

Tobacco Profile 2009

Research and Information
Alcohol and Drug Information Center 2010

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1
2
3
4
5
6
7
8
9
0



CONTENTS

Preface	i
ADIC Profile	ii
01.WHAT IS TOBACCO?	1
02. THEORETICAL BACKGROUND OF THE INDUSTRY	1
03. INDUSTRY NETWORK OF CEYLON TOBACCO.....	3
04.TOBACCO INDUSTRY IN SRI LANKA	5
05. TOBACCO CONSUMPTION	5
06. PRODUCT PORTFOLIO	7
07. TREND OF TOBACCO USE IN SRI LANKA	8
08. INFLATION IN SRI LANKA	9
09. TOBACCO REVENUE	11
10. TAX ON TOBACCO	13
11. TOBACCO PROMOTION	15
12. CORPERATE SOCIAL RESPONSIBILITY IN CTC	15
13. LITIGATION ON TOBACCO	16
14.TOBACCO AGRICULTURE	16
15.TOBACCO INTERMS OF INTERNATIONAL	17

The Alcohol and Drug Information Centre (ADIC) was established as an independent organization in 1990. Today, ADIC has become a well-recognized National Resource Centre, promoting drug demand reduction and developing new innovative strategies. ADIC is registered under the Voluntary Social Services Act of Sri Lanka and obtained Approved Charity Status in 1992. ADIC serves in many international networks such as the Global Alcohol Policy Alliance, the Framework convention Alliance on Tobacco Control and the International Federation of Non Governmental Organization (IFNGO) and thereby contribute to the international advocacy by collecting and disseminating information as well as by training youth to carryout changes targeting the community.

The organization also focuses on research as a core component of its main programmes. The pillars of work under the research programme involve:

- Research and analytical work to increase knowledge and understanding of alcohol, tobacco and other drugs
- Information to assist development/health workers in the implementation of their programmes
- Information for the development of domestic legislations on alcohol, tobacco and other drugs
- Field based monitoring and evaluations of the programmes of the organization

Recognizing the importance of comprehensive, factual and objective information in the field of prevention, a research analysis have been conducted on tobacco. A Tobacco profile has been developed since the year 2003 to facilitate academics and development/health practitioners on the necessary information pertaining to Tobacco in Sri Lanka. Various analyses too have been drawn from the international situation of tobacco.

Recognizing the importance of comprehensive, factual and objective information in the field of prevention, a research analysis have been conducted on the tobacco with the available data. This year, the Tobacco Profile Report has been revised with the inclusion of new topics.

The tobacco Profile Report continues to provide trend analysis of the Sri Lankan situation of tobacco consumption, sales, revenue and the industry. In addition, this year's report contains an in depth look into the litigation and a comparison with the global tobacco markets.

The Report's coverage remains comprehensive and it tries to give the reader a complete picture of the Sri Lankan Tobacco profile. As in previous years, the Report is based on data obtained primarily from the Tobacco references, researches, spot surveys and the Tobacco Atlas.

Comments and feedback on the report can be sent to: research@adicsrilanka.org.

Alcohol & Drug Information Centre (ADIC Sri Lanka) was inaugurated in April 1987 but was established as an independent organization in 1990, To day Alcohol and Drug Information Centre (ADIC) Sri-Lanka has developed to be a well recognized National Resource Centre, promoting drug demand reduction. ADIC is registered under the Voluntary Social Services Act of Sri Lanka and obtained Approved Charity Status in 1992.

VISION

To create a world where every person realizes that use of whatever drug at whatever level is an impediment to happiness.

MISSION

Prevent drug use through social changes and effective education.

GOALS

- Identify and neutralize influences that promote drug use and create a social milieu in which drug use is discouraged and which prevents initiation of drug use.
- Incorporate drug prevention into the programmes of government and non-government organizations and institutions.
- Promote community level initiatives as well as development of resource persons and prevention workers.
- Promote formulation of effective policies and implementation of existing policy measures pertaining to drug use prevention,

To achieve our vision we follow scientific and evidence based methods in drug demand reduction within the framework of Health Promotion. We seek to develop and implement effective and innovative interventions and are perhaps the reason for the achievements during the last decade,

ADIC designs interventions to create a demand reduction in drug use based on a holistic approach and the organizational structure is designed to reflect this thinking. The organisational structure comprises of ten programmes and they are Human Resource and Organizational Development Programme, Community Intervention Programme, Media Advocacy Programme, Policy Advocacy Programme, Research & Evaluation Programme, Library and Information Programme, Plantation Sector Programme, Education Sector Programme, Public Awareness Programme and Finance & Administration Programme.

We at ADIC believe in team effort. Whilst a particular division takes the major responsibility for planning and implementing a project, there is inter-divisional cooperation when work is carried out. On the other hand, some major activities are planned through teamwork with responsibility being shared by all divisions.

Our work to empower the grassroots reaches diverse communities. Collaborations with a range of government organizations, non-government organizations, and community based organizations and international donors such as NORRAD, WHO, UNICEF, UNESCO, UNFPA, ADB have resulted in implementation of a large number of interventions directed at numerous target groups. Such collaborations have made it possible to maximize the output from limited resources to benefit the community.

In addition to the contribution to the domestic drug abuse control, the contribution of ADIC to International Drug use control has been felt in several spheres of activity. ADIC serves in many international networks such as the Global Alcohol Policy Alliance, the Framework convention Alliance on Tobacco Control and the International Federation of Non Governmental Organization (IFNGO) and thereby contribute to the international advocacy by collecting and disseminating information as well as by training youth to carryout changes targeting the community,

The successful efforts to create a lasting change in communities by changing behaviours has been recognised by the World health Organization in 1993 by awarding ADIC with the prestigious WHO award, "Tobacco or Health Medal", In 1998 and in 1999 ADIC won the awards from International Federation of Non Governmental Organization (IFNGO) for the Most Outstanding Project, for the achievements from the drug Demand Reduction Project launched at Hapugastenna Estate in Sri Lanka and for creating of Voluntarism respectively. ADIC also won the Commonwealth Youth Service Award 1998/99 granted by the Commonwealth Secretariat. Since the year 2000, ADIC is represented at the "Alcohol Policy Strategy Advisory Committee" of the WHO.

01. WHAT IS TOBACCO?

Tobacco is made from the dried leaves of the tobacco plant. Tobacco smoke is a mixture of almost 4,000 different chemical compounds, including nicotine, tar, carbon monoxide, acetone, ammonia and hydrogen cyanide. Forty-three of these chemicals have been proven to be carcinogenic (causing cancer). Tobacco is ingested through smoking cigarettes, pipes and cigars. In the form of a fine powder, it may also be sniffed as snuff, or it is sometimes sold in blocks to be chewed. It can also be ingested through passive smoking. Cigarettes account for majority of tobacco consumed in Sri Lanka.

