

Tobacco industry activities in the Eastern  
Mediterranean Region

**Infiltration and exploitation**



World Health Organization  
Regional Office for the Eastern Mediterranean

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**The multinational cigarette industry has long viewed the Islamic Republic of Iran as a jewel to be mined.**

*Why?*

- Its large population.
- Its rising living standards.
- Its moderate cigarette consumption levels, which leave room for growth.
- The worldwide trend towards a diminished role for state tobacco monopolies.
- Its convenient location, wedged between the tobacco industry's established smuggling centers in the Middle East, and the burgeoning tobacco markets in the subcontinent and the former Soviet Union, which make it an ideal transit point for the supply of contraband cigarettes to other countries.

Tobacco industry documents show that the tobacco companies viewed the Islamic Republic of Iran as a battlefield where the national tobacco monopoly could be duped, government officials could be misled, and the physical health of Iranians sacrificed for the financial health of the tobacco company shareholders.

The companies sought to accomplish their aims through smuggling.

The use of rather innocuous sounding terminology as a euphemism for illegal activities is characteristic of the industry's smuggling activities.

In British American Tobacco's (BAT) documents, "duty not paid" does not mean "duty-free", and in RJ Reynolds (RJR)'s case "tax-free" apparently is not the same thing as "duty-free" either.

The reason for using such terminology is clear. Should the document somehow fall into the hands of an outsider, the casual reader would likely misinterpret the terminology and fail to recognize that what was really being discussed is the smuggling of illegal contraband.

The companies use a variety of euphemisms for smuggling, including "duty not paid" (or DNP), "transit" and "general trade" (or GT).

*For instance, a 1996 BAT document reads:*

"Iran, Iraq, Syria and Lebanon have a Government monopoly on cigarette manufacturing and in Syria and Lebanon on imports as well...Lebanon permits free imports. Syria allows limited quantities whilst there is a complete ban in Iran. Despite this, or because of this, 62% of Iran's market is Transit."

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**Note:** The references for all quotations in this summary publication can be found in *Coveting Iran: The infiltration and exploitation of Iran by global cigarette companies*, Cairo, Regional Office for the Eastern Mediterranean, 2001, on which it is based.

In 1990 RJR business plans, the company carefully orchestrates what it terms its “tax-free” operations in the Islamic Republic of Iran. The context suggests that for RJR, “tax-free” means something entirely different from what many would call “duty-free” cigarettes. The reasonable conclusion is that the term, as used, is a euphemism for smuggled cigarettes.

By arguing that taxation levels, rather than the carefully orchestrated business actions of the companies themselves, were driving smuggling, the global tobacco industry also managed to dupe the Iranian tobacco monopoly.

*A 1993 Philip Morris (PM) document put it this way:*

“Today’s taxation of imported cigarettes [in Iran] is dominated by a specific duty of \$7.70 per thousand and a Commercial Duty of \$2.60 per thousand which together account for over 90% of the tax burden.

While the specific duty structure is favorable, we have demonstrated to the Iranian monopoly that the excessively high level of duty encourages smuggling, estimated at one third of the market, and that the optimum duty level is lower.”

In response to allegations of involvement in the smuggling of their own cigarettes, tobacco companies denied involvement, claiming they sell to middlemen, and that what the middlemen do with their cigarettes is beyond their control.

However, in the Islamic Republic of Iran, as elsewhere, the documents suggest that the industry manipulates its business environment, especially prices, to best facilitate the smuggling trade.

*RJR’s Iranian business plans make this quite clear:*

“Objectives and Strategies:

- Protect RJR’s business base and specifically Winston franchise
- Adapt flexible pricing strategy in T/F [tax-free] business
- Support/control distributors to ensure business momentum and price stability
- Maintain preferential relationship with ITC/Rasht venture.”

In the early 1990s, BAT’s New Business Development Group began to describe the Islamic Republic of Iran as a “first priority” market. The company’s Tobacco Strategy Group came to a similar conclusion.

