held in Manila in late November.

19 November 1998 Dr. Judith Mackay emailed to colleagues reporting that:

"Dr. Il Soon Kim is in the WPRO meeting and told me that before he came, he phoned the Ministry of Finance, who told him that there would be a sale of 25% of stocks of Korea Ginseng Tobacco Company within 1999, with not more than 7% allowed to be purchased by any individual or company.

Korea has been looking at privatisation for some time, but the IMF pressure has pushed this forward.

Dr Il Soon Kim will let us know when this is announced formally."

INTERNATIONAL SUPPORT

On **October 20, 1998**, I started to ask for help from our friends international tobacco advocates-Judith Mackay of the Asian Consultancy for Tobacco Control in Hong Kong, Gregory Connolly of Massachusetts Department of Health, John Bloom of Tobacco-Free Kids; Ross Hammond of San Francisco Tobacco Free Project, and Robert Weissman of the Multinational Monitor. After sending my document 'Denationalization of Thailand Tobacco Monopoly by an E-mail our friends started to formulate activities.

On **October 21** Ross Hammond opined that it was troubling that so little attention has been paid to the role of the IMF in privatizing the tobacco industry in Thailand and other countries (South Korea and Russia to name just two). The potential health implications of this are enormous. Given the tenuous position of the IMF in Washington right now perhaps this would be an ideal time to pressure it to exempt TTM and other monopolies from the rush to privatization. This would seem an ideal issue to raise a fuss over. Given the IMF's weakness these days a well-orchestrated campaign could make them back off pretty quickly."

On **October 22** there were several responses, i.e.:

- Greg Connolly asked whether we could try to get an amendment added through Senator Ron Wyden to the IMF budget addressing tobacco. John Bloom answered

on the same day that “it’s too late to effect the IMF through US legislation this year. But given the work on tobacco trade and other economic issues that the World Bank has been doing, our friends there may be able to give us some advice on the best way to get the IMF to take public health concerns into account through administrative, political and media pressure.” John Bloom asked me an OK to share my paper with Prabhat Jha who is a friend and tobacco control expert within the World Bank and with Frank Chaloupka who is a health economist doing research on tobacco trade issues and could help us make our case.

- Ross Hammond sent an E-mail saying that “the next Congressional opportunity to raise IMF issue, ESAF (Enhanced Structural Adjustment Facility) comes up. Having said that, I think a very public, hard-hitting letter from Members of Congress could go a long way towards convincing the IMF that this is a battle not necessarily worth fighting. I just cannot see the IMF holding firm on what is a tiny part of their program in Thailand if the result is a flood of negative publicity (e.g.”IMF in Bid to help Philip Morris Enter Thailand”). And I think this would be a really difficult issue to pitch to the media”
- Robert Weissman discussed that “The IMF money is already through, so the possibility of such an amendment is past. In any case, having worked on the IMF, I can say that such an amendment would have been very close to impossible to get passed. At the same time, it would be great for members of Congress to write to the IMF and ask them to stop pressuring countries to privatize their tobacco industries. I will pursue this.”
- Greg Connolly said “I would be happy to bring it up with Kennedy or Kerry to start a letter writing campaign.” and “ We should get some sort of position paper that describes the potential of IMF replacing 301. I think we could get some good and immediate press and tie that got Congressional and international letters to IMF.”
- John Bloom “I agree that research to a brainstorming session are in order. I’ve talked to Frank Chaloupka to have a call in to Prabhat Jha, who could be very helpful officially and unofficially.
- Robert Weissman “Dr.Hatai I think we should be able to generate some pressure from Members of the U.S. Congress demanding that the IMF not promote

privatization of the TTM. I would hope that we could get a letter in the next two weeks, at latest.

In the meantime, do you have a copy of the fifth letter of intent? Only the first four are posted on the IMF web-site. It is important that we have this letter to show Members of Congress in promoting privatization. If you have a copy of the letter of intent, it would be great if you could fax it to me”

I answered him on Oct 24 that I would fax the 5th letter of intent to him on Monday (Oct 26).

On **Monday 26th** I emailed Robert Weissman that I could find only the Thai version of the letter of intent. Therefore it would take a few days to obtain an English one and would send to him thereafter. On **October 28** I faxed the English version of the confidential letter of intent. On **October 29** Robert Weissman sent an E-mail saying that the faxed portion of the letter of intent did not include a mention of privatization of the tobacco monopoly.