02. THEORETICAL BACKGROUND OF THE INDUSTRY.

With respect to industry analysis, the concept of William Porter's five forces model can be considered as more applicable since this model has been used worldwide in analyzing industries drilling down from its grass root level. As per to this model, it consists of 5 aspects which has been expressed in Chart 01.

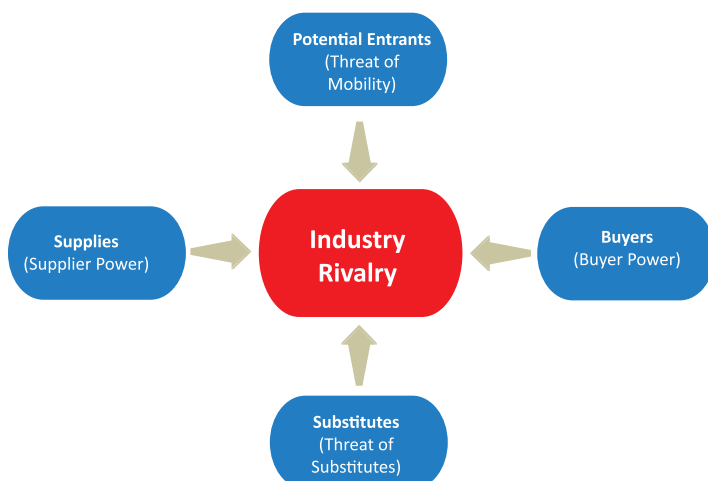


Chart 01: Porters 5 Forces model

As per to the tobacco industry, this chart will express each and every corner of the street since the tobacco industry itself has a wide variety of arena.

Industry Rivalry.

In the traditional economic model, competition among rival firms drives profits to zero. But competition is not perfect and firms are not unsophisticated passive price takers. Rather, firms strive for a competitive advantage over their rivals. The intensity of rivalry among firms varies across industries, and strategic analysts are interested in these differences.

In terms of the tobacco industry, since the Ceylon Tobacco Company (CTC) holds the monopolistic power, they have a higher bargaining power. More importantly CTC is the market leader in the tobacco industry in Sri Lanka. In essence they are capable of doing anything.

Threat of substitutes

In Porter's model, substitute products refer to products in other industries. To the economist, a threat of substitutes exists when a product's demand is affected by the price change of a substitute product. A product's price elasticity is affected by substitute products - as more substitutes become available, the demand becomes more elastic since customers have more alternatives. A close substitute product constrains the ability of firms in an industry to raise prices.

In the tobacco industry, the threat of substitutes is lesser. Though it exists, they are encouraged by the CTC itself as it is their industry strategy. For an example Bidi, etc can be considered as such. Those products will replace CTC products but when the CTC itself introduces such by themselves that will completely drive out the threat of substitutes.

Buyers Power

The power of buyers is the impact that customers have on a producing industry. In general, when buyer power is strong, the relationship to the producing industry is near to what an economist terms a monopsony - a market in which there are many suppliers and one buyer. Under such market conditions, the buyer sets the price. In reality few pure monopsonies exist, but frequently there is some asymmetry between a producing industry and buyers.

In the context of tobacco industry, there are millions of buyers for the products, but there is only one company to supply the demand. This itself emphasizes the fact that buyers of the CTC products are less powerful and CTC holds the bargaining power over their buyers.

Suppliers Power.

A producing industry requires raw materials - labor, components, and other supplies. This requirement leads to buyer-supplier relationships between the industry and the firms that provide it the raw materials used to create products. Suppliers, if powerful, can exert an influence on the producing industry, such as selling raw materials at a high price to capture some of the industry's profits.

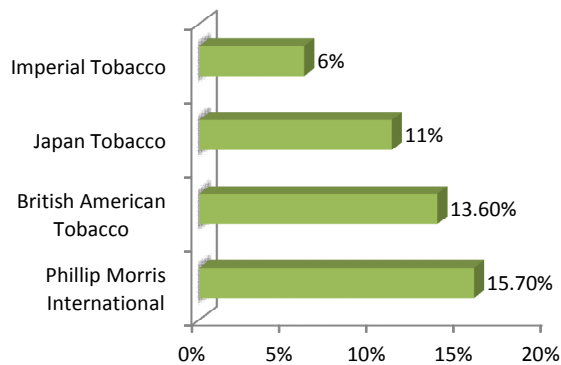
However in terms of CTC's perspective, they have backward integration on their supply network so that the majority of the supply network acts under the wings of CTC. That is CTC also controls their supply network, so that Supplier's bargaining power is also in their thumb.

03. INDUSTRY NETWORK OF CEYLON TOBACCO COMPANY

History

The Company was incorporated in 1932 in Sri Lanka, and took over the operations of three separate tobacco businesses in the country at the time – British American Tobacco Company (Ceylon) Limited, Westminster Tobacco Company Limited, and Thomas Bear & Sons Limited. The Company began growing Virginia flue-cured tobacco in the early 1940s with the assistance of the Department of Agriculture and British American Tobacco Company, London. CTC was listed on the Colombo Stock Exchange in 1954. The same year, the Company acquired the business of Godfrey Phillips Limited (formerly Rothmans Limited), and obtained the right to manufacture its brands in Sri Lanka.

Global Tobacco Market



Graph 01- Global stake of tobacco industry.

Alcohol is considered as a depressant and is a cause for many socio economic problems in the society.

Company Information

Established -1932

Auditors -KPMG Ford ,Rhodes, Thornton & Co

Registered office -178, Srimath Ramanathan Mawatha, Colombo 15

Ownership

CTC is a public quoted Company whose shares are traded on the Colombo Stock Exchange with more than 4,000 shareholders. The Company's largest shareholders are British American Tobacco (BAT) Holdings (Sri Lanka) BV (84.13%) and FTR Holding SA.(8.32%)

British American Tobacco (BAT)

British American Tobacco the world's second largest quoted tobacco group by global market share, with brands sold in more than 180 markets. With over 300 brands. British American Tobacco holds robust market positions in each of our regions and have leadership in more than 50 markets. In 2007, British American Tobacco subsidiaries enabled governments worldwide to gather over £17 billion a year in taxes, including excise duty

on products, more than 7 times the Group's profit after tax. British American Tobacco have sustained a significant global presence for over 100 years. British American Tobacco business was founded in 1902 and by 1912 had become one of the world's top dozen companies by market capitalization. British American Tobacco subsidiary companies produce some 684 billion cigarettes through 47 cigarette factories in 40 countries.

