

Harm reduction, the profit motive and tobacco industry tactics

Why caution is necessary

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(with many thanks to Professor
Anna Gilmore and Silvy Peeters)

ASH receives funding from:



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What is the profit motive?

- The **profit motive** is an economic concept which posits that the ultimate goal of a business is to make money.
- Accordingly, businesses seek to benefit themselves and/or their shareholders by maximizing profits.

wikipedia

Tobacco = licence to print money

- It's no accident that tobacco companies are the most profitable consumer companies in Europe
- Tobacco highly addictive... but legal

Tobacco = licence to print money

- Earnings before interest tax depreciation and amortisation
- BAT 33.7%
- Imperial 39.5%
- Diageo 31.8%

Table 2 Profitability (measured using the EBITA margin (%)) for Europe's two major tobacco companies and comparator European consumer staple companies

Company	2004	2005	2006	2007	2008*	2009*	2010*	2011*
Tobacco companies								
British American Tobacco	24.0	28.1	28.7	30.0	30.7	31.1	32.1	33.7
Imperial Tobacco Group	40.2	41.5	42.9	45.0	28.2	37.7	39.4	39.5
Food companies								
Cadbury	15.6	15.9	14.4	13.5	12.0	13.0	13.8	14.9
Danone	12.7	13.1	13.3	12.1	14.4	16.9	15.7	15.9
Nestle	12.7	12.9	13.5	14.0	14.3	14.4	13.0	13.2
Premier Foods	12.9	13.7	13.8	12.5	11.9	12.0	11.9	11.7
Consumer products companies								
Unilever NV	15.5	14.8	14.3	14.5	14.6	14.7	14.9	15.1
Henkel	9.4	9.7	10.2	10.5	10.3	9.0	10.6	11.6
L'Oreal	15.3	15.6	16.4	16.6	15.5	14.3	14.9	15.5
Reckitt Benckiser	19.3	20.1	21.5	22.6	23.4	23.9	23.2	23.6
Beverage companies								
Heineken NV	13.6	13.1	13.0	14.8	13.2	13.5	14.0	14.4
SABMiller	18.1	20.2	16.9	16.8	16.6	16.8	17.3	18.5
Carlsberg	8.8	8.7	9.6	11.5	13.2	16.0	16.3	17.1
Diageo	28.7	29.0	28.2	28.3	28.5	28.9	31.5	31.8

Various Citigroup 'Consumer Central' business analyst investment reports.

*Estimated values

Gilmore et al 2010

Tobacco industry behaviour

In its own words

- "We don't smoke that s**t, we just sell it. We reserve that right for the young, the poor, the black and the stupid."
 - R.J. Reynolds, as quoted in The Times of London, 02 August 1992
- Terrence Sullivan, a sales representative for R.J. Reynolds, says, "We were targeting kids, and I said at the time it was unethical and maybe illegal. But I was told it was just company policy." Sullivan remembers someone asking who exactly were the young people that R.J. Reynolds was targeting – junior high school kids or even younger? The reply was: "They got lips? We want them."
 - R.J. Reynolds, 1990
 - Quoted in P.J. Hilt's Smokescreen - The Truth Behind the Tobacco Industry Cover-up, 1996
- "If you are really and truly not going to sell to children, you are going to be out of business in 30 years."
 - Bennett LeBow, CEO of Brook Group Ltd. makers of Lark and L&M cigarettes

The Tobacco industry is moving in to e-cigs

- Nicoventures (owned by BAT)
- CN creative/Intellicig (owned by BAT)
- Blu (owned by Lorillard)
- Dragonite bought by Imperial Tobacco (September 2013)
- Skycig (bought by Lorillard October 2013)

Tobacco Industry and Harm reduction – the lessons of history

We know from tobacco industry documents revealed in litigation

- Transnational Tobacco Companies (TTC) interest in smokeless tobacco (SLT) starts in 1970s
- BAT repeatedly scoped opportunities in Western Europe (through partnership with United States Tobacco Company)

Peeters, Gilmore, PLOS 2013; Fooks et al PLoS Medicine 2011; 8(8)

Documents tell us that ...

- TTCs considered smokeless tobacco:

could provide the opportunity to make new profits rather than cannibalise existing profits from cigarettes.