On **November 2** I sent him fax saying “ look for the underlined in BoxF.”On the same day Robert Weissman sent an E-mail saying“ I received your fax. This is a real outrage- -I’m sure we can get a good letter out to the IMF in the next week or so.”

On **November 3** Robert Weissman wrote to Gregory Connolly “ Hatai just got me a copy of the Thai Letter of Intent that contemplates privatization of the tobacco monopoly. I’m planning to draft a letter today for members of congress, discussing Thailand and may be Korea and Indonesia, depending on what I can come up with. I think Doggett and Durbin or maybe Wyden should be the leads, since they’ve done the most on international tobacco issues. Once I get them to sign off, I’ll send it to you to get Kennedy and Kerry plus any Mass. House members you can easily get. We should be ale to quickly get others here. Let me know if you’d like to review a draft of the letter before it goes to Doggett et al., and I’ll get it to you.”

Greg connolly responded “Let me review a draft. I am close to Kennedy and he may want to act on this. Although your call is what we should do. Can we get the OST to do a story on the what’s going on and tie it with the WHO docs we found in Minn. Showing attempted subversion of WHO?”

On **November 10** John Bloom sent a message “ I had a somewhat disappointing discussion with Prabhat last week, who basically gave the “ company line” –that

World Bank and IMF do not see privatization as a health issue and will push for “ symmetrical treatment” of foreign and domestic interests. Prabhat said the data suggests that if countries will just pass ad bans, health impacts of privatization would be minimized. I pointed out that there are other factors at work that would lead to consumption increase, such as political influence, greater expertise, a reservoir of brand awareness that exists after an ad ban passes. I also suggested that political realities will prevent effective ad bans in many countries. Prabhat acknowledged that the multinationals are better at most things, and that greater efficiency would probably lead to higher consumption. He said that he’d be glad to share whatever we can send him on this issue with IMF economists. He also agreed that it would be ideal if the IMF and World Bank agreed that they should research and address public health concerns’ before promoting tobacco industry privatizations. That seems like the absolute minimum position we could take.”

Robert Weissman on **November 10** reported “ Update on the congressional letter on privatization: I have drafted a letter which Cong. Lloyd Doggett has signed off on. We are waiting for final agreement from the offices of Senators Durbin and Wyden, and then will circulate it in Congress for more signatures. Things can’t move as quickly as they might, because many member of Congress are on vacation or out of the country. But we are making progress, and I ‘ll keep you posted.”

On **November 21** Robert Weissman sent an E-mail informing that “ Here is the letter that will be sent from members of the US Congress to IMF Managing Director Michel Comdessus on the tobacco privatization issue. Please do not circulate it until we have finished gathering signatures here. I’ll let you know as events unfold.”

On **December 11** Robert Weissman sent on E-mail to the globalink saying “In response to apparent pressure from the IMF on Asian countries to privatize the tobacco industries, members of the U.S. Congress have sent the following letter to the IMF. (The detail of the letter dated December 8, 1998 is shown in the annex)

THE WORLD BANK’S VIEW

On December 7, 1998 I sent a letter to Mr. James Wolfensohn the president of the World Bank expressing our concern about the plan to privatize the TTM as recommended by the IMF. Privatization of states’ tobacco monopolies around the world

resulted in big rise of tobacco consumption, manufacturers' employees being laid off, tobacco farmers becoming jobless and catastrophe of tobacco control in those countries. As the World Bank has a close relationship with the IMF and has a clear policy not to support investment in tobacco I would like the Bank to ask the IMF to reconsider its policy in this matter.

On January 7, 1999 Mr. Shivakumar the World Bank Country Director answered that they share our concern regarding the issues of public health and employment. He said that the Thai government intends to partially privatize the TTM while keeping a share of the firm in state hands. The Master Plan also recognizes that managing the firm involves a "Core government activity," presumably for health reasons.

CONCLUSION

Relationship of denationalisation of the TTM and the IMF bail-out

Attempt to denationalise the TTM had occurred long before the IMF rescue.