FTR Holding SA (Philip Morris International)

Philip Morris International (PmI) is the leading international tobacco company, with products sold in over 160 countries. In 2007, Philip International estimated 15.6% share of the international cigarette market outside of the USA and reported revenues net of excise taxes of \$22.8 billion and operating income of \$8.9 billion. Philip Morris International own 7 of the top 15 brands in the world and have a strong mix of international and local products .

Share ownership of CTC

Table 01 Shares of CTC

Owners	No of Shares	Share percentage
British American Tobacco Holdings (Sri Lanka)	157,590,928	84.13
F T R Holding S A	15,585,910	8.32
Avtar singh Sandhu	188,500	0.1
William Ryan Herbert Perera	180,440	0.1
Dr. H S mantha Singh	162,600	0.09
Hiran Vasantha De Alwis	1,148,600	0.61
Belmont Agents Ltd	1,000,000	0.53
Y S H Indra kumar Silva	703,900	0.38
Mada Jasbinderjit Kaur	293,100	0.16
Miss. Neesha Harnam	157,100	0.08
Niraj Rasikalal Somaiya	118,100	0.06
Reunka Holdings Ltd	222,560	0.12
Haram Holdings SDN BHD	200,600	0.11
HSBC INTL ltd -SSBT -DEU	195,600	0.1
D F G . Dalpethdo	159,006	0.08
J D Bandaranayake	122,944	0.07
DFCC Bank	119,967	0.06
Dr. Ravinder kaur Singh	99,600	0.05
KP kandiah Pillai(Deceased)	97,549	0.05

04. TOBACCO INDUSTRY IN SRI LANKA

A non-communicable disease, or NCD, is a disease which is not infectious. Risk factors such as a person's lifestyle, genetics, or environment are known to increase the likelihood of certain non-communicable diseases. Tobacco related illness also falls into this category and causes around 20,000 deaths annually within Sri Lanka which holds a population of approximately 20 million.

According to the Global Youth Tobacco Survey conducted in 2007, 5.1% youth (13 – 15 - year old) ever smoked cigarettes; 39.5% smoked cigarettes before the age of 10 years. About 8.6% are current users of other tobacco products. Disturbingly, however, 65.9% are exposed to secondhand smoke in public places.

As a controlling measure to prevent the harm caused by the tobacco industry, the government of Sri Lanka formed an Act originated from the WHO Framework Convention on Tobacco Control (FCTC) which prevents tobacco companies in obtaining their market share;

NATA (National Authority on Tobacco and Alcohol Act No 27 of 2006)

This Act has been implemented with the intention of eliminating tobacco and alcohol-related harm through different public health policies and their implementation. The following can be considered as significant viewpoints of tobacco control in Sri Lanka. The important provisions of the NATA Act are:

- Sales and promotion of tobacco products to minors prohibited (minor defined as below 21 years of age).
- Advertising, promotions and sponsorship prohibited.
- Vending machines prohibited.
- Health warnings made compulsory.
- Smoking prohibited in all public places.

Despite the existence of the Act, Tobacco companies have become skillful such that they manage to increase their gross sales steadily over the years even after implementing the act in 2006.

05. TOBACCO CONSUMPTION

In understanding the tobacco consumption of a country, it becomes more important to converse about the number of cigarettes (sticks) consumed by the population in the country within a particular year. In practice, it is not possible to measure the count of cigarette sticks consumed due to the fact that there is always a large amount of sticks which is under circulation within the distribution channels. Although it is a large number, somewhere down the line those sticks will be passed to the consumer irrespective of the time taken. Therefore the number of sticks issued can be an identical tool to measure the consumption. The following Table 02 and Graph 02 will display the number of sticks issued over the time.

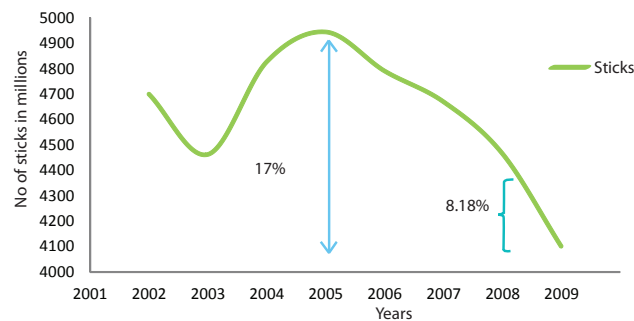
Table 02 – No of cigarette sticks issued (In millions)

Year	2002	2003	2004	2005	2006	2007	2008	2009
Sticks	4,700	4,463	4,827	4,945	4,791	4,670	4,467	4,101
% Decrease		5.04%			3.10%	2.52%	4.36%	8.18%
% Increase	82,767	25,225						

Source: NDDCB Handbook 2009 to 2001

- Sticks row represents the number of sticks issued annually in millions irrespective of categorizing into brands/types.
- Percentages are based on the number of sticks increased/decreased compared to its previous year.

According to the Table 02, the number of sticks seems to have a dynamic behavior since it has subjected to some major changes. However after 2005, the number of sticks issued within the country has been downward sloping. The major impact for this sudden can be considered as the initiation of the NATA Act and its enforcements which took place in 2006. To be more effective the following Graph 02 can be considered.



Graph 02 - Usage of cigarettes over time

Source: NDDCB Handbook 2009 to 2001

The most important factor that needs to be highlight is that after 2005, the total reduction of sticks is 17% which has not been recorded within the foreseeable past of the tobacco industry. Also compared with 2008, 2009 it has 8.18% reduction which is can be considered as a milestone within the prevention industry.

The Act was initiated in 2006 December but the reduction has started from 2005. This might be due to the awareness about the true face of tobacco. Again one can argue that How come that the awareness about the true face of tobacco took so long. This can be supported with the fact that the Act itself had a considerable involvement in touching the Sri Lankan population attitudes. Basically when an Act is initiated, it does not fall from the sky. Instead it should be proposed, prepared and approved by the government of Sri Lanka. Within this process, awareness acts a dominating role since prior to the initiation, the awareness spreads through the veins at a higher rate.

Even though the above facts and figures create a fair explanation, the true picture is still out of our control from the influence made by the illegal cigarettes. That is our above explanation does not involve room for illegal cigarettes. That is not mentioned in any resources due to the simple reason of being illegal.

06. PRODUCT PORTFOLIO

As the basic practice in product portfolio management, most of the companies use varieties products that suits for their customers both financially and non financially. The same concept has been applied by the CTC despite the ethical consideration as a social contract.

Their product portfolio consists of premium average and low priced cigarettes. Considering their behavior, the following can be summarized.