- smokers that (due to health concerns) considered quitting
 - smokers in smokefree environments
 - new generation of 'better educated' not interested in smoking
- Interest was driven by concern about threat of regulation (smokefree) & consumers' health concerns driving a decline in cig sales

“The objective”

We have no wish to aid or hasten any decline in cigarette smoking. Deeper involvement in smokeless is strategically defensible.

*Extract BAT internal marketing briefing to its Tobacco Executive Committee, 21 Sept 1981
(available from: <http://legacy.library.ucsf.edu/tid/hxf18a99>)*

To market the range to younger, urban consumers as an alternative way to enjoy tobacco.

*Extract BAT internal marketing briefing to its Tobacco Executive Committee, 25 June 1984
(available from: <http://legacy.library.ucsf.edu/tid/hywd38a99>)*

Harm reduction: the turning point

- Difference from 1970s: buy-in from public health.
- Institute of Medicine (IOM) study '*Clearing the Smoke*' was pivotal
 - IOM investigation started in 1999. Wrote to TI in 2000 re “tobacco harm reduction”
 - TI delighted

From then on.....

Major change in TTC rhetoric on HR:

- Pre 1999, no TTC documents or corporate materials mention the term “HR”
- From that point see gradual increase in use “HR” in docs
- Main change was incorporation in corporate messaging as a PR platform: BAT’s first social report (2001/02) mentions ‘HR’ 2 times, by 2010 247 mentions

Benefits of HR identified by TI

DIALOGUE & ACCESS: Create dialogue with & access to public health community (including scientists) & policy makers

- Minutes of A BAT operational planning meeting on 11 April 2001: “the strategy of using the IOM report as a catalyst for further dialogue with UK scientific stakeholders was discussed”

(<http://legacy.library.ucsf.edu/tid/ebs62a99>)

- PMI’s David Davies suggested his company could be “a positive contributor, indeed a partner in shaping future policy for tobacco”

(<http://tobacco.health.usyd.edu.au/assets/pdfs/harm-reduction/DDaviesHR-2005.pdf>)

Benefits of HR identified by TI

IMAGE: Rehabilitate TI's image as a responsible business

- BAT's corporate affairs (CORA) identified reduced harm products as a “reputation management initiative” in June 2000; 1 of 6 areas in which BAT had the “opportunity to demonstrate that we can meet reasonable expectations” (<http://legacy.library.ucsf.edu/tid/xzz24a99>)
- Integrated in emerging CSR strategy and social reporting

Conclusions on TTC interests in HR/SLT

- TTCs original interest in SLT in Europe based on potential for creating a NEW form of tobacco use to prevent decline in smoking. Young people were key target.
- Ultimately only invested when PH community showed interest.
- Yet, while have invested in SLT and maximised the PR & policy influence opportunities (dialogue, access, reputation), little evidence of genuine business interest.
- Have eliminated competition in tobacco/nicotine market, maintaining status quo in favour of (highly profitable) cigarettes
- Risk the same will happen with e-cigs

Will medicines regulation favour the tobacco industry?

- Medicines regulation could well favour larger well funded companies BUT
- Consolidation already happening – typical of stage of development of the industry
- TI imperative = fear of Kodak moment
- Wells Fargo think TI will develop ‘meaningful presence’ because of their:
 - war chests of cash to invest;
 - retailer presence ensures broad, scalable distribution;
 - expertise at building successful brands; and
 - vast marketing databases of adult tobacco consumers.