In the first 4 Letters of Intent (of the Thai government) to the IMF there was no mentioning of the TTM. Only in the 5th letter there was mentioning of the TTM for the first time. It is suspicious that someone or some group quietly inserted it

PRIVATISATION OF THAILAND TOBACCO MONOPOLY: BENEFITS AND LOSSES

From our studies it may be concluded that privatisation of TTM can have some benefits and losses.

THE BENEFITS

1. Increase in efficiency - by bringing in modern technology and equipments.
2. Consumers have higher quality products and cheaper prices.
3. The TTM employees are well developed and better paid.

These 3 benefits are true and good for other products and services. They are not good for products that kill.

4. The government does not have to shoulder responsibility in acquiring investment money for the state enterprise.

This is not true for the TTM because the government has never supported the TTM in such matter.

5. The government will receive a big sum of money to be used to pay back the debt owed the IMF. This is the real reason for the government to privatise the TTM.

THE LOSSES

From the available data it may be summarized that privatisation of the TTM would be followed by grave consequences on:

1. Health and quality of life

Privatisation results in increase in tobacco consumption and consequent diseases, disabilities, and death.

Studies by ERC Statistical International found that in Central and Eastern Europe tobacco consumption increased 8.2% between 1995 to 2000.

The Eastern European countries privatised, by allowing transnational tobacco companies to produce and market cigarettes, their state tobacco factories in around 1992. After that smoking prevalence increased significantly.

In the Czech Republic from 1989 to the mid 1990s consumption increased 4% per year. Smoking prevalence in 1993 among age 15+ was 38% for males and 29% for females. In 1994 these increased to 43 and 31 percent respectively.

In Romania smoking rates in 1989 was 25.9% (43.9 male and 11.3 female) but in 1997 these rose to 28, 42.7, and 15.2 percent respectively.

In Russia smoking prevalence in men was 53% in 1985 and increased to 67% in 1993. For women the rate increased from 10% in 1985 to 25-30% in 1995.

In Uzbekistan 40% of men and 1% of women were smokers in 1989 but in 1994 the rates increased to 49 and 9 percent respectively.

2. Employment of TTM workers

A big percentage of the TTM employees will be out of work. The transnationals would bring in modern machinery and management to replace the existing inefficient ones.

In the European Union although cigarette production increased 12 percent between 1978 to 1994 but employment was reduced 49 percent.

Another drawback is that the multinational companies never care about employees' job security. Whenever a factory makes no profit they immediately close it. This happened in BAT's Chittagong plant in Bangladesh (1992), BAT in Finland (1995), RJR in Finland(1998), BAT at Tashkent in Uzbekistan (1998), RJR in Russia(1998), BAT in Malawi(February 1999), PM in Brazil (1999), and BAT in Singapore (June 1999).

3. Employment of tobacco farmers

The transnationals would bring in leaves mainly from the U.S. and domestic leaves would be used in much less quantities.

The Institute of Agricultural Economics and Food discovered that in Poland the number of tobacco farmers greatly reduced from 138,000 in 1987 to 40,000 in 1994.

In Bulgaria tobacco leaves production decreased from 120,000 tons in 1986 to 25, 000 in 1995.

4. Government revenue

The sources of government revenue would be greatly reduced or almost totally lost.

The yearly contribution from the TTM (40,000 million Bahts or 1,111 million \$ in 1994) would be lost or greatly reduced.

The import tax (4,092 million B. or US\$113 million in 1998) would also be lost.

5. Tobacco control activities

Governmental and non-governmental organizations in tobacco control have been small both in financial and manpower resources. Their activities would be flattened by the mighty transnationals who would come in to buy influence freely.

6. The evil vicious cycle

Some people or group of people, being decision makers or policy makers, might grab a huge sum of 'under the table' payment. This is just like the 1976 Securities and

Exchange commission report which described that in the 1970s PM and RJR paid 'questionable payment' of 2.8 million \$ to government officials in 7 Latin American countries for special privilege in their production bases.

Even being able to capture only 3% of the market share the TTCs did manage to resist the passage of a Ministerial Rule (mandating producers to disclose the ingredients in each brand of tobacco products) for 5 years. If they capture a big majority, or the whole, how formidable they would be.

Denationalisation of the TTM would lead to a catastrophe of tobacco control in Thailand.

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