Table 03- Sticks issued by product type (In millions)

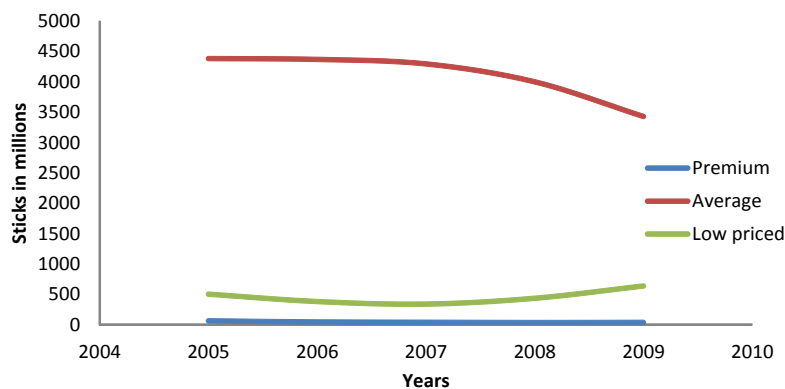
Premium	2005	2006	2007	2008	2009
B&H	62	43	38	25	15
Dunhill	0	0	0	9	22
Total	62	43	38	34	37

Table 04- Sticks issued by product type (In millions)

Average	2005	2006	2007	2008	2009
Viceroy	1,797	1,387	689	425	91
Gold Leaf	2,585	2,981	3,527	3,499	3,229
Pall Mall			78	76	109
Total	4,381	4,368	4,294	3,999	3,429

Table 05- Sticks issued by product type(In millions)

Low priced	2005	2006	2007	2008	2009
Capstain Plain	300	223	201	250	416
Four Aces	61	64	62	89	94
Three Roses	140	93	76	95	126
Total	502	380	338	434	636



Graph 03 – Sticks issued by product type

As expressed in Graph 03 and Table 03, 04 and 05 the average category of cigarettes holds the highest volume which consists of Viceroy, Gold Leaf and Pall Mall. On the other hand Low priced cigarettes such as Capstain, Four Aces Three Roses and Premium brands such as Benson & Hedges and Dunhill seem to have an increasing behavior.

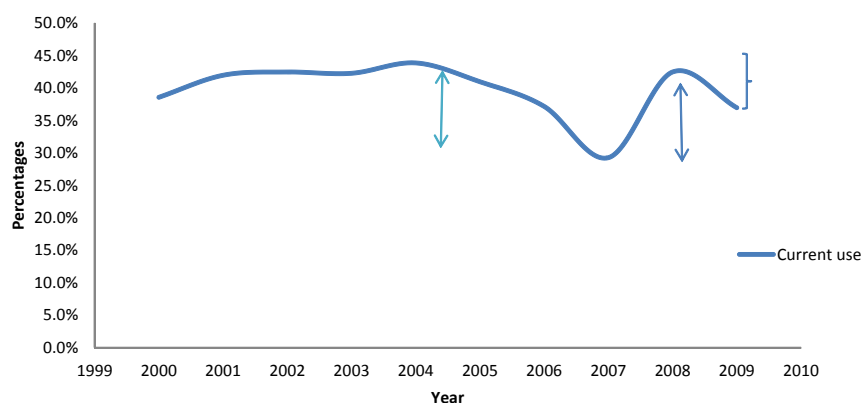
As expressed in Graph 02- Usage of cigarettes over time, the reduction of overall sticks by 8.18% within 2008 to 2009 had been solely generated from the Average category of brand products which have been supported by the Graph 03. That is the majority of the sticks reduction have been dominated by the Average level product categories.

07. Trend of Tobacco ñe in sri lanka

Table 06 -Tobacco consumption among men above the age group of 15 years.

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Current use	38.6%	42.0%	42.5%	42.3%	43.9%	41.0%	37.2%	29.3%	42.5%	37.0%
% decrease				0.47%		6.61%	9.27%	21.24%		12.94%
% increase		8.81%	1.19%		3.78%				45.05%	

Source Spot survey July – ADIC 2000 to 2009



Graph 04 - Tobacco consumption among men above the age group of 15 years.

Source Spot survey July – ADIC 2000 to 2009

The above representation (Table 06 and Graph 04) expresses the annual consumption of cigarettes above the age group of 15 years of age in Sri Lanka. The information has been extracted from the SPOT SURVEY concluded by the Research and evaluation unit of ADIC Sri Lanka. This research has been implemented using basic research methodologies which will drill down to the root of the Sri Lankan population all over the country.

According to its findings though the rates have fluctuated over the time, after 2004 the usage of cigarettes among male in the age group 15 and above has been declining significantly until 2007.

However as expressed by the Graph 04, in 2008 compared to 2007, there is a significant increase of 45.05% which is highly not anticipatable. Despite the increase in 2008, considering 2009, there is a 12.94% reduction of the cigarette used among the user.

08. Inflation in Sri Lanka

The inflation is the most suitable and understandable measurement to measure the changes in price levels of a country. In more simple words, inflation is the level of price increase of a particular country based on its previous year price levels. The Colombo Consumers Price Index (CCPI) is the official measurement of inflation of Sri Lanka which is produced by the Department of Census and Statistics Sri Lanka. Due to some major inadequacies of the method that had calculated the inflation, a new method has been introduced in order to overcome those consequences.

The old method of CCPI was centered as the base year 1952 which means that price increase comparison started from 1952 as the base. It was calculated observing the working class household within the Colombo region as per the family budget survey of 1949/1950. It may also be noted that although interim revisions and improvements had been made to the index from time to time over the years, such revisions had been somewhat limited. The change had led the following reasons

- (i) Inadequate representation of the true price changes in line with the changing consumption patterns, as the index was based on an outdated basket of goods and services. The significant changes in consumer habits and income levels since 1949/50 have substantially altered the size, content and composition of the market basket of goods and services consumed.
- (ii) Although the range and availability of goods and services had enhanced over the years, these new items were not included in the index.
- (iii) The index was highly sensitive to the prices of a few items, due to the outdated consumption pattern and unrealistic weights attached to such items based on the outdated consumption pattern. Hence, even a marginal price change of some of those items led to a disproportionate change in the overall index.
- (iv) It was limited in scope, both in terms of geographical and income group coverage.

In overcoming the above deficiencies the Department of Census and Statistics has constructed a new index considering the base year as year 2002. This New Colombo Consumer Price Index CCPI (N) is based on more recent household considerations representing the purchasing pattern of Sri Lanka.