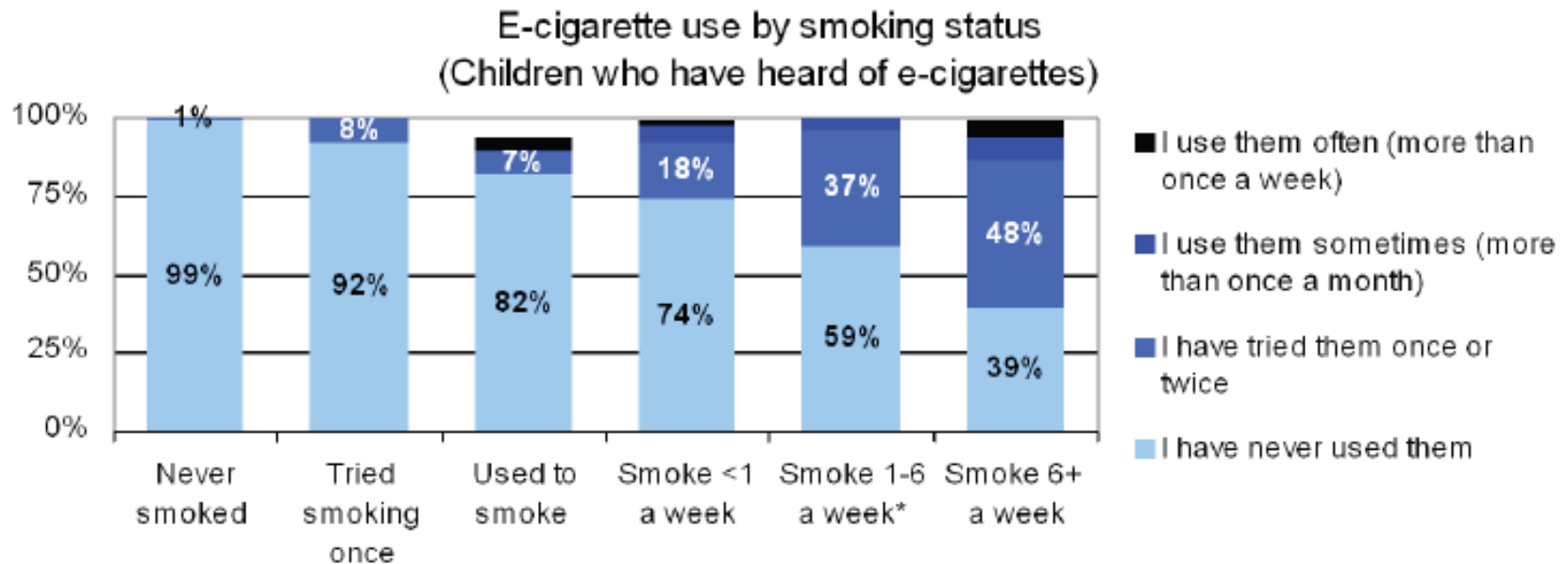
Is the only concern tobacco industry involvement?

- We know more about the tobacco industry because of documents revealed in court cases
- BUT other businesses behave the same
- Maximising profit is the driver
- Maximising profit = encouraging uptake

Purpose of regulation

- Potentially highly addictive and toxic product
- Interests of business, public health and consumers are not the same
 - Industry wants to maximise sales + maximise profit
 - Smokers want safer alternative to smoking which can help them quit
 - Public Health wants safer alternatives for smokers BUT to prevent new entrants
- Need to regulate product and its promotion to protect consumers and minimise uptake amongst non-smokers and young people

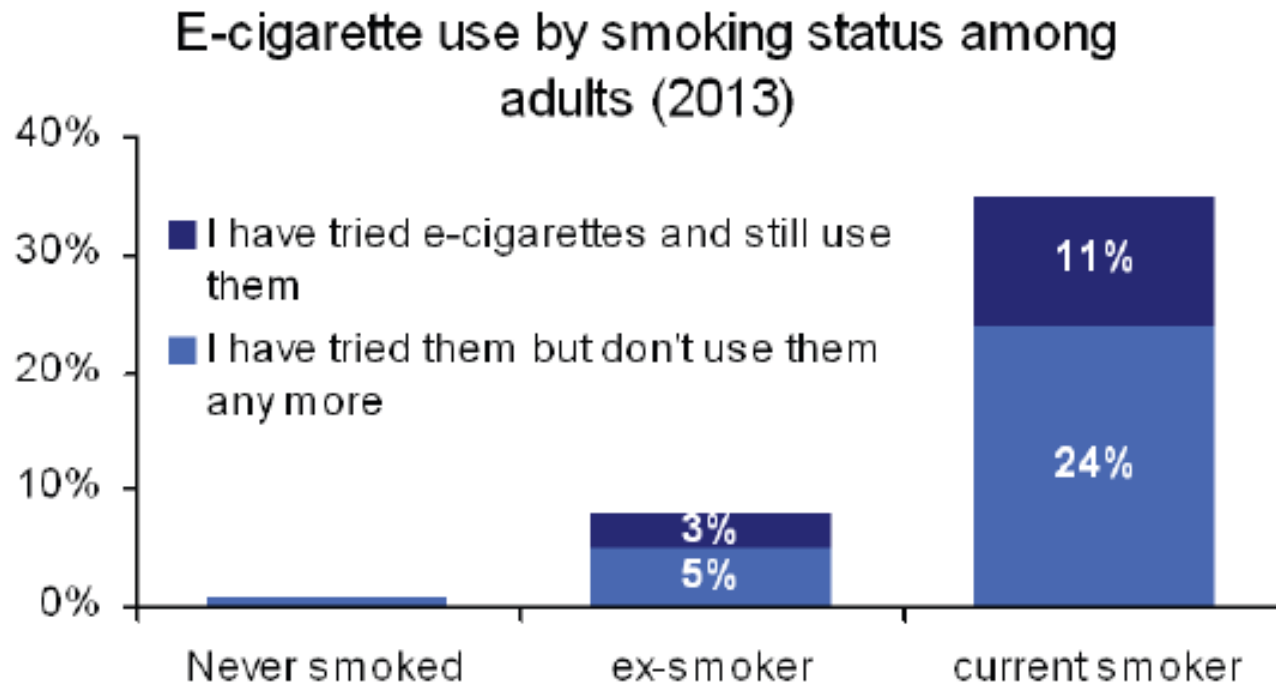
Will e-cigarettes re-normalise smoking?