In order to penetrate this important market, the company looked to its competitor, RJR, most of whose cigarettes apparently arrived in the Islamic Republic of Iran as contraband, to evaluate their distribution routes.

RJR, meanwhile, whose documents indicate they had a 50% share of the Iranian market with 16.4 billion units being sold annually, described their prospects in the Islamic Republic of Iran as “numerous and promising”.

They found that “all imported product enters the market via Dubai to the southern ports of Iran or through Turkey ex Cyprus.”

BAT then looked into a new route, “through a small duty free island in the Persian Gulf, Kish Island,” from which “goods are transferred by motor launch to the mainland.” The specific mention of moving cigarettes via motor launch to the mainland leads to reasonable conclusion that BAT’s interest in Kish Island was as a channel for smuggling.

Historically, both BAT and its American subsidiary Brown and Williamson, appear to have had a longstanding smuggling operation originating from Cyprus.

Other industry documents from around the world suggest that different companies also used the border between the Islamic Republic of Iran and the former Soviet Union to smuggle cigarettes into Iran.

The Islamic Republic of Iran was also considered a conduit for smuggling to other countries.

The documents show that cigarettes would travel through the Islamic Republic of Iran to reach Pakistan, rather than be shipped directly there.

*One document even featured this curious incident:*

“Dunhill is the leading smuggled brand (via Iran and Afghanistan). The [Pakistani] Commerce Minister was openly smoking Dunhill, which he admitted to being smuggled, during the meeting with the UK Trade Delegation.”

As for the middlemen, they appear to have been chosen based on their ability to pay and to deliver the cigarettes to the intended destination.

The exploitation of the legal duty-free market as a cover for smuggling is another well documented tobacco industry strategy. Duty-free zones in several countries have proven very porous.

In Bangladesh, BAT’s own documents indicate that the company sought to “optimize duty-free leakage”.

A small, legal duty-free market is also pursued in order to provide legal cover for promotional activities in support of a brand that is available mostly illegally as contraband.

*A 1993 BAT document puts this in very blunt terms:*

“Legal imports [of BAT] brands would attract high enough duty to make them difficult to sell, but there is indication that ‘legal’ imports could hide large scale transit activity.”

The companies referred to this type of dynamic by the term “umbrella operations”.

The degree of coordination and planning suggested in these smuggling documents should not surprise anyone. Frankly, it is difficult to imagine how tens of billions of smuggled cigarettes—required for about half of the Iranian market each year—could be effectively supplied without the complicity of the manufacturers of those same cigarettes.

The cigarette companies are the chief beneficiaries when smuggling opens up new markets and expands existing ones.

When the perpetrators of smuggling are planning and operating on a regional, or even global basis, it is likely that the only adequate responses would be of a comparable global scale. One such vehicle driving the requisite level of international cooperation is a comprehensive protocol on smuggling, under the World Health Organization Framework Convention on Tobacco Control (WHO FCTC).

The Islamic Republic of Iran’s smuggling problem is neither unique nor indigenous, nor is it driven by tax differentials between adjacent jurisdictions.

It is, however, a problem that the Islamic Republic of Iran cannot successfully address in isolation.

### **What are the tobacco industry documents?**

The 1998 settlement of tobacco litigation in the American State of Minnesota resulted in over 40 million pages of internal tobacco industry documents becoming available.

The major cigarette companies included are Philip Morris (PM), RJ Reynolds (RJR) and British American Tobacco (BAT).

While there are omissions from the collections, and access to the documents of some companies is problematic, these collections do form a unique opportunity to look at the internal workings of a tobacco company.

For the most part the documents end in 1995, and the bulk of the collection dates from the mid-1970s through the mid-1990s. The materials presented in this report are drawn exclusively from these document collections.

For more information, please consult *The tobacco industry documents: What they are, what they tell us, and how to search them* (available at <http://www.emro.who.int/tfi/TobaccoIndustry-English.pdf>).