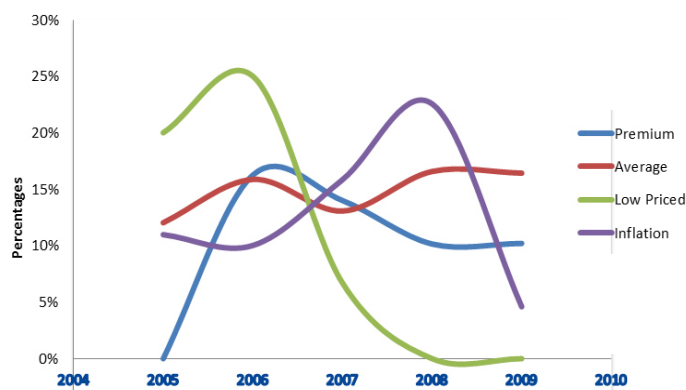
Source : [http://www.statistics.gov.lk/price/ccpi\(new\)/ccpi%20new.htm](http://www.statistics.gov.lk/price/ccpi(new)/ccpi%20new.htm)

8.1 Annual inflation and tobacco price levels

Inflation can be used as a comparable tool with the prices of cigarettes under each brand. That is the price level changes along with the inflation will compare the effect of price changes. The Table 07 and Graph 05 will produce a representation of this fact more clearly.

Table 07 – Brand price changes

Category	2005	2006	2007	2008	2009
Premium	0%	16%	14%	10%	10%
Average	12%	16%	13%	17%	16%
Low Priced	20%	25%	7%	0%	0%
Inflation	10.98%	10.02%	15.84%	22.56%	4.60%



Graph 05 – Brand price changes

In order to compare with the inflation, each brand has been presented as a percentage of its price changes compared with their respective previous years. Therefore each curve in this graph shows the price percentage changes. Three categories have been used according to the Table 03, 04 and 05 classifications.

As for the Table 07 and Graph 05, premium and average category brands hold somewhat similar behavior compared with the inflation rate where from 2005 till 2008, such category products prevail above the inflation rate. This signifies the fact that when the average price levels increase within the country (increase of inflation), Premium and Average brand prices will increase in a ratio far more than the inflation rate. Therefore in such instances, people may feel that cigarettes belong to those categories will be costly.

However on the other hand, low priced cigarettes seem to have a low price change where the inflation acts above that curve. This ironically states that people may feel that low priced cigarettes are becoming cheaper.

After 2008, the picture has changed again where almost all the products seem to behave at a lower ground than the inflation rate. However during the last quarter of 2009 the inflation had dropped down to 4.60% as for the development of the Sri Lankan economy. Under such conditions almost all the average and Premium brand products may act above the inflation signifying it's costliness while low priced products will remain below the inflation rate signifying it's cheapness.

The impact of low priced tobacco products will create a devastated situation where people may tend to buy more since they feel that it's becoming cheaper. As for the Table 10 and 11 this may be the reason that in 2009 portfolio of products, low priced products hold a competitive position.

Ultimately irrespective of the category, the harm that can cause by such products will be unlimited. One hand company will make profits while on the other hand the social harm caused will be endless.

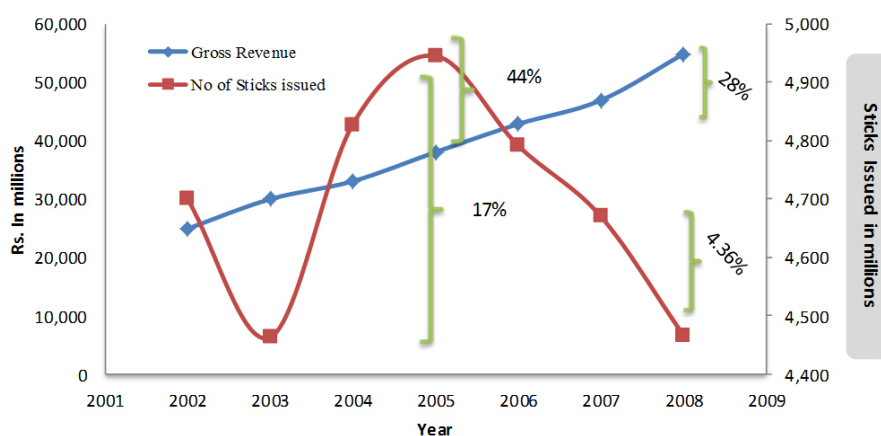
09. TOBACCO REVENUE

CTC acts a dominating role in the Sri Lankan Tobacco industry which is owned by the parent company British American Tobacco (BAT). The products launched by this market player include John Player Gold Leaf, Benson & Hedges, Pall Mall and Dunhill etc. Irrespective of the ethical aspect they have obtained revenue increases over the years.

Table 08- Revenue and cost changes over the time in Rs. In millions

Year	2002	2003	2004	2005	2006	2007	2008
Local Revenue	24,671	29,848	32,934	37,903	42,726	46,784	54,721
Export Revenue	186	76	55	70	55	43	42
Gross Revenue	24,857	29,925	32,989	37,973	42,781	46,827	54,763
Gross Revenue Increase		4.43%	10.25%	15.11%	12.66%	9.46%	16.95%

Percentages are calculated considering the base year as the previous year.



Graph 06: CTC Revenue increase Vs No of sticks issued.

The Table 08 and Graph 06 comprise the CTC financial behavior summary from 2002 to 2008 with respect to the number of sticks issued within the country during the same period of time. The total gross revenue of Table 08 contains both local and export revenues. The last row of table 06 expresses the increasing percentage of the gross revenue.

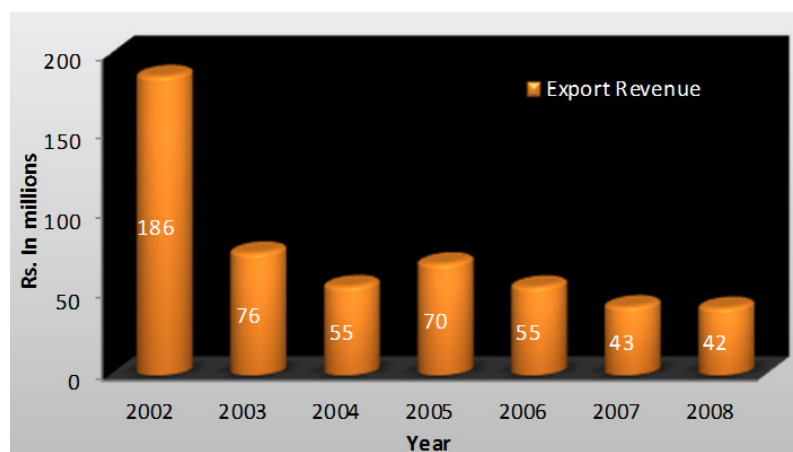
The Graph 06 contains both the CTC income level on the left side Y axis whereas number of sticks issued within the country on the right side Y axis.

When observing the revenue increase, it is evident that over the years, it has been increasing but yet if we consider more closely the rate of increase has been reduced. This is because in 2005 the rate of increase is 15.11% while in 2006 it is 12.66%. Further in 2007 it is 9.46%. The reason for this decrease would be mainly due to the NATA Act initiated by the government of Sri Lanka.