Base: 1428 Children

*Note: Very small sample. Only 22 subjects in this category.

Will e-cigarettes re-normalise smoking?



Base: 12,170 adults

Prohibiting e-cig use where smoking prohibited

5 questions to ask:

1. What are the issues you trying to deal with?
2. What do you think you need to control?
3. Do you have concerns about the possibility of harm from NCPs?
4. Will restricting or prohibiting use of Nicotine Containing Products support compliance with smokefree policies?
5. Do you want your policy to help to improve people's health?

ASH CIEH briefing

http://ash.org.uk/files/documents/ASH_715.pdf

Risks... e-cigs making smoking sexy again



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Risks...making smoking sexy again

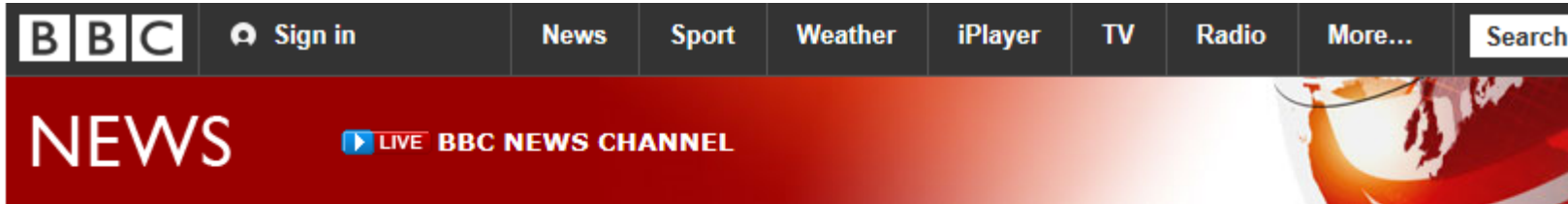


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Regulation of marketing

- Control of advertising promotion and sponsorship
 - Pre-vetting to prevent abuse
 - To ensure marketing limited to existing smokers
 - To prohibit marketing to children
 - To prevent promotion of smoking behaviour
 - To monitor sales

Is safety really an issue?



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Page last updated at 13:17 GMT, Monday, 26 April 2010 14:17 UK

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Shops agree to £20m pay-out over 'toxic sofas'

A number of High Street chains have agreed to pay up to £20m (\$31m) to 2,000 people who received chemical burns from anti-



SEE ALSO

- ▶ Long battle over 'toxic sofas' 26 Apr 10 | UK
- ▶ Mother blames sofa for child's burns 28 May 08 | Hereford/Worcestershire



The sofas, which were manufactured in China, were packed with sachets of an anti-mould chemical called dimethyl fumarate to stop them from going mouldy during storage in humid conditions.

ASH wants regulation which ensures:

- Products meet standards of quality, safety and efficacy;
- Provision for monitoring safety in use, including over the long term;
- Advertising only to smokers not towards new users or children; and
- Monitoring and managing emerging risks, e.g. of NCPs acting as a gateway to smoking tobacco

Thank you for listening

ASH briefing on e-cigarettes

http://www.ash.org.uk/files/documents/ASH_715.pdf

ASH factsheet on e-cigarette use

http://www.ash.org.uk/files/documents/ASH_891.pdf

ASH-CIEH 5 questions

http://www.ash.org.uk/files/documents/ASH_900.pdf

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