However as you can see in Graph 06 what is contradictory is that, when the number of sticks reduces drastically, the gross revenue of CTC increases significantly. To be more effective when considering the 2008 statistics compared to 2007, the number of sticks has a reduction of 4.36% while the gross revenue increase is 28%. Further as per to the comparative statistics of 2008 to 2005, the number of sticks has a reduction of 17% while there is a 44% increase in gross revenue.

The fundamental question that will raise in here is that, while the CTC's primary business prevails in tobacco industry, when the number of sticks reduces as expressed in Graph 06 and Graph 02, how come CTC has increase their gross revenue in such high values. ???

Apart from that, in terms of the composition of the gross revenue, it is clear that the export revenue generated by CTC has been under increasing pressure which is more transparent in the following Graph 07.



Graph – 07 Export Income over the time

Even though the export revenue has been decreasing, the gross revenue of CTC has been increasing. This implies that the local revenue has increased.

9.1. Gross Revenue Vs the Exercise Tax

The government levy on tobacco consist of

- >> Exercise Tax
- >> Tobacco Tax
- >> Social Responsibility Tax
- >> VAT
- >> Turn Over Tax.

Though this has several classifications, our main concern is on the Exercise Tax and the Tobacco Tax.

Compared with the Gross revenue, the exercise tax is also a considerable measurement to be pointed out. This is because the exercise tax is calculated based on the length of cigarettes. Therefore each cigarette contains tax apart from the harm it causes to the society.

10. TAX ON TOBACCO

Based on the impression created by the CTC among the people, the common understanding is said to be that the Sri Lankan government targets a considerable share from CTC. In terms of the value wise this is considerable but still when considering the percentages the statement has to be amended. The following Table 09 will provide a through idea about this concept.

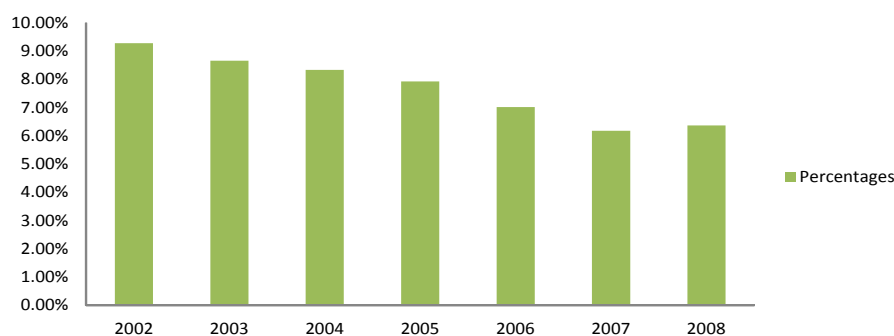
Table 09 – Tax paid to the government in Rs. Millions

Year	Total Govt Tax Income	Tobacco Tax	Percentages
2000	182,392	19,268	10.56%
2001	205,840	19,475	9.46%
2002	221,839	20,579	9.28%
2003	231,597	20,055	8.66%
2004	281,552	23,457	8.33%
2005	336,828	26,692	7.92%
2006	428,378	30,067	7.02%
2007	508,947	31,437	6.18%
2008	585,621	37,288	6.37%

Source: Central Bank of Sri Lanka Annual reports 2000 to 2008

At a glance one can argue that the above findings itself is considerable because eventually the tobacco tax amounts have been increasing. But yet as you can see over the years the percentage rates have reduced gradually. The reason for the value increase would be due to the inflation prevailing in the country. More precisely when you consider the increasing percentage of tobacco tax from 2006 to 2007, it is around 11% while the inflation in 2007 was 15.8%. This signifies the fact that tax increase is lower than the inflation rate. Therefore an optimum measurement is to compare the percentage of taxes in each year. To be more effective the following Graph 08 will contribute to this argument.

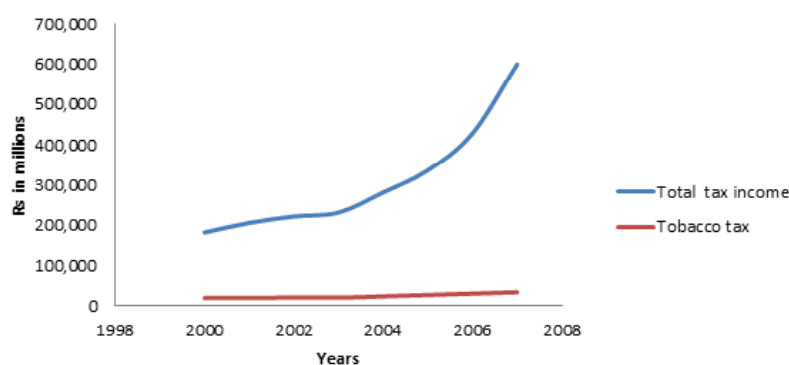
Graph – 08 Tobacco Tax percentages



Source: Central Bank of Sri Lanka Annual reports 2000 to 2008

The Graph 08 shows the tax percentages over the years. That is the percentage of tax from the total tax income of the Sri Lankan government. What is visible here is that eventually the tall tabs of the graph have been shorter. This means that the tobacco tax contribution has been under increasing pressure. The fact that needs to emphasis would be displayed in the following Graph 09.

Graph – 09 Tax Income of the government and the Tobacco tax



This Graph 09 shows that when the total tax income increases rapidly, the tobacco tax level is almost constant. This signifies the fact that it is not necessarily to have the tobacco tax share to balance the equation. From one way or the other the total tax income is increasing despite the tobacco tax income. Further in near future it will be less significant since the total tax income has a rapid increasing pace.

10.1 Existing Tax formula -2009 Price levels

Table 10 – Sticks-Exercise tax and selling prices.

Category	No of sticks	Original Selling Price (Rs.)	Exercise Tax per stick (Rs.)	Profit Per Stick (Rs.)	Profit Percentage	Tax Percentage
Benson & Hedges	14,877,960	19.00	9.91	9.09	47.84	52.16
Dunhill	21,823,420	19.00	10.10	8.90	46.84	53.16
Pall Mall	108,872,200	18.00	8.13	9.87	54.83	45.17
Gold Leaf	3,229,208,860	18.00	9.93	8.07	44.84	55.16
Viceroy	90,509,600	14.00	7.58	6.42	45.83	54.17
Four Aces	94,291,000	10.00	5.10	4.90	49.01	50.99
Capstain Plain	415,943,800	4.00	1.83	2.17	54.22	45.78
Three Roses	125,804,600	4.00	1.83	2.17	54.22	45.78

The table 10 represents the 2009 Tobacco sticks average prices and its tax contribution to the government as exercise tax. As visible in Table 10, each brand holds a unique selling price as well as a tax rate. For an example in B&H, when the selling price per stick is Rs.19 the exercise tax per stick for the government would be Rs. 9.91, whereas ultimately the approximate gross profit for the selling company would be Rs.9.09. This would be 47.84% from the selling price. What is more important here is brands such as Pall Mall, Capstain and Three Roses hold a larger gross profit share compared with the exercise tax rates which is almost 10% from the selling price.

Table 11 – Total Tax, Selling Price and Profit by brand.

In Millions

Category	No of sticks	Selling Value (Rs. millions)	Total Exercise Tax (Rs. millions)	Profit (Rs. In millions)
Benson & Hedges	15	283	147	283
Dunhill	22	415	220	194
Pall Mall	109	1,960	885	1,074
Gold Leaf	3,229	58,126	32,062	26,064
Viceroy	91	1,267	686	581
Four Aces	94	943	481	462
Capstain Plain	416	1,664	762	902
Three Roses	126	503	230	273

The Table 11 expresses the Total excise tax, market value and the Profit for the company in terms of millions. The fact that needs to consider is that as expressed in Table 11, Gold Leaf acts as the major profit maker holding Rs.26 billion gross profitability which acts as the major product in their product portfolio. With regard to Pall Mall an emerging brand holds the second highest gross profitability which is Rs 1 billion.

As for the above information, all the data are extracted from reliable sources, but What if there exist high values that have been not mentioned on any of those books. That means that there exist bulks of cigarettes and alcohol products that have not been put into numbers. Ultimately those high amounts of income will not be subjected to tax. But still it will circulate within the country generating profitability for the respective companies. This tax fraud will lose large amounts of tax income to the Inland Revenue Department of Sri Lanka.

11. TOBACCO PROMOTION

The tobacco company spends millions of rupees to promote its products. After the new act promotions in whatever form is banned. Tobacco advertisements are not permitted in the electronic media, but indirect smoking promotional scenes can be seen in teledramas on television. In the printed media, the tobacco company aggressively advertises its products targeting mainly young people and women. CTC is also involved in indirectly sponsoring cultural and sports events throughout the country. The indirect promotional activities most targeted to young generation. The idea is that when a child starts to smoke at his/her younger ages, s/he will continue it for a considerable time wasting his/her life contributing a third party to make profit at the expense of their mental and physical health. Some of the indirect advertising techniques are as follows.

12. CORPERATE SOCIAL RESPONSIBILITY IN CTC

In the context of ethical consideration CTC has to improve their image as a sole objective of increasing the market share. However because of the banned from direct promotions via various medias and even from the government their frame to play the role has been restricted. Therefore they cannot increase the share only by emphasizing more on production. As a result CTC is investing in the society in order to increase their goodwill. This investment includes the following.

- Sharing the expertise on Agro programs.
- Training programs for farmers
- Scholarships
- Supporting emerging artists.
- Environmental protections.

However though the above has been implemented it is critical to state that at the end of the day the intention is to increase the use of tobacco products among people.

13. LITIGATION ON TOBACCO

Litigation acts a vital role in defending the distribution of tobacco where as a result most of the tobacco companies are at the stage of losing their bargaining power. The litigation involve in lawsuits against major cigarette companies, illegal practices including health risks and addictiveness of their products and marketing cigarettes to children.

With the new act, 'National Authority on Alcohol and Tobacco' a new wave of change emerged with many restrictions on alcohol and tobacco promotions and consumption. The Act provides for the establishment of the National Authority on Tobacco and Alcohol for the purpose of identifying the policy on protecting public health, for the elimination of Tobacco and Alcohol related harm through the assessment and monitoring of the production, marketing and consumption of tobacco products and alcohol products; to make provisions discouraging persons especially children from smoking or consuming alcohol, by curtailing their access to tobacco products and alcohol products, and matters connected therewith or incidental thereto.

The National Authority on Alcohol and Tobacco Act also contains numerous other clauses to promote and protect public health, such as the vesting of responsibilities such as an advisory role to the government on the implementation of the National policy on Tobacco and Alcohol such as to conduct, promote and co-ordinate research in relation to the use of tobacco and alcohol, recommend measures to minimize the harm arising from the consumption of tobacco products and alcohol products, and liaising with local, regional and international organizations on issues relating to tobacco and alcohol. In compared to other countries, Sri Lanka has enforced strict laws against t the Tobacco Companies. Yet further, reforms have to take place in the implementation procedure. As the Tobacco industries try to use and manipulate the loopholes of the act.

14.TOBACCO AGRICULTURE

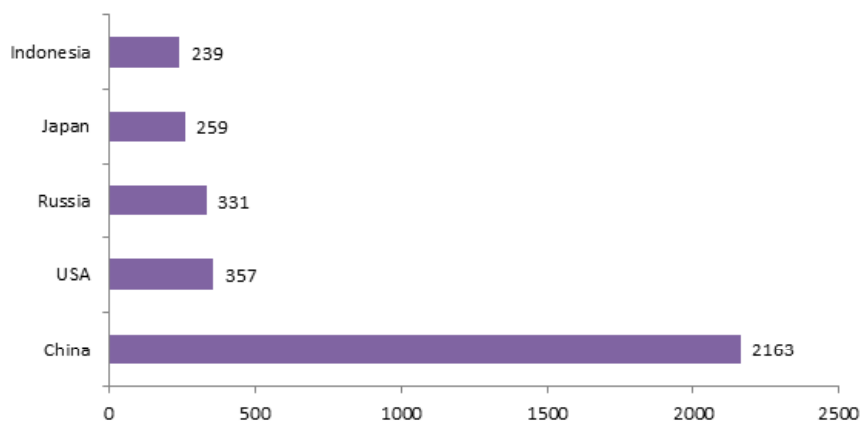
Tobacco agriculture creates extensive environmental and public health problems. Pesticide and fertilizer runoff contaminate water resources, and the curing of tobacco leaf with wood fuel leads to massive deforestation. Agricultural workers suffer from pesticide poisoning, green tobacco sickness, and lung damage from particulate tobacco, smoke, and field dust.

Although tobacco farming is very profitable for multinational corporations, small farmers often fall into a debt trap perpetuated by tobacco companies. After the cost of inputs is deducted from revenues, small farmers often find themselves deeper in debt.

WHO's Framework Convention on Tobacco Control calls for financial and technical assistance to tobacco growers in countries heavily dependent on tobacco agriculture. Shifting to nutritious, economically viable, and environmentally sound alternatives promises a brighter future for tobacco-producing nations.

15.TOBACCO INTERMS OF INTERNATIONAL PERSPECTIVE

Graph 10- Cigarettes consumed in Billions

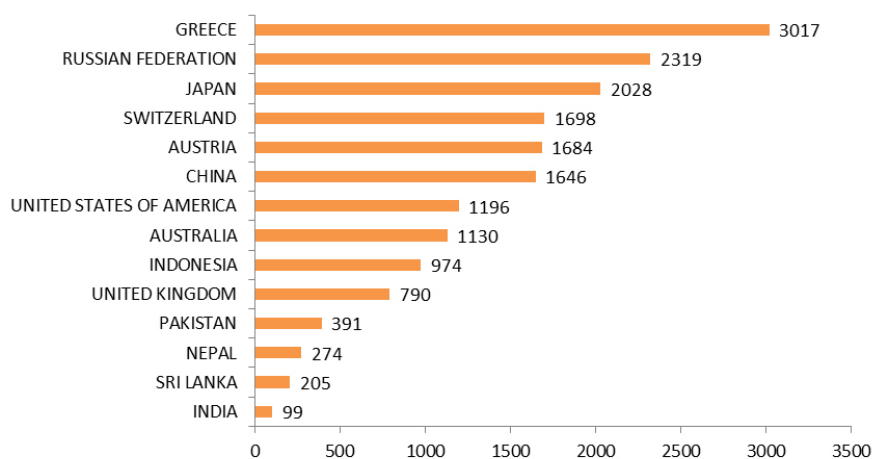


Source : Tobacco Atlas Third Edition 2008 Page 33
<http://www.tobaccoatlas.org/consumption.html>

Global cigarette consumption was increasing steadily over the years from the intervention of cigarette rolling machine by James Bonsack. China is the world's largest market, and a fast developing country. Even in the cigarettes consumption it's in top, where the one third of the world cigarette consumption is from China. It also can be said that male consumption of cigarette in China is more than the population of USA. Other top countries were proportionately far less from China, USA consumption is 16% of the top country. The other countries where tobacco consumption is high are Russia, Japan, and Indonesia from the given information in Tobacco Atlas Third Edition. Country in which the population is second highest in the world, India consumption is about 108 billion sticks. India is also a country which is coming within top 10 countries in consumption. But when Sri Lanka is considered its consumption is about 4 billion sticks, but when compared with the population of the country it is a notable amount.

15.1 PER CAPITA CONSUMPTION OF TOBACCO.

Graph 11 - Per capita consumption of tobacco per person.



Source : Tobacco Atlas Third Edition 2008 Page 33
<http://www.tobaccoatlas.org/consumption.html>

By ignoring the population of the countries when considering the per capita consumption of cigarettes from available data, Greece the average annual consumption of cigarette sticks amounts to be more than 3000. Russian consumption of sticks is averagely 2319 sticks.

- Per capita consumption is the annual consumption of tobacco per person.
- SL is more than the India and highest is Japan. Implies the size or the population does

not conclude this. It can be due to the religious considerations.

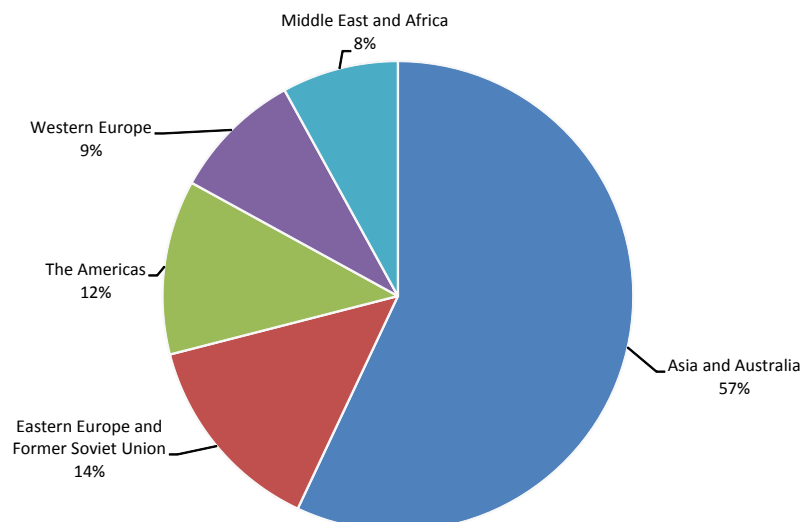
Source: Tobacco ATLAS 2006/2002.

Compared with the other tobacco giants Sri Lanka is far behind the disaster and on top of that over the time it has subjected to a decline. The declining criteria are not only applicable to us but also to the others. As you may see all the countries in the graph represents a downward sloping behavior.

15.2 WORLD CIGARETTE CONSUMPTION BY REGION, 2007

The percentage of tobacco consumption of by region is given in the graph below. More than half of the world consumption is from Asia and Pacific region. Most of the countries in this region are mainly stated as a developing and lower income level countries, where the cigarette consumption is increasing dramatically and more cigarette companies trying to enter this market as well as introducing new brands to promote the use as specially women use.

Graph 12 – World Cigarette Consumption.

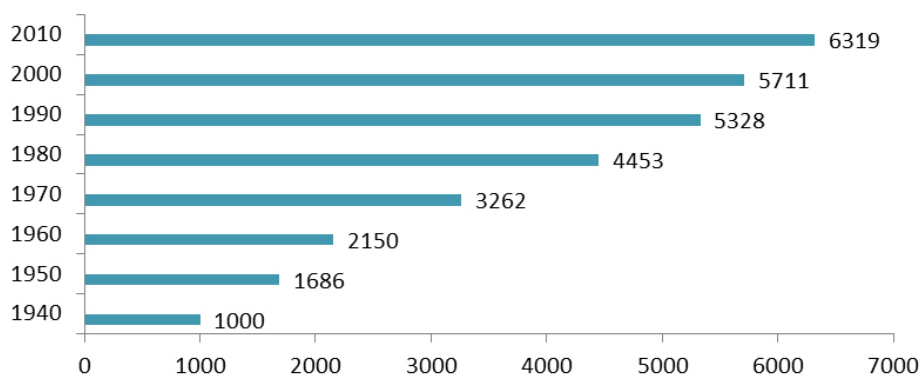


Tobacco Atlas Third Edition 2008 Page 32

15.3 Global Cigarette consumption

Global cigarette consumption was increasing year on year but when considered last 50 years consumption the increasing percentage has been decreased and it is expected to continue in the future. Year on year increase of 50% before 1950 has reduced to single digit in 2000. Cigarette companies now trying to overcome this position by introducing new strategies and marketing techniques, examples can be stated as merging the companies and creating a conglomerate now European Union is trying to restrict the merging of companies, Indirect advertising sponsoring events, increasing tobacco use among women and so on. This will be further explained below.

Graph 13 – Global Cigarette consumption in billion sticks.



Tobacco Atlas 2008, page 33
http://www.searo.who.int/LinkFiles/Tobacco_Free_Initiative_SEA-TFI-27.pdf

124
735

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